



*cutting through complexity*

# Investing for Social Success

Phase One: Feasibility study and concept design

December 2012





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**Private and confidential**

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For the attention of Hannah Adams

Dear Sarah

**Investing for Social Success**

I am pleased to present our report on Phase One of Investing for Social Success, in line with our contract dated 26 October 2012. Phase One started with a cross-government workshop, then entered a period of research and analysis and concluded with a further cross-government workshop.

The process has generated a common understanding of Investing for Social Success, built up a team and has uncovered areas where government decisions will be needed. We have summarised these decisions in the conclusion section of this report.

We have very much enjoyed working with you and your team during Phase One and have appreciated the collaborative approach. We look forward to supporting you further in 2013.

Yours faithfully

*Adrian Wimmers*

17 December 2012

**Important notice**

*Inherent Limitations*

This report has been prepared as outlined in the Introduction section of this report. The procedures outlined in the Introduction section constitute neither an audit nor a comprehensive review of operations.

The findings in this report are based on a qualitative study and the reported results reflect a perception of the Investing for Social Success concept in New Zealand based on information provided from the Ministry of Health and the cross-government Working Group.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by the Ministry of Health, the cross-government Working Group and other government officials consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

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The findings in this report have been formed on the above basis.

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<b>Arranger</b>	An individual or group that contracts with government to deliver a social outcome and then coordinates other non-government parties to deliver the outcome (i.e. investors and service providers).
<b>DHB</b>	District Health Board
<b>Investing for Social Success</b>	A New Zealand initiative for the delivery of social services whereby a non-government group commits to deliver a social outcome (e.g. reducing reoffending) and fund all the required community services to achieve the outcome; under the commitment that government will pay the group based on the degree to which the social outcome is achieved.
<b>Investor / funder</b>	Bodies or individuals outside government who provide finance into Investing for Social Success (e.g. foundations, banks, high net worth individuals).
<b>NGO</b>	Non-government organisation. For the purposes of this report an NGO is assumed to be a not-for-profit entity.
<b>Payment for Success</b>	The name given to the structures used in the US similar to Investing for Social Success.
<b>Service provider</b>	Bodies who deliver services in the community aimed at achieving the target social outcomes. Can be either not-for-profit or for-profit. The service provider(s) may also be investors.
<b>Social Benefit Bond</b>	The name given to the structures used in New South Wales similar to Investing for Social Success.
<b>Social Impact Bond</b>	The name given to the structures used in the UK and US similar to Investing for Social Success.
<b>Social investment / social finance</b>	Non-government bodies or individuals providing finance with an expectation of a blended return (both commercial and social return)
<b>The market</b>	Potential arrangers, investors and service providers.
<b>Working Group</b>	The cross-government working group for Investing for Social Success. See page 6 for a list of parties involved.



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### Purpose of this report

This report provides a summary of the work undertaken by the cross-government working group (the “Working Group”) and KPMG to investigate the concept of Investing for Social Success in New Zealand. It concludes that it is worthwhile engaging with the market and designing a pilot project to test the concept further, and identifies challenges that need to be addressed as the pilot is designed.

### What is “Investing for Social Success” for New Zealand?

Investing for Social Success is a new concept in New Zealand and has been trialled by a relatively small number of other jurisdictions. It is an innovative delivery process that aspires to address intractable social issues more effectively, efficiently and sustainably. It builds on progress already seen from focusing on outcomes and results, rather than inputs and activities. The key difference to past initiatives is the use of social finance to place additional incentives on the delivery partner.

The anticipated benefits of Investing for Social Success include:

- More flexibility for service providers in how they design their services and tailor their work to the local community.
- A focus on the community need in the target area, unrestricted by government structures. Government can focus on cross-cutting social issues and manage to outcomes rather than inputs or activities.
- Utilising non-government finance to transfer risk to non-government parties. This provides greater incentives to design a service which will deliver the required outcomes, whether through selecting the most capable service providers or researching successful services used in other communities and jurisdictions.
- A focus on early intervention and prevention services. This generates social benefits and has potential to lower long term costs for government services.
- Improves public sector performance measurement by demonstrating robust benefits measurement over the life of the project.

### Challenges

Pilot projects overseas have identified challenges which should be considered and addressed when designing the concept in New Zealand. These include:

- **A robust performance measurement framework** is critical to allow outcomes to be measured and performance payments from government to be credible. The success of the concept hinges on the ability to define performance indicators which can be statistically measured to show whether the target social outcome has been delivered and is attributable to the non-government group.
- **A sound commercial approach** is needed to build market confidence in the concept and protect the government’s position. This will allocate risks to the party best able to manage them and will set a payment mechanism which provides sufficient rewards to non-government parties for good performance and protects the risk position of government.
- **A phased approach** to implementing the concept is recommended. Overseas pilots have shown the market will need time to familiarise itself with managing the risks. Government will likely need to hold more risks in the early years and may need to facilitate the market to understand the new concept and to form relationships with each other to allow them to deliver.

### Recommendations for implementing a pilot

KPMG considers there is value in investigating the value for money of a pilot project through a business case.

- There appears to be a potential market for both service providers and investors. More work is needed on the regions in which these parties operate and the social issues in which they will be involved.
- Overseas case studies show it is possible to finance these types of contracts and pass social outcome risk onto non-government parties.
- The concept is well aligned with government policy. Government is interested in outcome-based contracts and more integrated contracting. Government has also signalled it is prepared to take risks and test new concepts.

It was initially thought that the Working Group could select a social issue to pilot. However, work over the last two months has revealed the market needs to be involved in the selection of the pilot social issue to increase the likelihood of a successfully implementing a pilot. This is consistent with pilots overseas. It is recommended the pilot selection follows the following principles:

- Government preferences are communicated to the market, including an assessment of which areas have the resources to deliver the pilot and where there is cross-over with other government programmes.
- Feedback is collected from the market on their interest, capability and capacity, and how they may view different pilot proposals. For example investors will be more interested in some social issues than others and some geographic areas may contain greater provider capability and capacity.
- The market is provided flexibility to design their proposal around their own selected social issue.
- The pilot social outcome must lend itself to robust measurement and, where possible, use of existing data sources to contain costs.

### Ministry of Health / government will need to take decisions on

#### For Phase One:

- Whether to proceed with developing a pilot and analysing the concept through a business case.
- The analytical framework and contents of the business case.
- The preferred high level procurement roadmap, including the trade-offs between procurement speed, open competition and the importance of market input into the selection of a pilot and development of the concept before a business case is drafted.
- Whether the pilot is likely to be in a health area and the Ministry of Health will continue to lead Investing for Social Success.

#### In 2013:

- The government's preferred risk position.
- The pilot selection, target population and the government agency who will be the procuring and contracting party.
- Resourcing for the pilot, acknowledging the overhead costs for procurement and performance measurement as well as the costs to government if the pilot successfully achieves the target social outcome.
- Whether to take the pilot to market.
- The non-government partners with which government will contract.

### Background

The New Zealand government has been seeking innovative ideas to improve efficiency and effectiveness in public services. Several parties raised the idea of contracts that pay non-government bodies in arrears based on their level of achievement of defined social outcomes. These contracts require non-government bodies to raise finance to cover the costs of providing social services until social outcomes are produced and the government makes a payment or payments. See pages 8 and 9 for an overview of the concept.

The concept has been trialled in a small number of jurisdictions under a variety of names, including:

- Payment by Results
- Payment for Success
- Social Impact Bonds
- Social Benefit Bonds.

In New Zealand the concept is being referred to as “Investing for Social Success”.

The concept sits well with New Zealand’s existing framework for public service delivery as it is built on:

- Harnessing resources and ideas from a variety of groups outside government
- Focussing on outcomes and results, rather than outputs and activities
- Encouraging innovation and trialling new ideas
- Promoting robust measurement of benefits and performance.

Page 30 provides an overview of government programmes which have a similar focus to Investing for Social Success, for example Social Sector Trials, Public Private Partnerships and Better Public Services.

A cross-government working group (the ‘Working Group’) has been established to investigate the potential for Investing for Social Success in New Zealand. The group is lead by the Ministry of Health and has representatives from:

- Treasury
- Ministry of Business, Innovation and Employment
- Ministry of Social Development
- Department of Internal Affairs
- State Services Commission

In October 2012 KPMG was contracted by the Ministry of Health to support the Working Group.

### Scope of work

This paper presents the outputs of the first phase of work by KPMG, with input and support from the Working Group. It tests the feasibility of Investing for Social Success by reviewing similar concepts being trialled overseas and collating lessons learnt contracting in the New Zealand social services market. It provides an assessment of how Investing for Social Success may work best in New Zealand.

The work has kept an open mind as to how the concept may develop in New Zealand. It has not started with a particular social issue or geographic area in mind, nor has it favoured particular structures used overseas.

This paper presents information for the government to make decisions on whether to continue investigating Investing for Social Success, and if so how. Following this paper it is expected the government will make a decision whether to develop a business case for a pilot project, and if so what the scope of the business case would be (e.g. the target social sectors and the timeline for taking the project forward).

### Scope of work (continued)

KPMG agreed to provide the following services and analysis in phase one:

- Facilitate two workshops with the Working Group, one to promote joint working and to gather information, and one later in the process to test and validate the analysis.
- Set objectives for phase one (refer page 7).
- Assess how Investing for Social Success fits with similar schemes across government (refer page 31 and Appendices).
- Describe a long term and short term operating model (refer pages 19 to 22).
- Design a high level road map for implementation, including resourcing requirements (refer pages 25 to 26).
- Summarise the benefits of social finance in social services both overseas and for the New Zealand context (refer page 10).
- Summarise constraints, challenges and lessons from similar models overseas (refer pages 11 to 12).
- List important stakeholders and interdependencies (refer pages 29 to 30).
- Deliver a high level environmental scan of the state of the potential New Zealand market for social finance (not including market sounding) (refer pages 23 to 24).
- Develop criteria for selecting a social outcome and geographic region for the pilot, and analysis of an agreed list of possible pilot options against the criteria (refer page 27 to 28 and Appendices).
- Provide a recommendation on the feasibility of a social finance initiative in New Zealand, including a recommended social outcome area for the Business Case (refer page 5).

### Objectives of phase one

The objective of phase one is to test the ability for innovative contracting models and payment mechanisms to drive greater effectiveness in the delivery of social services in New Zealand. This includes:

- Generating common agreement across central government about what Investing for Social Success is and could be in the New Zealand context.
- Facilitating greater awareness of Investing for Social Success.
- Identifying the benefits the idea could bring to New Zealand and how these could best be captured.
- Identifying the challenges and risks of the concept and how these could best be mitigated.
- Identifying the options for progressing the work into 2013, including the commercial framework.
- Provide sufficient information for government to make decisions on whether the idea is likely to provide net benefits to New Zealand and therefore if there is a case to continue developing and testing.

### Structure of this report

This report is split into 8 sections, with further detail provided in the Appendices.

- |                                                                            |                                  |
|----------------------------------------------------------------------------|----------------------------------|
| 1. Concept overview, including benefits and challenges                     | 5. Procurement of a pilot        |
| 2. Performance measurement                                                 | 6. Selecting a pilot             |
| 3. Commercial approach                                                     | 7. Stakeholders                  |
| 4. Potential market for a pilot, including service providers and investors | 8. Aligned government programmes |



This section describes the concept of Investing for Social Success and identifies key benefits, risks and challenges.

### The lifecycle of an Investing for Social Success project

- Investing for Social Success is a means by which government commissions a social outcome from a non-government group. The lifecycle of a project follows the basic four step cycle illustrated on page 9.
  - First a social outcome is identified and clearly defined. This is important because it allows government to specify what it wishes to purchase. The social outcome must be well defined and targeted at a set population to allow it to be robustly measured later in the project lifecycle.
  - Second a non-government group comes together to contract with government and deliver the social outcome. This group will be accountable to government for delivering the social outcome and will have the flexibility to decide which services (inputs and outputs) it wishes to use to produce the social outcome. The group will generally involve service providers and funders (e.g. social investors).
  - Third the non-government group starts working in the target community. Government will not be actively involved. The services are funded by the non-government group.
  - Fourth there is a robust measurement process whereby both government and the non-government group test the performance against the defined social outcome. If the social outcome is delivered to the agreed level then the government makes a payment to the non-government group. This occurs at the end of the project and is also likely to happen at multiple points during the project.
- The concept relies on robust performance measurement and a strong commercial framework for allocating risk. This chapter sets out requirements for a strong commercial framework when developing the concept, and the following chapter provides advice on designing a performance measurement framework.

### Key roles in an Investing for Social Success project

- **Government procuring agency:** this could either be a central government department, a Crown Entity or a community government body (e.g. District Health Board or local council). They must be content to step back from the community service delivery and only manage to the overall target social outcome.
- **Non-government group:** this is made up of a number of parties. Ideally they will have a history of working together or at least have an understanding of each others' capabilities.
  - Arranger: this party will be the direct contact for the government agency and will coordinate the non-government group.
  - Service providers: there may be one or more service providers. They are likely to be providers who already contract with government through different contracting models. They will need a good understanding of the needs of the target community and innovative ideas for new or enhanced services.
  - Investors: these could be a mixture of parties from banks to charitable foundations. Their investment will be used to fund the service providers until outcomes are measured and, if successful, the government makes a performance payment. They will be incentivised to ensure that service providers are capable and that solid research is used to inform the decisions about which services to deliver.
- **Measurement experts:** it is likely that independent experts will be required to verify whether the social outcomes have been delivered to the agreed levels.
- **Target population:** the target population will receive the services provided by the non-government group.
- **Control population:** a control population will be measured to help verify whether the social outcomes achieved are attributable to the actions of the non-government group.

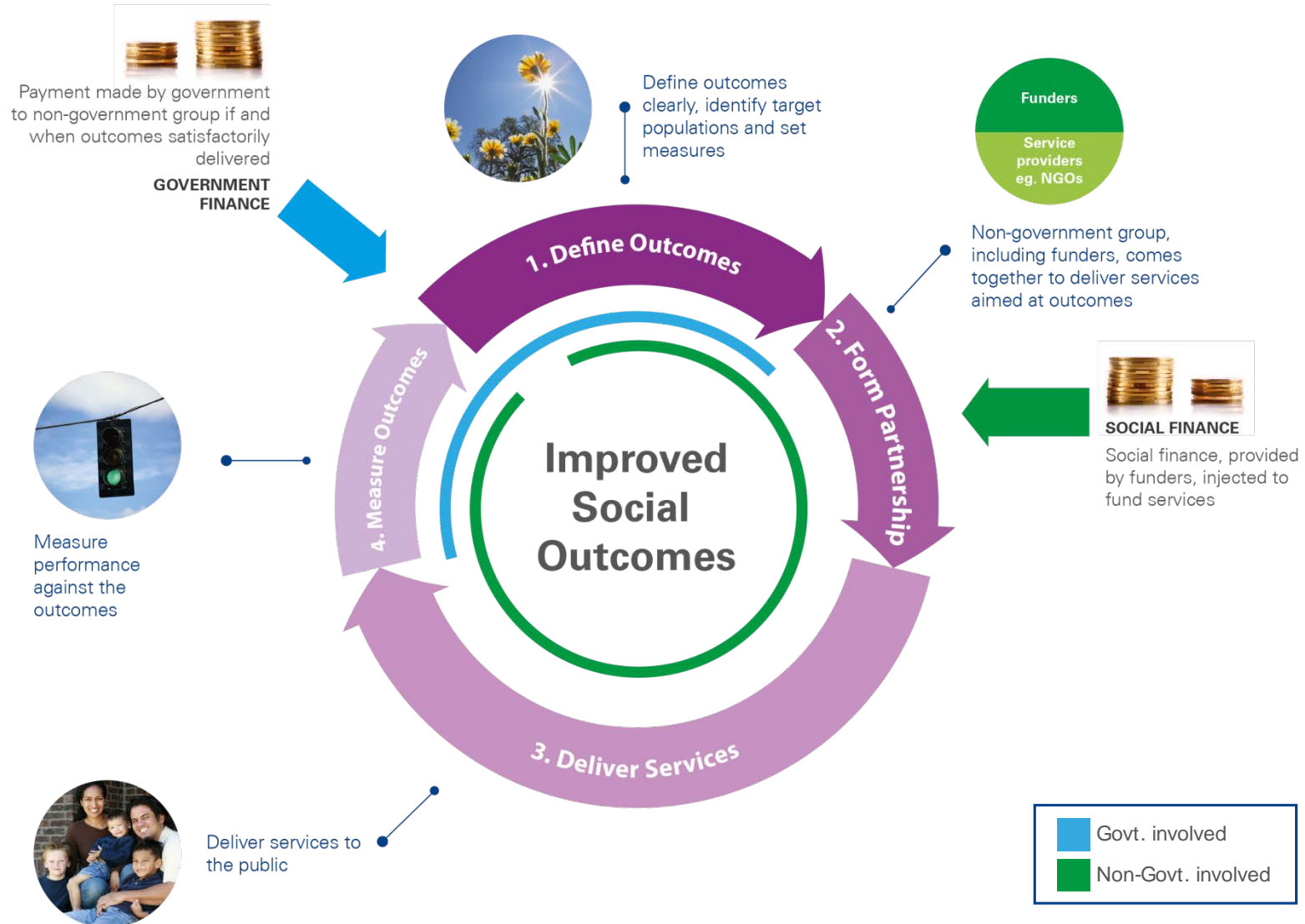
# 1. Concept overview

## Overview of Investing for Social Success

Investing for Social Success is an innovative delivery process that aspires to address intractable social issues more effectively, efficiently and sustainably.

It builds on progress already seen from focusing on outcomes and results, rather than inputs and activities.

The key difference to past initiatives is the use of social finance to place additional incentives on the delivery partner.



## 1. Concept overview

### Potential benefits to be captured

Investing for Social Success aims to improve the effectiveness and efficiency of social services to drive better social results. It aims to enable service innovation, facilitate choice and improve the quality of the services provided. The key benefits are:

#### 1. Ensures public sector only pays when desired outcomes are achieved

Performance management is reconnected with financial management; increasing the drive and motivation for service providers to perform.

Investing for Social Success brings the funding closer to the outcomes, aligning incentives and allocating the risk of delivery to those who are best placed to manage the risk.

#### 2. Attracts new funding into social innovation and recycles existing funding

Investing for Social Success creates a new asset class with both commercial and social objectives. This allows those entities, or high net worth individuals with a social focus, who currently receive a commercial return on their investments, to invest socially and still make a return. It also allows those currently providing grant funding into social services to recycle some of the funding and sustainably support social programmes.

#### 3. Encourages innovation in service provision by harnessing a range of skills and focusing on delivering outcomes rather than outputs

Service providers have the freedom and the power to innovate their service delivery to achieve the desired outcomes. Investing for Social Success rewards good ideas and provides the resources to grow the ideas that make a real social difference.

The combined expertise from funders and service providers will be incentivised to develop social services which are most effective at delivering outcomes. Funders and service providers are rewarded for their data collection, analysis, innovation and alternative programme development.

#### 4. Provides funding for prevention and early intervention services

Service providers have the incentive to focus resources on prevention rather than remediation leading to:

- the development of forward-thinking programmes
- improved social outcomes
- potentially future savings in government spending on remediation.

#### 5. Requires agencies to work more collaboratively

Services are aimed at outcomes, which are likely to cross the interests of a number of government departments and agencies. While a single government agency will need to be responsible for managing the contract, outcomes can be defined which benefit a number of agencies (e.g. potential long term savings from early intervention) and the Arranger (non-government parties) can provide services across a number of sectors.

#### 6. Improves public sector performance measurement

Investing for Social Success requires robust measurement frameworks to be established and brings non-government due diligence into measuring the performance of social services. Lessons can be spread across the wider public sector and a database of performance information developed.

#### 7. Delivers a wide range of stakeholders benefit, including:

- **Government** – improve social outcomes and reduce the financial risk that ineffective services will be delivered that do not accurately address social needs.
- **Investors** – receive a return on investment and benefit from being involved in socially positive activities.
- **Service providers** – freedom and ability to innovate.
- **Public** – better public services and more effective spending of tax-payer funds.
- **Service users** – tailored services that are achievement focused.

# Challenges, risks and lessons that need to be addressed

International pilots are already providing some valuable lessons for designing and implementing Investing for Social Success programmes. A selection of lessons from the overseas pilots are outlined below. These have informed the following sections on developing a robust performance framework and designing a sound commercial approach.

### 1. Outcomes must be clearly defined at the start

Well defined outcomes are imperative for specifying how to measure success and to create well designed incentives.

### 2. Target population needs to be identified

The target population must be well defined and of sufficient scale to allow robust conclusions to be drawn on the outcomes achieved. For example, a set number and demographic profile of people within a defined community. A defined control group may also be needed to identify what would happen in the absence of the intervention.

### 3. Well developed payment mechanism

It is important to set the payments for successful outcomes high enough to provide motivation and an appropriate return to providers, but low enough to provide value for money for public expenditure. Refer to pages 20 to 21.

### 4. Robust measurement framework and payment model

Outcome metrics should be measurable and achievable in order to create a coherent and functional incentive structure. Outcomes should be prioritised before setting incentive structures as specified outcomes may differ in importance depending on the funder.

There is a trade-off between the outcome measure, time, simplicity and data availability when developing outcomes measures. Investing for Social Success programmes need to account for all output from a service provider to mitigate the risk of 'cherry picking' those which are more likely to succeed.

### 5. Funding diverted from existing projects

There is a risk that the pilot project could divert philanthropic funding away from existing projects and into the pilot. This is a particular issue for grant funding where the investor is attracted to the ability to recycle funding in Investing for Social Success.

### 6. Method to attribute performance

For performance to be clearly attributed to an Investing for Social Success project, there needs to be a methodology to control for other changes in the economy or community which may positively or negatively affect an outcome. Control groups have been used overseas to achieve this.

### 7. Independent evaluation of performance

The evaluation methodology needs to be independent, reliable and the data needs to be robust. Overseas, independent assessors have been employed to calculate performance. Because providers have more discretion with regards to the services delivered, monitoring is particularly important to ensure quality of service and equity of treatment as well as to ensure outcomes are achieved.

### 8. A skilled non-government Arranger with robust incentives to drive performance

If there is to be a delivery intermediary, they require a unique combination of capabilities such as financial and finance knowledge, public sector knowledge in the relevant area, contract negotiation experience and the ability to engage with a range of stakeholders from the public and private sectors.

### 9. Risk of small provider failure

It is important to allocate risks to the parties with the best information and capability to manage them. It will be necessary to assess if each party can remain viable in the event the risks they hold eventuate. Overseas experience has shown government needs to be careful when contracting to ensure parties understand the risks they are taking on and those that receive the return for performance also hold the risk of performance.



**10. Market development is needed**

Investing for Social Success is a new concept and time will be required to build capabilities in the public sector and the market and develop the frameworks and information sets to facilitate delivery of the full benefits. This may limit the level of competition that can be generated for the pilot stage. As the market develops and the pilot achieves proof of concept, the number of interested parties will likely increase and more risks will transfer from the government to the market.

**11. Level of competition may be low in early years**

There is a risk that few market players, both investors and service providers, will wish to participate in the pilot project as the concept has not been trialed in New Zealand before.

**12. Contractual arrangements can be complex and require resources for robust procurement and ongoing management**

Comprehensive contracts will be needed to establish the risk allocation and incentives between parties. The target outcome, measurement and payment must be well documented and set out in a transparent and easily understood manner. Some pilots overseas have required a large number of contracts between parties, driving transaction and ongoing monitoring costs. The public sector needs to allocate resources to robust contract drafting and ongoing contract management.

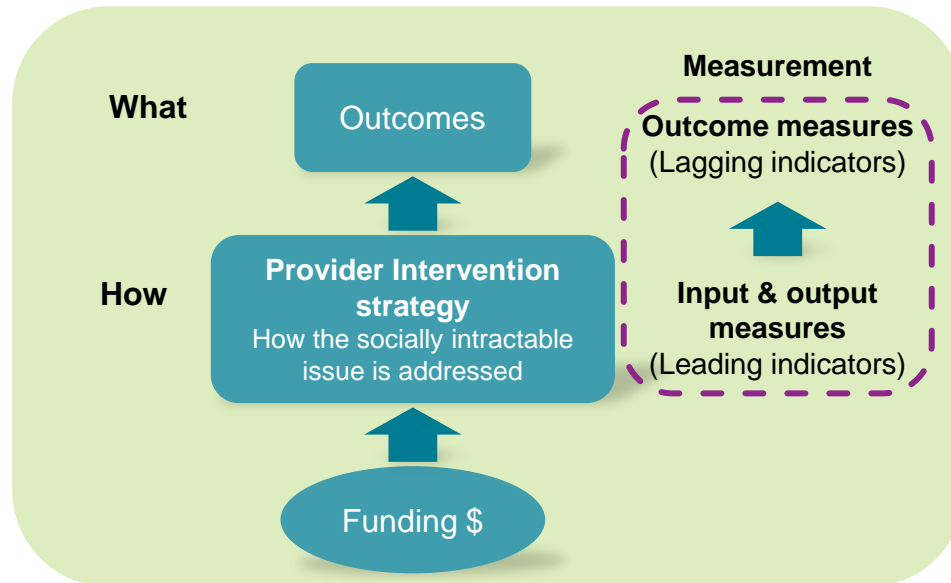
**13. Government resources and capability in complex contracting**

As with other complex contracting (e.g. PPPs) the government team will need sufficient resources and capability to negotiate a multi-year contract with real risk transfer, a practical performance measurement regime and a sustainable provider solution. They will also need the resources and capability to manage the contract actively and assess whether performance payments should be made.

### Overview

This section sets out the purpose and the role of measurement in ensuring social investment is effective. Specific success criteria and challenges are identified. To deliver successful measurement and overcome these challenges an effective measurement approach is described based on a set of key measurement principles.

Effective measurement is critical if Investing for Social Success is to be successful in New Zealand. Measurement is required to indicate both ultimate success as well as progress towards success. Ultimate success is achievement of the desired social outcomes such as a reduction in the reoffending rate, employment, or the end of a drug dependency. But ultimate success may take time. Measuring progress to track the journey is critical. This is particularly important when trying to address intractable social issues where change takes a long time. It is not sufficient to say, *'Wait ten years and then we'll tell you if this has been successful'*. The diagram below illustrates these roles.



### Purpose and roles of measurement

The purpose of the measurement framework is to provide robust information that is accepted by all key stakeholders that answers the questions:

1. **Where are we starting from?** Determine the baseline
2. **Are we successful?** Indicate when and by how much the desired social impact or outcome has been achieved
3. **What progress has been made? Are we on track? How confident should I be that the project will ultimately be successful?** Track progress towards the outcome, thereby providing confidence to all stakeholders that the programme will deliver
4. **What do we need to do to improve performance?** Where are the problems? By providing information on progress and the extent to which the objectives are achieved, enable appropriate actions to be taken to get back on track
5. **Should payments be made? How much?** By determining the degree that milestones, outputs and outcomes have been achieved, the performance portion of payments are determined and triggered. This is an important link to the commercial payment mechanism (see page 20 to 21).

### Key steps to develop effective measurement

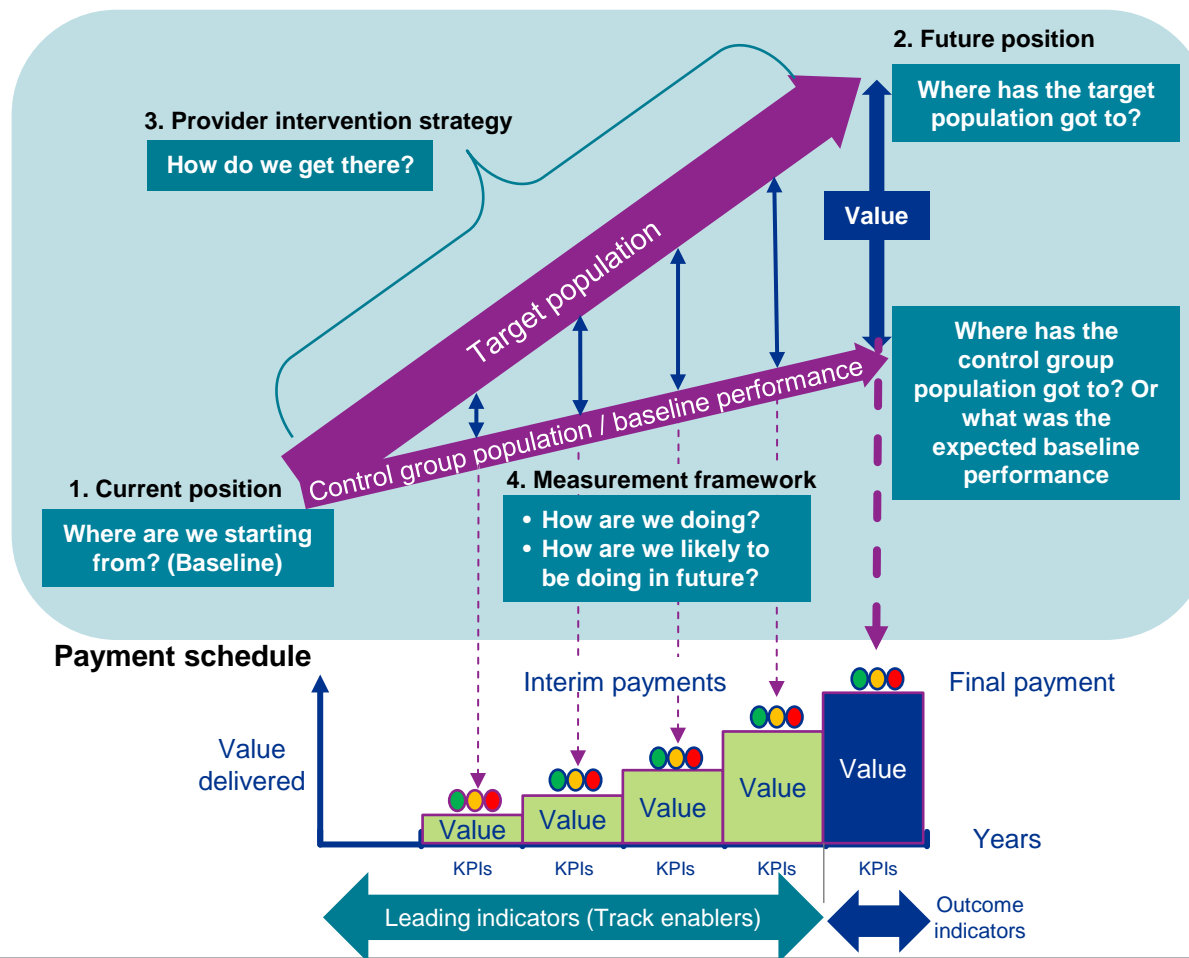
1. Agree topic area. Use the measurement criteria to identify a pilot topic that can be measured effectively (see page 38). This is the key mitigation strategy
2. Define desired outcomes
3. Identify target population
4. Identify control group or counterfactual baseline
5. Determine baseline performance. (This is the same for the target population and the control group if relevant.)
6. Work with service provider to understand their intervention strategy. Identify key strategic drivers
7. Agree what needs to be measured – both outcomes and leading indicators tracking inputs, outputs and relevant milestones
8. Design measures to track outcomes and drivers of success or leading indicators. See Appendix (page 34) for Measure Index Card
9. Identify and agree targets/trigger points and agree links to payment schedules
10. Populate measures. Identify data sources. Obtain data. Cleanse data
11. Report measures.

## 2. Performance measurement

### Roles of measurement

The diagram below illustrates the overall measurement framework. The provider intervention strategy forms the heart of the measurement framework. This sets out the rationale for how the service provider plans to invest funds in order to best move the target population from the current position to the desired position at least cost, risk and as quickly as possible.

There will likely be periods of good performance and poor performance over the lifecycle of a project as the service provider tests approaches. A successful project should learn from the periods of poor performance and have an overall upwards trend of improving performance.



Clearly measurement must report progress and the extent that outcomes are delivered as indicated overleaf. However, measurement must do more than this. It will only be successful if it:

#### 1. Requires minimum effort to maintain by creating minimum bureaucratic burden

Measurement costs money. There will always be a trade-off between the accuracy and sophistication of the measurement approach and the cost of administering it.

#### 2. Is accessible, transparent and believable

All involved need to understand it. A 'Black Box' approach will not work. So for example, esoteric approaches such as Data Envelopment Analysis (DEA) or use of Stochastic Frontier Analysis (SFA) might be technically and statistically correct but these will fail the test of transparency and believability. They will be a black box for many stakeholders.

#### 3. Provides sufficient confidence

Confidence is necessary for parties to contract. Ultimately the measurement needs to be right – sufficiently accurate, but equally important, it must engender confidence in all parties. It must be believed and trusted. The process for developing it needs to be designed to help build this confidence.

#### 4. Enables targets to be set that trigger payments but prevent game playing

Whenever a target is set, those targeted are incentivised to game, or find ways to achieve the target at less effort but not in the way intended and not in the way that delivers the targeted value. '*Tick the box but miss the point*'. Examples include:

- **Cherry picking.** This is selecting just the easiest members of the target population and bringing about the desired change for this population only

- **Gaming - dysfunctional behaviours that produce less value or destroy value.** Many examples of playing the system exist, particularly in the public sector. For example, in the UK Accident & Emergency (A&E) units in hospitals, waiting time targets were set with the aim of ensuring patients were seen quickly by a doctor. The effect, in some cases, was patients were left outside the A&E centre until a Doctor was nearly available to see them. So the clock only started ticking when a doctor was nearly free.

#### 5. Indicates progress with sufficient accuracy and granularity.

A broad brush measurement approach may provide insufficient detail to enable accurate payments

#### 6. Enables effective communication of performance.

Reporting needs to provide a clear, 'at a glance' view of performance that is accessible to all.



## 2. Performance measurement

### Challenges and mitigations of measurement

While meeting a number of the success criteria listed above may be difficult, the most common challenges or areas where measurement can go wrong include:

#### 1. Measuring outcomes adequately

Many social intractable issues are inherently difficult to measure. Some social outcomes do lend themselves to clear measures – for example not being convicted for reducing recidivism; or employment for reducing long term unemployment. However even for these apparently clear cut areas, as ever, the devil is in the detail. So, will any type of employment be sufficient? What if the individual is arrested but not yet convicted? Does it matter what the conviction was for?

#### 2. Assigning attribution

Closely related to measuring outcomes inadequately, as described above, a significant challenge often exists to identify the improvement in the social outcome **that can be specifically attributed to, or is the sole result of** the specific interventions from the Investing for Social Success programme. This is a common problem across the public sector. For example, in many parts of the world, crime rates have fallen substantially over the past ten years. But why? It is common for police to lay claim to these reductions. However, little solid evidence exists, to prove that the activities of the police have caused this reduction.

For effective attribution, robust evidence is required to show the causal relationships between inputs and outcomes. Multiple external factors often confuse the picture. It can be difficult, if not impossible, to disentangle the causal chaos in order to provide solid evidence that clearly shows how the programme has delivered the outcomes.

#### 3. Measuring sustained or enduring change

Value is diminished if the improvement in the social outcome is ephemeral. If the changes are not sustained, value will diminish. So it may be necessary to identify the appropriate period for the change to endure, which may not be straightforward. The longer this period, the greater the confidence that the change is enduring, but the longer the delay before payment is made. This delay may not be acceptable.

#### 4. Making a fair comparison to a fair control group.

It is likely a control group will be used as the comparator. The control group is the equivalent set of individuals that are not experiencing the interventions designed to improve the social outcome. They are the 'business as usual' group that continue to be serviced in the same ways government is currently delivering services. So, value is derived from improving the social outcome for the target group to a greater extent than for the control group. As for the target group, the control group must be clearly defined and tracked. If poorly designed and/or too transient, this may be impossible.

#### 5. Obtaining robust, relevant and objective data.

This is almost always a challenge. Particularly for the pilot, it will be important to select an area or social issue where quality data is readily available. If not, significant additional time and effort will be required to obtain this information.

#### 6. Defining vague or indistinct terms.

An example of a desired outcome might be to improve the sexual health of Māori communities. However, no clear and agreed definition exists in New Zealand for what is, and what is not a Māori community. If the outcome and a number of the leading indicators contain many indistinct terms, this will lead to significant additional time to define these terms clearly. Even this investment may still leave a residue of vagueness in the definitions leading to reduced measurement quality.

### Mitigation

The best strategy to overcome these challenges is to select the topic area with a view to how measureable this will be. The full set of criteria for selecting the topic area are set out on pages 27 to 28 and the Appendices (pages 35 to 40). The specific factors to increase measurability are:

1. Availability of robust independent data
2. Ability to measure outcomes
3. Complexity of measurement required
4. Ease of defining terms
5. Comparability and ability to identify and track an appropriate control group
6. Ability to define the target population
7. Existence of meaningful and robust indicators currently
8. Ease of assigning attribution.

This section sets out considerations for developing a sound commercial approach and describes the operating model for an Investing for Social Success project.

#### Market confidence and risk appetite

Investing for Social Success is a new concept for New Zealand and a relatively new concept internationally. The market of service providers and investors will need time to adjust to the new structures, incentives, risks and ways of working together. Equally government agencies may need to adjust to a more “hands off” approach and a different form of contract management. This will take time and will require interested parties to invest in up-skilling and building relationships.

International case studies have shown it is possible to pass a degree of social outcome risk to non-government parties. This will need to be tested in the context of the New Zealand market through market soundings, but comfort can be taken from some of the investors in the Australian pilots having a presence in the New Zealand market. The Wiri Prison Public Private Partnership (PPP) also involves an element of social outcome risk transfer. See page 45 for a description of the Wiri PPP.

Investing for Social Success has the potential to be a core contracting method in New Zealand across a range of social issues. It is recommended government invests time up front to design a concept that is sustainable over the long term and to build market confidence and capability in the concept. A process of analysis and testing is planned, starting with market soundings, a concept business case and then procurement of a pilot project. The scale and number of the pilots will be decided through the business case and procurement process.

When government approaches the market it needs to have a clear view of the proposition and the risks government is willing to retain. This will help build credibility in the market, ensure conversations are valuable and by being well informed of the different risks will protect the government's commercial position. In forming these views government needs to incorporate a plan for building market confidence in the concept, which is likely to require government to hold more risk in pilots than in later projects.

As the concept is new it is preferable to include the market in the development phase and retain some flexibility in government positions. For example, there will be some social issues the market is more willing to invest in than others and aspects of the operating model the market wishes to adjust (for these purposes the operating model means the formal relationships between parties, including accountabilities and payment mechanisms. Further detail on the following pages). The market soundings will provide insight into market preferences.

Social outcomes are a risky commercial proposition when compared to other investment options. Investors will only be comfortable holding risks they believe they have some control over and can manage.

Investors are likely to have little experience in managing social outcome risk. Those that have had involvement in social services may not have been financially exposed to whether outcomes (rather than inputs or outputs) were delivered. It is expected that investors who are willing to take a blended return, with some commercial return and some social return, will be most interested. There may be options to create instruments which allow investors who expect a commercial return to be involved depending on the Arranger; for example banks in NSW are investigating a three-tiered structure with a risk-free bottom tier. See page 23 for a list of potentially interested investors.

When assessing whether to be part of an Investing for Social Success project, an investor will be likely to analyse:

- The track record of existing social services in the community (e.g. historic information / data).
- The success of services used in other communities or overseas.
- The drivers of the social issue in the community.
- The capability and capacity of services providers who could operate in the community, including their connections in the community, their track record of social success, and their ability to deliver services professionally and manage to outcomes.

Where this information is not available, investors will be more cautious about holding the risks of delivery and will either seek some form of government support or will need to be prepared for a high risk return.

### 3. Commercial approach

## Designing a sound commercial approach

#### Phasing of commercial approach and facilitating capability building

The government may need to play a role in facilitating the development of the provider and investor market. This has two components:

1. Allowing adequate time for the market to understand Investing for Social Success and retaining more risk in earlier years when the market is less familiar with the risks.
2. Taking an active role in facilitating market formation. For example:
  - Running information sessions to explain the concept.
  - Introducing service providers and investors to each other.
  - Assisting service providers and investors to understand the risks in social services.
  - Providing access to the information currently available on performance against social outcomes.
  - Helping service providers understand how to design new service delivery models, assess risk and interact with investors.
  - Helping investors to become familiar with social services.

For the pilot, government may wish to work with providers and investors who already have some capability and relationships in this space, while working to build the wider market in parallel.

It is recommended that a phased approach be taken with the operating model. The desired operating model in the long term is one where the investors hold full risk for delivery of the social outcome. This is likely to mean government only makes payment on performance, however the value for money of interim payment will need to be considered given its connection to the cost of capital.

The level of government support that is required for the pilot project, as opposed to “final state” projects, will be informed by market soundings.

#### *Qualities in a service provider*

- Ability to record clear data to track progress of target population.
- Knowledge of “what works” in a particular community.
- Open to thinking creatively and trialling new ideas.
- Ability to interact with a financial investor.
- Sophisticated and professional management and governance.

#### *Qualities in an investor*

- Understanding of the social issue and motivation to make a difference.
- Understanding of how the social service provision market (and potentially the NGO market) operates.
- Ability to perform due diligence over the service provision plan.
- Ability to monitor the service provider actively and constructively agree remedies where needed.
- Relationships in the service provision and NGO market.

#### Value of social finance

Social finance is funding provided by non-government parties where a lower than commercial return is expected. The justification for an investor receiving a lower commercial return is that they also receive a “social good” return i.e. the community benefits in a non-financial way. It may be possible for some investors to receive a commercial return, but they will need to be partnered with social finance investors.

A key benefit of having non-government finance involved in a project is that the investors will be performing due diligence over the provider(s) and their proposed plan for delivering the social outcome and will be monitoring the service providers and managing for performance during the operational phase. The government agencies can step back and focus on whether outcomes are achieved. This could bring innovation into how research is used when planning a new social project, and could bring insights into the cost and performance monitoring regime.

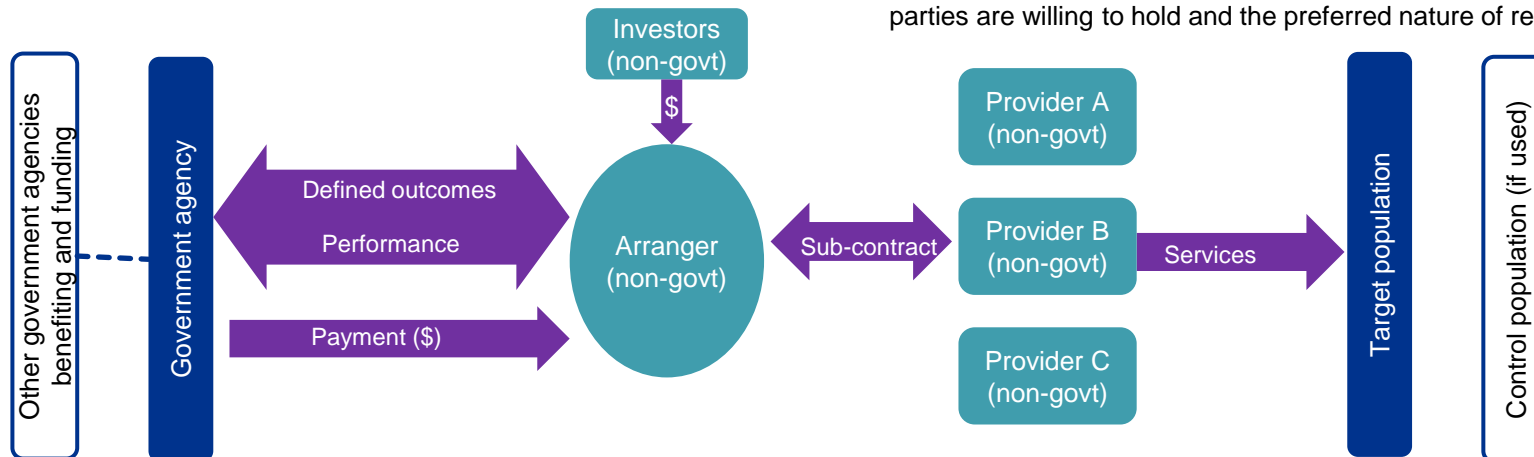
#### Overview

The basic operating model for investing for social success is shown below. Government will contract with a non-government party ("the Arranger") to deliver outcomes over a defined time period and the Arranger will then arrange investors and service providers to ensure the outcome is delivered. The assumption is that a single government agency, whether it be a central government department or a local agency such as a District Health Board, would contract with the Arranger.

The use of a single government agency is required for an efficient contract but the objective is cross-sector working:

- A cross-sector response is expected from the Arranger (e.g. a health outcome may be targeted but the Arranger may deliver a variety of social services to deliver the outcome).
- It will be possible to define an outcome which will benefit a number of government agencies, potentially using pooled cross-agency funding to make performance payments.

The Arranger will be a non-government party and may also be an investor and/or provider. Further detail is provided on the following page.



The key to designing the detail within the operating model is to decide the incentives that should be on each party and to then design a means to create those incentives. For example, it will be important for the Arranger to be incentivised to understand the services being delivered and manage the providers to ensure services are effective.

Establishing an appropriate operating model requires decisions on:

- The payment mechanism (i.e. how the Arranger will be paid, for what and when).
- The process for monitoring and review, and the implications if the required performance is not achieved.
- The level of cost and performance risk government is willing to retain, and the risks transferred to the provider.
- The degree government wishes to have influence or control over the non-government providers during the operational phase.
- The nature of the relationships between the non-government parties.

The detailed development of the operating model will be informed by market soundings. Through this process government will be able to test which risks parties are willing to hold and the preferred nature of relationships.



#### Non-government structures

The non-government parties will choose how to organise themselves based on the specific social outcome being sought and the number of parties needed. The Arranger will be a single body accountable to government, whether it be a consortium (in which case a lead party is identified to interface with government) or a prime contractor. The Arranger will arrange the finance to fund services and will sub-contract with one or more service providers. Overseas pilots have shown it is likely that parties which are sub-contractors may also have an Arranger role and/or be investors.

The government will not be actively involved in the decisions on how non-government parties structure themselves, but will have an interest in the nature of the relationships to assess whether there is a risk for the project. During the procurement and negotiation process the government procurement team will review inter-party agreements and assess the risks each party bears and the remedies in place if failure occurs. It is important to note that in Investing for Social Success there is expected to be some level of failure during the operational phase because new community services are being tested; the interest for government is how those failures will be identified and remedied in the pursuit of the contracted outcomes.

The advantage of the government not being actively involved in the internal structures of the non-government parties is that the government holds minimal responsibility (i.e. risk) for the integration and project management of the parties, or the intervention types selected.

#### Payment mechanism

The payment mechanism is the agreement between government and the Arranger for payment. It covers timing of payment, how the amount of payment will be calculated and circumstances under which payment will not be made.

When designing and negotiating a payment mechanism, government and the Arranger will need to consider:

- Funding availability.
- How much funding is guaranteed by government.
- The timing of payments.
- The portion of payments that will be made on the basis of fixed payment, defined performance milestones or KPIs.
- The definition of the KPIs.

The decision on the form of the payment mechanism will be driven by:

- Market feedback.
- Government preferences in terms of risks and cost.
- Value for money.

The business case for the pilot will look to develop the payment principles. Depending on the cost information available, it will set up a financial model to assess the cost to the Crown under different payment mechanisms.

The business case will also model the level of cashflow the Arranger requires and sensitivities to the cashflows of different performance scenarios. This will inform how the payment mechanism is structured and the level of government payment or guarantee that is needed.

#### Payment mechanism (continued)

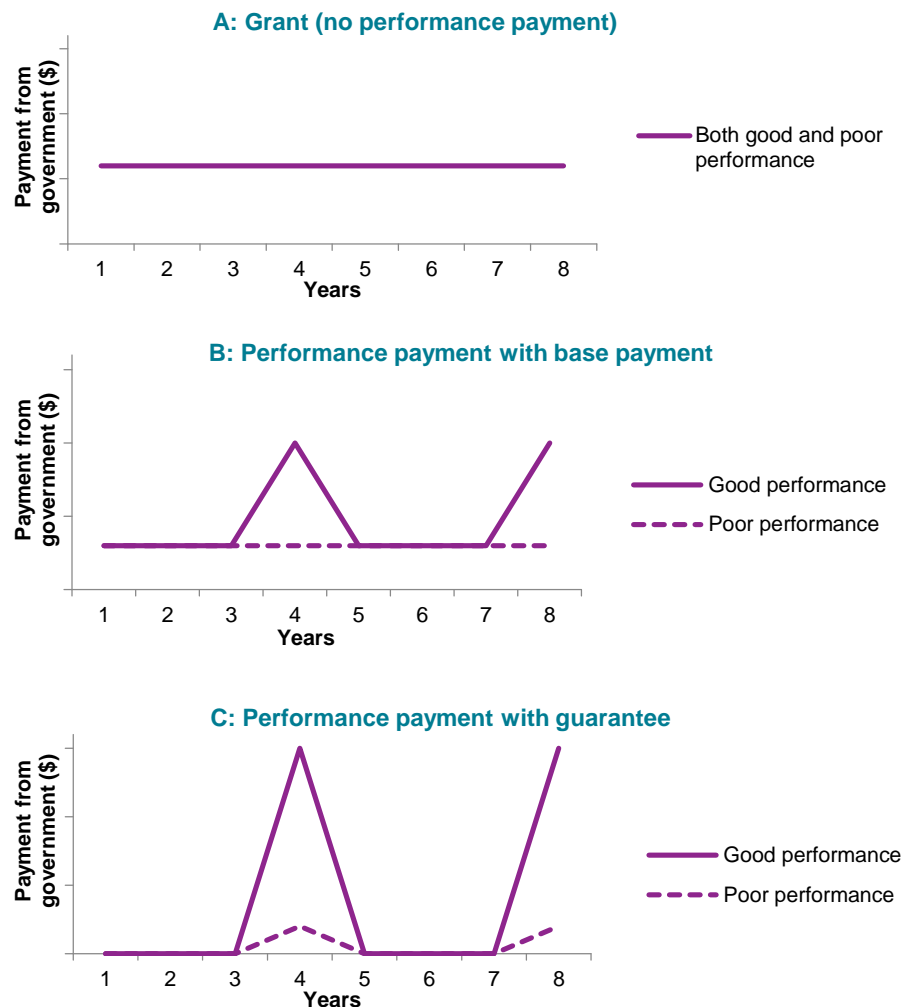
A value for money assessment will also be applied. There is a trade-off between the cost of finance and the level of incentive to perform. Annual government payments require the non-government parties to draw down less finance during the contract and therefore have a lower cost; however this can lower the incentive of the Arranger to perform. This trade-off can be modelled financially once a specific pilot has been selected.

The graph on the right illustrates potential payment streams from government to the Arranger for different payment mechanism. There are three broad scenarios:

- **Scenario A** has no performance payment and is equivalent to a grant payment.
- **Scenario B** (with the dotted version indicating poor performance) has a base payment made annually by the government and then performance payments possible in set years. This reduces the amount of social finance that is required over the project life.
- **Scenario C** (with the dotted line indicating poor performance) has no government payment until the performance measurement years. Under this option government provides a guarantee so when there is poor performance government still makes a small payment in the years performance is measured.

For the pilot, government may wish to consider a phased profile, with a higher level of annual payments made by government in early years, and a higher level of performance payments in later years. This would mean the government would hold more risk in the early years and require the Arranger to manage more risk in later years.

#### Potential payment profiles



#### Risk allocation

When designing the operating model, government will take a view on the risks it is willing to retain, those it is willing to share, and those it expects to transfer to the Arranger. The table to the right provides a high level view of the risks within an Investing for Social Success project and suggested allocation. If a pilot project proceeds then a detailed version of the risk analysis will be done, identifying community specific risk and attempting to quantify the risks prior to going to market. This would be negotiated and agreed with the Arranger.

Risks should be allocated to the party best able to manage them. For example, the Arranger is not able to manage the risk of government changing policy during a project and therefore government should be responsible for any impact on the project's performance resulting from a policy change.

In the early years of the pilot there is likely to be less evidence of which services will be effective at delivering social outcomes. Research will be used where possible, but a trialling process is likely to be needed to build up an evidence base. This means there is a performance risk that no party can easily manage. In these cases the likely outcome is that the risk is shared with government or retained by government.

Risk allocation preferences will emerge through the market sounding. The degree to which government shares risk (e.g. 50/50 vs 80/20) will depend on the market's confidence in their own ability to manage the risks and the extent that investors are willing to face a low expected commercial return.

Risks are allocated by making a party financially accountable if the risk eventuates. Social finance is used as a tool for transferring the risk from government to the investors. By putting their own finance in, rather than being pre-paid by government, the investors can risk losing their finance if the services are unsuccessful.

#### Example risk allocation

Key risks	Allocation	
	Govt	Arranger
Cost of delivering services (inputs, outputs)		X
Failure of services to meet outcomes for target population		X
Integrating non-government parties		X
Transience of target population	X	X
Financial viability of service providers		X
Cost of regulation (i.e. measurement of outcomes)	X	X
Cost of procurement and bidding	X	X
Change in government policy	X	

#### Termination and step in rights

The contractual agreements between the government and the Arranger will include the remedies for poor performance. This is not about the government having levers to micro-manage the services, but instead a system by which poor performance is highlighted. If the non-government parties' remedies do not work, the government can take action. The government may wish to have the right to terminate the contract, or if the service is critical, it may wish to have the right to step in and provide the service through other means.

The details would be developed through the contract negotiation phase where parties will consider:

- How failure is defined.
- How to assess whether remedies are effective.
- How many failures are allowable before government takes action.
- Which actions / levers the government wishes to be able to exercise.

This section provides a summary of potential service providers and investors. There appears to be a sufficient market of service providers in New Zealand to implement a pilot project. Further work will be needed to determine the geographic spread and capabilities of service providers when selecting a pilot project. It is recommended that if government decides to design a pilot project, it runs a market sounding with service providers to test their level of interest, capability and capacity before designing the pilot.

#### Non-Government Organisations (NGOs)

- There are over 97,000 NGOs in New Zealand, who collectively contribute approximately 2.6% to New Zealand's GDP.
- The majority of NGOs rely on volunteers, with only 10% employing paid staff.
- Within the NGO sector, organisations involved in the Social Services and Health Sectors will be most relevant to Investing for Social Success as they are most likely to have the capability for providing services which deliver social outcomes.

#### Social Services Sector

- The NGO social services sector includes social services, emergency support and relief, income support and maintenance and support and ancillary services.
  - Social services includes child welfare, child services and day care, youth services and welfare, family services, services for the handicapped and elderly, and self-help and other personal social services.
  - Emergency support and relief services includes services such as disaster/emergency prevention and control, temporary shelters and refugee assistance.
  - Income support and maintenance includes institutions providing cash assistance, food, clothing, transport and other forms of assistance to people to maintain a livelihood.
  - Support and ancillary services covers any other services not included in the sub-groups described above.
- The Social Services NGO sector contains 11,280 organisations. It is the second largest group (11.6%) of NGOs in New Zealand. The sector employs 31,480 staff.
- Many NGOs in the social sector are governed by religious groups and iwi.

- The majority of income for these organisations is from the sale of goods/services (72.7% ) with 18.2% from donations, memberships & grants.

#### Health Sector

- There are 2,210 NGOs in the health sector employing 15,090 staff.
- Income in this sector comes from sales of goods/services (81.5%) and from membership, donations and grants (12.2%).
- Government contracts with NGOs are procured by both the Ministry of Health and District Health Boards.
- There are five sub-groups in the NGO health sector:
  - Hospitals and rehabilitation providing in-patient healthcare including physiotherapy and other rehabilitative therapy for those with injury, genetic defect or disease.
  - Nursing homes including in-patient convalescent care and residential care, nursing homes for the severely handicapped and hospice services.
  - Mental health and crisis intervention such as psychiatric hospitals, outpatient treatment for mentally ill, and outpatient services and counsel in acute mental health situations.
  - Other health services including public health promotion and education, outpatient health treatment, outpatient rehabilitative medical services and emergency medical services.
  - Support and ancillary services covers any other services not included in the sub-groups described above.

#### Profit making service providers

There may be interest from service providers that are profit making entities. An example of this is Serco which has been contracted to operate Wiri prison and will share responsibility for the social outcomes (re-offending rates) of Wiri prisoners. Government will need to decide if there is a policy reason to consider for-profit providers differently to not-for-profit providers. If there is no policy restriction then the decision will be made on a value for money basis.

Source: Office of the Community and Voluntary Sector

- Potential investors in New Zealand will be unfamiliar with the types of risks that need to be managed in Investing for Social Success projects. As investors may not have existing experience in social services or relationships in the industry (e.g. with service providers, government agencies and community groups), it will be important to engage with potential investors to build interest in the concept and test preferences for risk allocation and the operating model. While this is a new concept for New Zealand, presenting new risks and relationships to investors, there is international evidence that finance can be raised (e.g.  
)
- It is likely that a financial arranger will be needed at the centre of the project to facilitate investors, such as a bond issuer.
- It will be important that investors are interested in the concept of social investing and also in the particular social outcome chosen. This will be tested during market soundings.
- There are a number of potential sources of investment for Investing for Social Success. These include banks, private equity companies, community trusts, iwi and some service providers.

- Westpac is currently negotiating with the New South Wales state government to deliver social outcomes related to foster care. Westpac is proposing to raise finance for the project through a three tiered bond which ranges from a risk free layer to a high risk layer.

- Examples of Private Equity Companies which have investment foundations focussed on community outcomes include:

- Community Foundations manage charitable funds on behalf of donors by investing in communities. We understand that some of the Foundations may be interested in investing for social outcomes that will have benefits in their communities of interest. There is also a trend emerging of some Community Foundations favouring loan type arrangements, rather than traditional grant funding to organisations involved in community outcomes.

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- Some service providers may have the scale and resources to also act as investors. Examples could include:



This section presents potential procurement routes for a pilot and the trade-offs government will need to consider.

#### Overview

It is understood from the Working Group that standard government procurement rules would apply to any Investing for Social Success project. The starting point is that an open competition is used to select the preferred party(s) for the government to contract with. It is understood that any deviation from this position would require government to decide there were sufficient benefits to restrict the competition.

The case studies from overseas have used models where there is a high degree of involvement from non-government parties in developing the programme. This has either occurred through a preferred supplier relationship (e.g. a party contacts government with an idea and together they work up the programme before negotiating contracts) or an open market procurement process where a development phase occurs with selected providers, followed by a negotiation phase. Early involvement of the market helps to shape a project into a form which will be deliverable down the track (i.e. an outcome and region is selected where there is a market to deliver relevant services and investors willing to contribute funding.)

An indicative procurement roadmap has been identified for procuring an Investing for Social Success project (see page 26). It presents a high level business case, leading into an open procurement with collaborative project development between government and the preferred bidder. A key driver in developing the roadmap has been the need to involve the market in selecting the social issue to pilot.

At the point a decision is made to formally engage the market in procurement of a pilot, the government will have adequate information on the interest and sophistication of the market to decide whether to proceed with an open tender or if a more tailored procurement approach is required (e.g. restricted competition.)

Alternative roadmaps were considered that would have brought a market partner into the team before the business case to allow a detailed business case on a specific social issue to be developed. This could have produced a quicker procurement process, harnessed current market interest and allowed the Crown to develop a well worked up proposal through detailed modelling in the business case. However, the trade-off was the potential probity issues associated with choosing a preferred advisor and the lost potential competition benefits.

#### Government resourcing requirements

If government decides to progress to a business case a project team will need to be formed. This would be led by a Project Director who would be responsible for seeing the project through business case, transaction and into operation. The Project Director would initially be supported by KPMG and staff from the Ministry of Health.

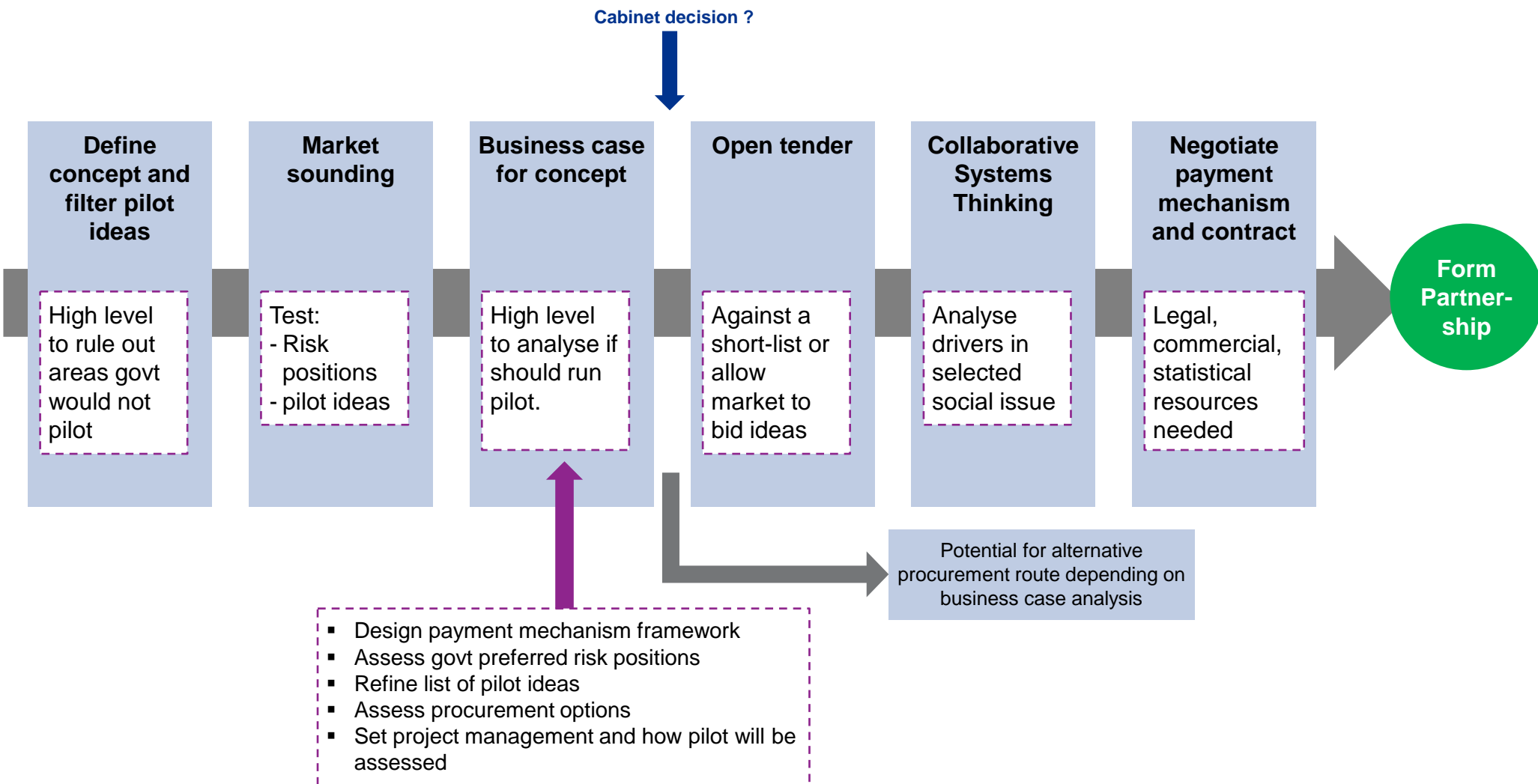
When the transaction phase is reached then the Project Director would need to secure commercial advice, legal advice, specialists in the social area (possibly government officials) and project management support.

It is recommended that the Working Group is retained over the long-term. While the Working Group may not be directly accountable for the pilot, they would have responsibilities in the long-term implementation of Investing for Social Success in New Zealand as a programme.

Government funding sources will need to be identified in the next phases of work. Funding will be needed for the project team to implement the pilot and, when the pilot is operational, for the relevant government agency to make payments to the Arranger.

## 5. Procurement of a pilot

### Proposed procurement roadmap



This section sets out how a pilot could be selected, including a long list of ideas and the criteria for filtering and prioritising the ideas. See Appendices for further detail (pages 35 to 40 and pages 49 to 53).

#### Process for selecting pilot area

The process for selecting the social issue and area for the pilot is two step. First, a long list of potential areas are identified. Second, a coherent set of criteria are applied to this long list so that they can be filtered. The criteria are the key factors or drivers that will affect, either positively or negatively, the suitability of the pilot. Note that a number of social issues may be appropriate at a later stage of the Investing for Social Success programme, but not suitable to pilot. To be successful, the pilot needs to be relatively quick, needs to address a social issue that is challenging, but not too challenging, and it needs to be significant in size, but not too large. The following page provides an overview of how the criteria could be used during the pilot development process.

The criteria will be refined during the pilot phase and will then be available to use to select future areas for Investing for Social Success.

#### Developing and assessing criteria

Criteria have been developed with input from the Working Group through a workshop. The work was refined by using a Systems Thinking approach to identify the drivers of a successful social investing pilot. This incorporated lessons from similar schemes overseas and lessons from New Zealand public sector contracting.

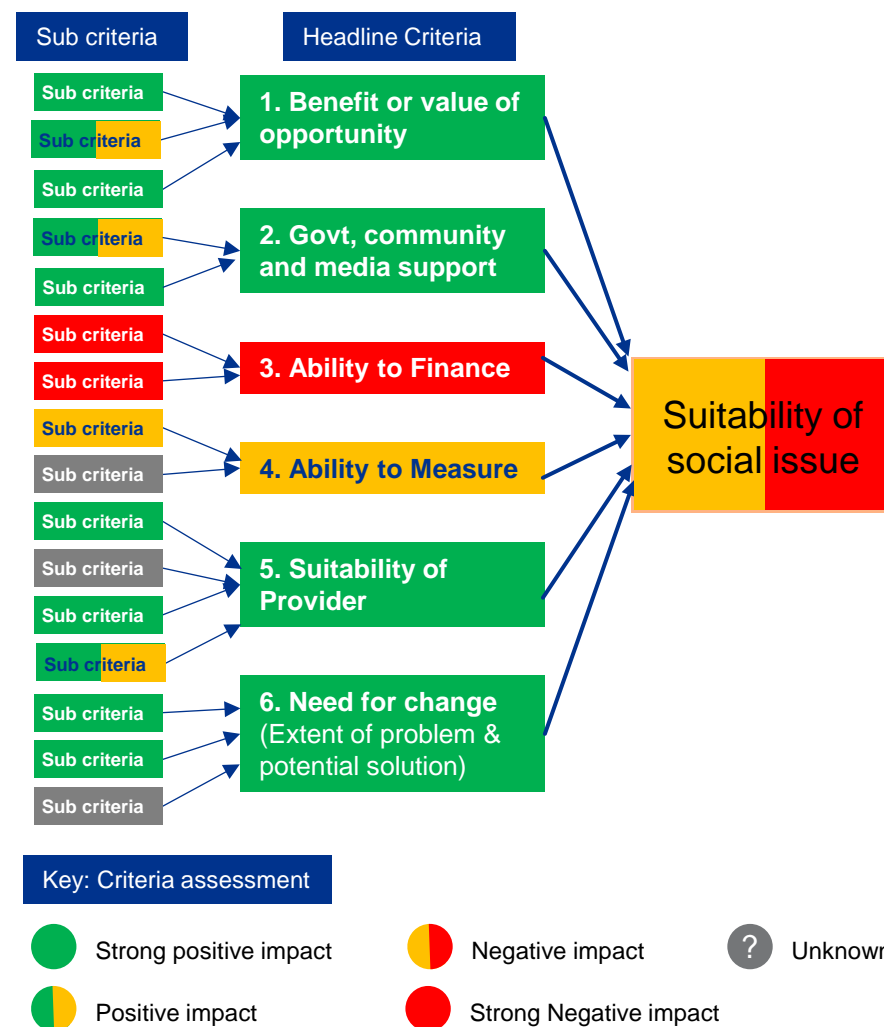
The drivers were then grouped under six headings (see diagram on the right). Drivers/criteria need to be assessed in terms of the extent they impact on overall suitability. This impact may be positive or negative. A four point scale is proposed as illustrated on the right. A Red assessment means there is a strong negative effect on the suitability of the social issue for the pilot; Green is a strong positive effect. For some drivers, at this stage information may not be available, so the assessment will be Grey or Unknown.

The criteria were then tested by the Working Group on select examples from the long list of pilot areas to see if they could helpfully differentiate between pilot ideas. The criteria were then refined and were validated by the Working Group at a further workshop.

#### Long list of potential pilot areas

The Working Group has identified a long list of social issues which could be used to pilot Investing for Social Success. The full list is included in the Appendices and includes adult reoffending, youth justice, drug and alcohol addiction, child respiratory diseases, child skin infections, pre-school readiness, school drop out rates and unemployment.

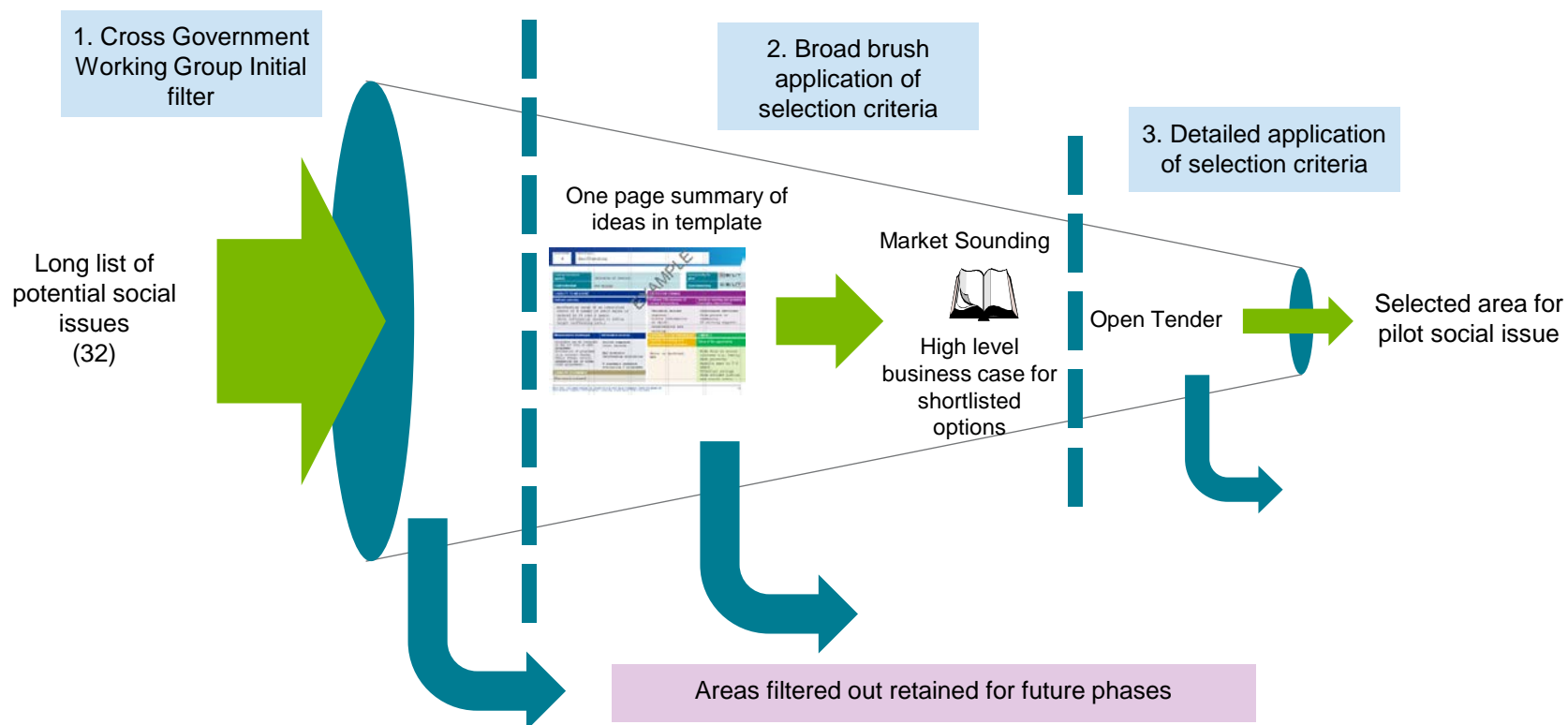
#### Summary of drivers/criteria and illustrative assessment



### Selecting the right pilot area for pilot success

The criteria that have been developed with the Working Group provide a comprehensive set of tests for whether a particular social issue will be suitable for Investing for Social Success. The intention is that these criteria will be a key part of the programme and used in the future to assess when to use Investing for Social Success.

For the pilot, an iterative approach is recommended to allow market input into the pilot selection. At an early stage it will not be possible to rate potential pilots against each of the criteria because there is not sufficient information about the capacity, capability and interest of the market. The diagram below explains the proposed approach. First the Working Group generates and refines the long list of ideas by considering timeframes for a pilot and where government priorities and resources sit. Next, the market sounding provides information to allow a portion of the criteria to be applied during the business case. Finally an open tender process allows the more detailed criteria to be applied e.g. market capability.



This section sets out stakeholders that the Working Group have identified and provides a description of how they may be affected by Investing for Social Success projects. It proposes key messages for each stakeholder.

Stakeholder	Stakeholder benefits	Likely concerns	Mitigation	Timing
<b>Central Government</b> <i>Working Group Members</i> <ul style="list-style-type: none"> <li>■ Ministry of Health</li> <li>■ The Treasury</li> <li>■ Ministry of Social Development</li> <li>■ Department Internal Affairs</li> <li>■ Ministry of Business, Innovation and Employment</li> <li>■ State Services Commission</li> </ul> <i>Others likely to be interested</i> <ul style="list-style-type: none"> <li>■ Te Puni Kokiri</li> <li>■ Ministry of Justice</li> <li>■ Ministry of Education</li> <li>■ Other agencies in the Social Sector Forum</li> <li>■ Department of Prime Minister &amp; Cabinet</li> </ul>	<ul style="list-style-type: none"> <li>■ Improved social outcomes</li> <li>■ Removes upfront delivery costs</li> <li>■ Financial risk is limited for government and mainly held by the investors</li> <li>■ Ability to apply a proven concept to multiple sectors</li> </ul>	<ul style="list-style-type: none"> <li>■ Concept may prove to not be successful</li> <li>■ Measurement of success may be difficult</li> <li>■ Risk that significant Crown underwriting required</li> </ul>	<ul style="list-style-type: none"> <li>■ Criteria to select the pilot have been carefully considered</li> <li>■ Pilot outcome has been selected with measurement in mind</li> <li>■ Due diligence carried out on investors</li> </ul>	<ul style="list-style-type: none"> <li>■ Core agencies involved throughout from concept development to implementing and monitoring pilot. Other agencies informed / involved at decision points</li> </ul>
<b>Regional bodies</b> For example: <ul style="list-style-type: none"> <li>■ Local councils</li> <li>■ DHBs</li> <li>■ Crown entities</li> </ul>	<ul style="list-style-type: none"> <li>■ Improved social outcomes</li> <li>■ Locally tailored solutions</li> <li>■ Freedom to innovate</li> </ul>	<ul style="list-style-type: none"> <li>■ Some agencies are keen to be involved, some have lower level of knowledge and/or enthusiasm</li> </ul>	<ul style="list-style-type: none"> <li>■ Community involvement and support is key to success</li> <li>■ Programme to be tailored to local community needs</li> </ul>	<ul style="list-style-type: none"> <li>■ Involved in development after pilot selected</li> </ul>
<b>Investors</b> For example: <ul style="list-style-type: none"> <li>■ Financial institutes and banks</li> <li>■ Iwi</li> <li>■ High net worth individuals</li> <li>■ Philanthropic foundations</li> <li>■ Service providers</li> </ul>	<ul style="list-style-type: none"> <li>■ Return on investment</li> <li>■ Recycling of capital into a greater number of social projects</li> <li>■ Align with corporate social responsibility</li> </ul>	<ul style="list-style-type: none"> <li>■ Timing and size of pilot to align with investment required</li> <li>■ Lack of clarity around risks</li> <li>■ Length of time for social outcomes to be measured</li> <li>■ Level of government commitment</li> </ul>	<ul style="list-style-type: none"> <li>■ Responses to concerns to be based on concept design</li> <li>■ Pilot start date is planned for early 2014</li> </ul>	<ul style="list-style-type: none"> <li>■ Market soundings, take pilot to market</li> </ul>



## 7. Stakeholders

### Interested Stakeholders

Stakeholder	Stakeholder benefits	Likely concerns	Mitigation	Timing
<b>Service providers</b> For example: <ul style="list-style-type: none"> <li>■ NGOs</li> <li>■ Workforce representatives</li> <li>■ For-profit providers</li> </ul>	<ul style="list-style-type: none"> <li>■ Freedom to innovate</li> <li>■ Increased ownership of the services delivered</li> <li>■ Medium/long term contracts with funding outside government annual processes</li> </ul>	<ul style="list-style-type: none"> <li>■ Consolidation</li> <li>■ Funding cuts</li> <li>■ Lack of working capital and upfront funding to contract and establish programmes</li> <li>■ Level of risk held</li> <li>■ Lack of understanding of performance required</li> </ul>	<ul style="list-style-type: none"> <li>■ Consolidation of service providers is not the intent, but may occur naturally</li> <li>■ Flexibility for service providers to input into performance criteria</li> </ul>	<ul style="list-style-type: none"> <li>■ Socialisation of concept, soft testing appetite for concept market soundings, take pilot to market</li> </ul>
<b>The public, in particular service recipients</b> For example: <ul style="list-style-type: none"> <li>■ Service recipients</li> <li>■ Iwi</li> <li>■ Advocacy / consumer groups (e.g. <span style="background-color: #e0f2f1; padding: 2px;"> </span>)</li> <li>■ Media</li> <li>■ New Zealand taxpayers</li> </ul>	<ul style="list-style-type: none"> <li>■ Improved social outcomes</li> <li>■ Increased service levels and/or quality</li> <li>■ Targeted services filling existing gaps</li> </ul>	<ul style="list-style-type: none"> <li>■ Adverse outcomes for recipients if programmes unsuccessful</li> </ul>	<ul style="list-style-type: none"> <li>■ Pilot outcome selected using defined criteria</li> <li>■ Service providers selected through a stringent process</li> <li>■ Community involvement and support is key to success</li> </ul>	<ul style="list-style-type: none"> <li>■ Prior to take pilot to market</li> </ul>
<b>Academics and advisors</b> For example: <ul style="list-style-type: none"> <li>■ Tertiary Institutes</li> <li>■ Think Tanks</li> <li>■ Commercial advisors (e.g. KPMG)</li> <li>■ Legal advisors</li> </ul>	<ul style="list-style-type: none"> <li>■ Research interests</li> <li>■ Opportunity to develop concept further</li> </ul>	<ul style="list-style-type: none"> <li>■ Access to data</li> <li>■ Avoiding issues experienced in overseas pilots</li> </ul>	<ul style="list-style-type: none"> <li>■ A pool of expertise in New Zealand needs to be built</li> </ul>	<ul style="list-style-type: none"> <li>■ Business case (informally), pilot development, possibly pilot benefits measurement</li> </ul>

## 8. Aligned government programmes

### Government programmes that have a similar focus

This section sets out existing government programmes that the Working Group has identified as having some measure of overlap with Investing for Social Success. It highlights a need for Investing for Social Success to be well coordinated with all of the aligned government programmes listed.

#### Overview

- Investing for Social Success will build on work already underway across government. In recent years, there has been a trend towards improved contracting through integrated contracts across government agencies and a focus on outcome-based measures.
- Investing for Social Success will be informed by lessons learnt from the programmes currently underway, for example lessons from the completed procurement of Public Private Partnerships.
- To facilitate the measurement of outcomes, consideration will be given to any potential outcome and/or community overlap between Investing in Social Success and existing programmes.
- The table to the right provides a summary of government programmes that are aligned and require coordination going forward. The Working Group has provided a description of each programme (see Appendix pages 41 to 48).
- From the information provided by the Working Group an assessment has been made of the relevance of each programme (see table to the right). This is at an indicative level and is limited to the information that was available. Additional information will be required by the government agency concerned to confirm areas of relevance.

Programme	Lead agency	Likely Relevance
Procurement reform	MBIE	Provides best practise which should be followed when engaging with the market and designing the detailed procurement approach.
Business growth agenda	MBIE	Little on social services, but a shared aspiration of encouraging innovation. Appears to have limited relevance.
Social Sector Trials	MSD	Lessons to be learned from contracting for and measuring outcomes. May have some cross-over in the provider market. Need to be aware of location of pilots to reduce attribution challenges when measuring performance.
Youth Services	MSD	Same relevance as Social Sector Trials. Additional lessons to be learnt from the payment mechanisms as government may be paying in arrears based on providers' performance.
Vulnerable Children's Team	MSD	May be relevant depending on the social outcome. Potential lessons to be learnt from how providers work together in communities.
Investing in Outcomes	MSD	Same relevance as Social Sector Trials. Opportunity to utilise tools which have been developed to test and build provider capability.
Drivers of Crime	MoJ	May be relevant depending on the social outcome piloted.
Whanau Ora	TPK	May be relevant depending on the social outcome. May have some cross-over in the provider market. Could provide information on capability of provider market.
Ministry of Health's Services Reviews	MoH	May be relevant depending on the social outcome piloted.
Partnership Schools	MinEd	Still under development but opportunity to share lessons on performance measurement.
Public Private Partnerships (PPPs)	Treasury	Lessons on procurement and contracting framework and using non-government finance to transfer risk. Particular focus on learning from the PPP payment mechanisms and the Wiri PPP reoffending performance measurement.
Better Public Services	SSC, Treasury	Lessons on past practises with government NGO contract. Need to coordinate with the piloting of a standardised NGO contract. Opportunity to trial pooled budgets and cross-government working.

# Appendices

1. Performance measurement
2. Criteria
3. Aligned government programmes
4. Long list of pilot ideas

The preceding section defined measurement success and identified challenges. It also identified the key steps required to develop effective measurement. This section looks in more detail at the approach, identifying key principles to apply if success is to be delivered and challenges overcome.

### Measurement principles

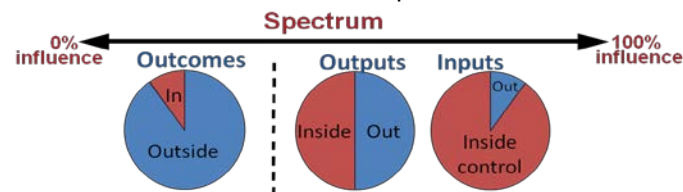
An important starting point is to identify and agree a set of key principles that must underlie the design of effective measurement. A common trap for monitoring frameworks is to rapidly dive down into measures and KPIs. Key principles are to:

- 1. Start with strategy.** In this case, the strategy in question is the service provider's. This is how they believe funds can best be used to bring about sustained improvements in outcomes in the targeted social area. An area will be selected where existing strategies have been failures or insufficiently effective (i.e. government has spent significant sums but the outcomes have remained stubborn to change.)
- 2. Confirm governance up front.** We need to agree how the measurement framework will be used and by whom. This group can then be involved in the design from the start. This will lead to a better framework and, critically, greater ownership.



- 3. Measure what counts, rather than count what is easiest to measure.** We need to focus on identifying the key factors, or drivers that have the greatest impact. Second, we need to determine a way to measure these effectively. So, again, it is important not to start with measures
- 4. Understand cause and effect and apply it to the design.** Strategy, in this situation, is simply the hypothesis of the service provider of how funds can best be used to deliver the outcomes. This is the innovation. The bones of the strategy are the series of high impact drivers and the cause and effect relationship of these drivers that means inputs lead to outputs lead to outcomes. Thus cause and effect analysis needs to be the bedrock of all measurement. Systems Thinking is an effective tool to disentangle strategy and represent it as a single cause and effect map and driver tree.

- 5. Understand the sphere of influence.** The aim is to identify measures and then use these to hold the provider to account. It is an accountability framework. For all key drivers that need to be measured, it is therefore important to be clear on who has influence over these drivers. A party can only be held accountable for what is inside their sphere of influence.

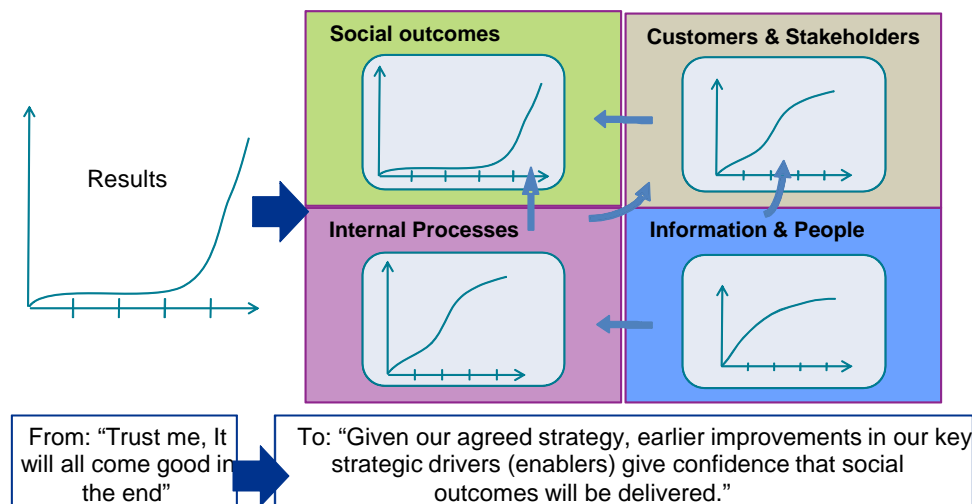


- 6. Ensure an appropriate number of measures.** The administrative burden must be minimised
- 7. Set targets carefully to drive desired behaviours.** This issue of 'gaming' was described earlier under success criteria.
- 8. Employ an appropriate mix of leading and lagging indicators.** Together these indicate both the current performance – 'how are we doing now?', and critically the likely future performance – 'if we carry on as we are what will be the result?' This is illustrated on the next page.
- 9. Design measures consistently.** An example of a Measure Index card is illustrated on the next page.
- 10. Apply an effective process to ensure buy-in** that produces the right measurement framework AND ensures ownership and buy-in. Both Service Providers, Financiers and government will need to support and have confidence in the measurement framework.

### Leading and lagging indicators

For many social issues, changing outcomes takes time and a long and complex causal chain is involved. In a similar way in a the private sector, financial results are the product of many distant actions. To measure outcomes effectively, it was realised in the 1990's that it was equally important to measure the inputs and outputs. This gave rise to the use of the Balanced Scorecard. This programme is seeking sustained changes in social outcomes. These will take time, potentially years, depending upon the social area selected. It will not be sufficient to report to the Minister, *"Trust us, it will all come good in the end"*, nor would this provide adequate reporting on the programme. To provide confidence that the programme is on track to deliver, a coherent set of enablers, or drivers of results must be extracted from strategy and tracked. These are the leading indicators, or predictive analytics that create confidence of ultimate success. This is illustrated below.

### Reporting Results (Lagging indicators) and Enablers (Leading indicators)



### The Measure Index Card

For all metrics a common set of factors need to be determined, recorded and maintained. The measure index card, as illustrated below, is a convenient way to ensure all metrics are appropriately developed and maintained. Key questions that need to be answered include:

- What is the metric for? Why are we measuring this?
- Which strategic lever or driver is it designed to track?
- How will it be calculated? (The measure formula)
- Where is the data to come from?
- Who should 'own' the measure? This is the person who has the greatest influence upon the metric and should therefore be held accountable.

### Determining and capturing the essential characteristics of metrics

Measure Characteristic	Definition
<b>Driver:</b>	The factor being measured – identified on the scorecard.
<b>Purpose:</b>	The benefit we aim to deliver by tracking this driver. The reason why we are measuring this driver.
<b>Owner:</b>	Person accountable for outcome. The person with the greatest direct influence.
<b>Strategic objective:</b>	The strategic objective(s) this driver mainly influences.
<b>Cascade:</b>	The other measures it influences on the way to top level government objectives.
<b>Target:</b>	The performance required and deadline.
<b>Formula:</b>	How the measure is calculated
<b>Frequency:</b>	How often the measure is reported (e.g. weekly, monthly, annually).
<b>Who measures:</b>	Who is responsible for collecting the information and reporting this measure.
<b>Data source:</b>	The location of the data.
<b>Action to Improve:</b>	Summary of action taken by the measure owner to meet/exceed target.



## Criteria – 1. Benefit of value of opportunity

The following tables outline criteria for filtering and prioritising proposed social issues to be part of an Investing for Social Success Programme. It is likely that it will not be possible to assess all criteria in the social outcome/project development phase; some criteria will be assessed after market sounding or during the tender process. For each criteria, the phase where the criteria is most likely to be assessed is indicated, however in some cases relevant information may become available earlier than anticipated.

### Key:

Phase 1: Project development

Phase 2: Post market sounding

Phase 3: Tender process

Criteria	Description	Phase
<b>1.1 Size of potential benefit</b>	This is the size of the potential benefit to society. This size justifies the investment of the investing for social success mechanism – the potential gain outweighs the administrative cost. <b>Green means there is a large potential social gain</b>	1
<b>1.2 Speed of generating outcomes</b>	How long will it take before social outcomes are realised? The longer the time horizon the less the interest of both government and financiers due to the long wait for a return, all things being equal. For the pilot especially, gains need to be identified and evidenced relatively quickly. For example reducing re-offending might allow reduced prison and court costs. <b>Green means a relatively short time before outcomes improve</b>	1
<b>1.3 Opportunity cost if not selected</b>	If the area/social issue is not selected for the pilot, what are the consequences? For some areas the impact could be major, for other areas minor (e.g. If there are many initiatives already occurring in that area). <b>Green means there will be a large opportunity cost if this area is not selected</b>	1

## Criteria – 2. Government, community and media support

Criteria	Description	Rating
<b>2.1 Level of community, societal and local political interest in social issue</b>	This is the degree to which advocacy groups in the pilot region as well as politically support are interested in tackling the social issue. For example, local community and political groups may have an interest in a particular social issue which they may have been tasked with addressing. There is the risk that negative media attention (e.g. through print or social media) might occur and the extent these might affect the pilot and the overall programme negatively. Some social issues are inherently sensitive with strong diverse views. For example sex education in schools. <b>Green means strong positive overall interest in addressing the social issue.</b>	2
<b>2.2 Extent this is a government policy priority and likely to remain so</b>	This is the extent to which the social issue is topical for government and relevant to the Government's current strategy and areas of focus. It is also likely to remain so for the foreseeable future and including if there is a change of government. For example, has the government highlighted a commitment to address the social issue in long term strategic plans or announcements? <b>Green means the social issue is a strong priority for government, and is likely to remain so.</b>	1

## Criteria – 3. Ability to finance

Criteria	Description	Phase
<b>3.1 Capability of potential social finance of geographic area being covered</b>	This is the skills of the potential investors and financial arrangers to work constructively with social service providers and to assess the quality of service; for example the ability to do due diligence on social service provision. <b>Green means there is strong capability.</b>	2
<b>3.2 Finance confidence in provider market</b>	This is the degree to which the financial arranger and investors have confidence in the ability of local providers to successfully deliver social outcomes and be constructive partners. <b>Green means high confidence.</b>	2
<b>3.3 Capacity of potential social finance of geographic area being covered</b>	The number of potential investors who would invest in the community and the amount of funding they have available for Investing for Social Success. <b>Green means there is relatively high capacity.</b>	2
<b>3.4 Investors knowledge of risk and ways to manage risk</b>	This is the investors knowledge and ability to manage the full risk they will hold for delivering the social outcome. <b>Green means good knowledge and capability.</b>	3
<b>3.5 Ability to cost services</b>	This is the ability to cost the services to deliver social outcome(s). An important part of the business case will be to understand the cost of services provided. <b>Green means there is good ability to assess the cost of services.</b>	3
<b>3.6 Level and duration of investment required</b>	This is the amount of investment required by the financial agency. Beyond a certain level this will act as a barrier in particular for the pilot. Investors will need to see a timely return on investment. <b>Green means the level of investment required does not represent a barrier.</b>	2
<b>3.7 Level of investors interest in the social issue</b>	This is the alignment of the investors interests with the social issue (e.g. statements of corporate intent may highlight particular social commitments). <b>Green means investors are very interested in the social issue .</b>	2
<b>3.8 Confidence in measurement by financiers</b>	This is the confidence of those investing in the ability to link financial benefits to measures. <b>Green means high confidence</b>	3
<b>3.9 Credibility of financial arranger</b>	This is the reliability and status of the financial arranger in the financial market. <b>Green means strong credibility.</b>	3

## Criteria – 4. Ability to measure

Criteria	Description	Phase
<b>4.1 Availability of robust independent data</b>	This is the availability of good quality data to be used to measure the social outcome (e.g. unemployment data). Do current existing data sources provide robust and independent data that is relevant and granular enough to use in base lining and measuring with good history of collection? Are the existing data sources well established, reliable and easily accessed? Is the data available with sufficient frequency. Does it fit the social investment topic? <b>Green means good robust, comprehensive and reliable data is readily available.</b>	2
<b>4.2 Ability to measure outcomes</b>	Are outcomes clearly defined and measureable? Is data available for measuring outcomes rather than outputs for the social outcome issue? The social issue outcome(s) will need to be easily measured in a clear and concise way. Outcome(s) measures and the associated variables as well as their correlations need to be transparent for accurate and accepted measurement. <b>Green means the outcome(s) is readily measurable.</b>	2
<b>4.3. Complexity of measurement</b>	For some outcomes and outputs only one indicator is required. For others a whole suite of indicators is required before the outcome or output can be accurately tracked. The greater the number of measures required the greater the cost and challenge. <b>Green means relatively simple or low complexity of measurement.</b>	2
<b>4.4 Ease of defining terminology</b>	To measure outputs and outcomes the starting point is to define the terms clearly. Some terms are readily defined such as “employed” or “convicted”. Other are more vague. So this is how easily terminology can be established and defined in terms of the social issue to establish a common language that is easily understandable by all stakeholders. <b>Green means terms can be defined relatively easily.</b>	2
<b>4.5 Comparability and ability of control group or baseline to measure against</b>	To assess the contribution of the intervention a control group, business as usual group or baseline group is required. This driver or criteria is how easy it is to identify such a control or baseline group and then how well this control or baseline group compares with the target population. Consideration will need to be made to the demographic, geographic, size and socio-economic make up of the control or baseline group in comparison to the target group, such that it can show statistical differences. <b>Green means the control group can be easily and accurately identified and measured.</b>	2
<b>4.6 Ability to define target population</b>	This is the degree to which a target population can be easily and accurately defined. The target population can be readily defined in terms of demographics, geography, gender and socio-economic group. <b>Green means an appropriate target population can be readily defined.</b>	2
<b>4.7 Existence of meaningful leading indicators</b>	As described in the preceding appendix it will be necessary to define, measure and monitor the desired social outcome. But this may take a number of years to change. In the meantime, to monitor performance and provide confidence of ultimate success, the key factors that cause the outcome will need to be identified, measured and reported. These are the leading indicators. In this way leading Indicators will predict the social outcomes. Will the social issue be able to be measured at intervals early within the pilot to provide feedback to all interested parties? <b>Green means robust and meaningful leading indicators are readily available.</b>	2
<b>4.8 Ease of assignment attribution</b>	To determine the value from the social investment it will be necessary to clearly indicate the extent the social outcome changes solely due to the social impact intervention. An effective control group, or baseline (see 4.5), will support this. If there are many existing or planned overlapping interventions in the area, disentangling the causal relations to accurately identify the contribution of this intervention will be challenging. <b>Green means assigning attribution should be relatively straight forward.</b>	2
<b>4.9 Clarity of scope boundaries</b>	This is the degree to which the boundaries of the scope can be clearly identified. Boundaries may include geographic, age, socio-economic, or social issues/ outcome. It is clear what is in scope and what is outside. For example, a well defined social issue and desired outcome will provide the foundation for a well defined scope. The greater the clarity of scope, the more reliable and transparent measurement will be. <b>Green means a clearly defined scope.</b>	2

Criteria	Description	Phase
<b>5.1 Capacity of the provider market for social issue in region</b>	This is the size of the provider market and capacity in the target region. Can the providers in the region make available the necessary resources for improving the social issue? Are there sufficient providers of sufficient size? A high number of small providers may require cross-provider collaboration however larger providers may not require collaboration but may not have the capacity to resource the investment in social success pilot. <b>Green means good provider capacity in the target region.</b>	2
<b>5.2 Interest of providers in social issue</b>	The degree to which the topic matches the provider's interests, skills and knowledge. For example, the provider may note a commitment to a social outcome in their strategic documents that has social aims with political aspects. <b>Green means a high level of interest of providers to the social issue.</b>	2
<b>5.3 Sophistication and capability of provider management including in risk management</b>	This is the operational capability to understand and manage risk and other financial and contractual mechanisms and interface with investors, including the ability to innovate and cope with change. <b>Green means good capability.</b>	3
<b>5.4 Ability of the providers in the social issue area to work together</b>	The degree to which providers will be able to work together. If highly fragmented this will make joint working/collaboration more challenging and will increase communication, facilitation and contracting costs. If there are multiple providers, this may require the use of a separate entity. If the provider market is fragmented then the ability of providers to work together may be reduced. <b>Green means proven experience in effective collaboration.</b>	2



Criteria	Description	Phase
<b>Problem</b>		
<b>6.1 Extent that current interventions are not working</b>	The current interventions are not working. They are not meeting the expectations of society. They are viewed by government agencies as ineffective. So there is a view that we need to do something different. In addition, there are few other options. <b>A ‘Green’ assessment means the current approach is not working so there is a strong need to do something different with few or no other options to Social Investment.</b>	2
<b>6.2 Degree of challenge to address the social issue</b>	This is how difficult it is likely to be to address or improve the social issue. The size of the challenge. The degree of challenge needs to be large enough to justify the administrative costs/overheads of the pilot. However, the challenge should not be so large that the chance of success is low and probably the time scale will also be too long. This must be evidenced by robust research. <b>Green means a significant challenge but not too large. Red could mean either the challenge is too large or too small.</b>	2
<b>Solution</b>		
<b>6.3 Ability for government to step back from ‘how’ the service is delivered for social issue</b>	This is the degree to which government is able to relinquish control of the provision of services to achieve the desired social outcome. Can government step back from the social issue and allow the provider to innovate and independently work towards achieving the desired social outcome? For some social issues, in particular where the impact of failure is very high, government may not wish to lose control. <b>Green means the government can relinquish control.</b>	1
<b>6.4 Access to target population – monitor and intervene</b>	This is the extent to which the target population (and comparator group) is easily accessed to receive the services for the duration of the intervention. In addition this is important for monitoring. If the population is highly transient, for example AIDS sufferers may include tourists, this will make it hard to ensure they receive the services as well as to track them. <b>Green means the target population can be easily assessed (e.g. children in school).</b>	2
<b>6.5 Rigour and confidence of potential solution(s)</b>	This is the extent the potential solution is backed up and supported by reputable research (both international and national) and potentially including international successes. <b>Green means the proposed solution is shown to be robust.</b>	3
<b>Other</b>		
<b>6.6 Strength, capacity and enthusiasm of government agency lead for the social issue</b>	This is the availability and capability of government agency resources to lead a social investment pilot. Does Government have enough resources which are capable and willing to commit to leading the improvement of the social issue for the duration of the pilot. <b>Green means capacity is available, there is likely to be enthusiastic leadership.</b>	1

## Appendix 3: Government programmes to coordinate with

### Aligned government programmes

Programme	Description	Involvement of Government Agencies
<b>Procurement Reform</b>	<ul style="list-style-type: none"> <li>■ The Procurement Reform was initiated in 2009 and is being led by MBIE. It aims to transform government procurement in three ways; creating an environment for New Zealand businesses to succeed, increase the performance and add value and maximise results and unlock savings.</li> <li>■ Initiatives include making it easier to do business with government, improving access to international markets for New Zealand businesses, simplifying policy and standardising good practice and aggregating areas of common spend.</li> <li>■ The Procurement Reform is aligned and integrated with Better Public Services, Green Growth Agenda, Better Business Cases, Better Sourcing from NGOs, Simulating Innovation and Local Business Participation.</li> </ul>	Lead Government Agency: MBIE
<b>Business Growth Agenda</b>	<ul style="list-style-type: none"> <li>■ The Business Growth Agenda is a programme of work that aims to support New Zealand businesses to grow, in order to create jobs and improve New Zealanders' standard of living.</li> <li>■ The programme focuses on the development of initiatives and policy reform in six key areas: <ol style="list-style-type: none"> <li>1. Export markets – assist businesses to access more consumers and resources and technology available overseas.</li> <li>2. Innovation – facilitate the development of new products and services from innovative ideas.</li> <li>3. Safe and skilled workplaces – review health and safety regimes and encourage development of a skilled workforce.</li> <li>4. Infrastructure – improve access to energy, broadband and transport networks.</li> <li>5. Natural resources – retain the economic advantage of natural resources and harness the resources to grow business.</li> <li>6. Capital markets – mobilise savings to the best opportunities.</li> </ol> </li> </ul>	Lead Government Agency: MBIE

Programme	Description	Involvement of Government Agencies
<b>Social Sector Trials</b>	<ul style="list-style-type: none"> <li>■ Social Sector Trials are a community-based approach focused on reduced offending, reduced truancy, reduced levels of alcohol and drug use and increased numbers in education, training and employment for young people aged 12 to 18 years. Work is currently underway to identify outcomes for new locations.</li> <li>■ Control of resources (including funding), decision-making authority and accountability for results has transferred from government agencies to a Trial Lead at the local level. The trial lead can be an individual employed by MSD or a contracted NGO. Trial Leads have the ability to reconfigure or cancel existing contracts, purchase new services, and implement new processes to better reflect the specific needs of young people in their communities.</li> <li>■ A Local Governance Group consists of iwi, local and central government, community and social service provider representatives who work with Trial Leads to develop a plan with agreed activities.</li> <li>■ There are six locations (Kawerau, Taumarunui, Te Kuiti, Tokoroa, Levin, Gore) in the current phase of Social Sector Trials, which runs from 1 March 2011 to 28 February 2013. Ministers have approved the expansion into ten new locations and a Cabinet paper, seeking approval to expand into these locations, is due early next year with the intention to go live in July 2013.</li> </ul>	<p>Lead Government Agency: MSD</p> <p>Governance: CEs of MOH, MSD, MOJ, MOE and Police</p>
<b>Youth Services</b>	<ul style="list-style-type: none"> <li>■ Youth Services began in August 2012 and is part of the welfare reform. It is aimed at ensuring young people enter education, training or work-based learning which will help young people gain the skills to find a job and have an independent future.</li> <li>■ Control of resources remains with Government but involves contracted community-based Youth Service providers who are paid on the social outcomes they deliver.</li> </ul>	<p>Lead Government Agency: MSD</p> <p>Governance: MSD</p>

## Appendix 3: Government programmes to coordinate with

### Aligned government programmes

Programme	Description	Involvement of Government Agencies
<b>Vulnerable Children's Team</b>	<ul style="list-style-type: none"> <li>■ Vulnerable Children's Teams aim to ensure vulnerable children have access to government education, health and welfare services to improve outcomes for vulnerable children.</li> <li>■ Demonstration sites at Rotorua and Whangarei were announced in late 2012 and national roll out will take place as funding becomes available.</li> <li>■ Children's Teams will bring together professionals in a local area to assess the needs of vulnerable children using a common assessment approach, form a joined up intervention plan where required and assign a lead professional to ensure it is carried out.</li> <li>■ Control of resources will remain with Government although some services may be provided by District Health Boards and community-based service providers.</li> </ul>	<p>Lead Government Agency: MSD</p> <p>Governance: CEs of MSD, MOH, MOE, MOJ, Police, MBIE and TPK</p>
<b>Investing in Outcomes</b>	<ul style="list-style-type: none"> <li>■ The objective of Investing in Outcomes is to improve how MSD contracts with social service organisations to achieve better results for communities. This will result in children, families, whānau and communities receiving the support they need to make a positive difference in their lives.</li> <li>■ Government priorities will drive funding towards capable services that make a proven difference and get demonstrable results. Investment in MSD-funded service providers will focus squarely on the best outcomes for families, whānau and communities. A Capability Framework including self-assessment guide and a Capability Investment Resource will support MSD-funded organisations. It is expected that these tools will be in use by early 2013.</li> <li>■ By June 2013, it is expected that the benefit of simpler and more streamlined contracting approach will be realised.</li> <li>■ Control of resources remains with Government but involves contracts with community-based service providers.</li> </ul>	<p>Lead Government Agency: MSD</p> <p>Governance: MSD only at this stage but has the potential to be cross-agency in the future</p>

Programme	Description	Involvement of Government Agencies
<b>Drivers of Crime</b>	<ul style="list-style-type: none"> <li>■ Drivers of Crime began in July 2010 and focuses on four key areas; the quantity, quality and effectiveness of maternity and early parenting support services, particularly for those at risk; address conduct and behavioural problems in childhood; reduce harm from alcohol and improve treatment; and divert low-level offenders away from long-term patterns of offending .</li> <li>■ Examples of drivers of crime results include:               <ul style="list-style-type: none"> <li>– Alcohol and Other Drug Treatment Court Pilot, which aims to treat a defendant’s alcohol and other drug dependency to help prevent them committing further crime.</li> <li>– Positive Behaviour for Learning Action Plan to support parents, teachers and schools to promote positive behaviour.</li> <li>– The Alcohol Law Reform, which aims to minimise harm from alcohol and allow communities to input into the governance of local licensing.</li> </ul> </li> </ul>	<p>Lead Government Agency: MOJ</p> <p>Other agencies involved: MSD, TPK, DOC, MOE, MOH, Police, ALAC, ACC</p>

Programme	Description	Involvement of Government Agencies
<b>Whānau Ora</b>	<ul style="list-style-type: none"> <li>■ Whānau Ora aims to provide health and social services to build the capacity of all New Zealand families in need. It empowers whānau as a whole rather than focusing separately on individual family members and their problems.</li> <li>■ The objective is to improve support for whānau and build provider capacity and capability (governance, management and effectiveness of services).</li> <li>■ An EOI was issued and 34 collectives have been contracted nationally to participate in Whānau Ora. Providers set out a plan for how government funding will be spent and government reviews the plan (i.e. what the provider is trying to achieve and the credibility of the plan to get there). If approved, providers are paid up front.</li> <li>■ Performance is measured but not on a social outcome basis. Alongside each collective is a government funded action research group to assess which programmes and working and which are less effective.</li> <li>■ It is expected that contracts will be streamlined reducing contract administration for providers.</li> </ul>	<p>Lead Government Agency: TPK</p> <p>Governance Group: MSD, MOH, Community representatives</p>



Programme	Description	Involvement of Government Agencies
<b>Ministry of Health's Services Reviews</b>	<ul style="list-style-type: none"> <li>■ The Ministry of Health Services Review consists of a series of reviews of contracting and delivery across service lines to deliver improved and more efficient models of care. Currently, there are four areas included in the review; child and maternity services, mental health, public health services, unplanned services (e.g. emergency services) and various phone advice services. It is intended that the Services Review will be extended to all Ministry funded services.</li> <li>■ Opportunities to make efficiencies to models of care and achieve efficiencies will be identified in the purchase and provision of services. A decision on implementation of the identified opportunities will be made by government over time, to inform future Budget processes.</li> </ul>	Lead Government Agency: MOH

Programme	Description	Involvement of Government Agencies
<b>Partnership Schools / Kura Hourua</b>	<ul style="list-style-type: none"> <li>■ The concept of Partnership Schools (the NZ version of charter schools) includes high accountability requirements based on outcomes targets for specific school level achievements, with more freedom in curriculum and management approaches.</li> <li>■ The schools will be funded by government and are unlikely to include private or social finance.</li> <li>■ Government is in the process of designing the performance measurement regime for the schools.</li> <li>■ Informal indications of interest will be sought by the Partnership Schools/Kura Hourua Working Group in mid December 2013 and the first schools are planned to be operational in 2014.</li> </ul>	Lead Government Agency: Ministry of Education
<b>Public Private Partnerships</b>	<ul style="list-style-type: none"> <li>■ The term PPP can refer to many different kinds of relationship between the Government and the private sector, but generally it refers to a long-term contract for the delivery of a service, where the provision of the service requires the construction of a new asset, or the enhancement of an existing asset, that is financed from external sources on a non-recourse basis.</li> <li>■ The New Zealand Government has stated that it will consider PPPs where the structure offers superior value-for-money over traditional procurement approaches. Value-for-money may be defined as obtaining the maximum economic, social and environmental benefits possible from asset and service procurement for the lowest overall whole-of-life cost.</li> <li>■ To date two PPPs have reached contract commencement in New Zealand. <ul style="list-style-type: none"> <li>– Hobsonville Schools PPP reached contract commencement in April 2012. The private sector partner (PSP) is currently constructing the schools. The first will be operational in January 2013 and the second in January 2014, at which point the payments made by the Ministry to the PSP calculated based on the availability and performance outcomes being achieved.</li> <li>– The contract for Wiri Prison PPP commenced in September 2012, with construction in the same month. The prison is expected to be operational in 2014 and payments to the PSP will begin at this point. As well as being responsible for the design, build and operation of the prison, the PSP will also be responsible for reducing reoffending amongst the Wiri prisoners. Financial penalties or incentives relate to the re-offending statistics. This is the first time re-offending risk has been shared with non-government bodies in New Zealand.</li> </ul> </li> </ul>	Lead Government Agency: The Treasury

Programme	Description	Involvement of Government Agencies
<b>Better Public Services</b>	<ul style="list-style-type: none"> <li>■ The Better Public Services programme supports the delivery of better public services within tight financial constraints.</li> <li>■ There are a number of initiatives with the Better Public Services programme; one of these is improved government contracting. There are three workstreams in this area: Functional Leadership for Procurement; Government Procurement Policy Transformation; and Best Sourcing Workstream.</li> <li>■ Functional Leadership for Procurement is an MBIE-led project as part of Better Public Services, whereby all agencies are required to seek advice and guidance from MBIE for contracts over a certain threshold.</li> <li>■ Government Procurement Policy Transformation is an MBIE-led project to create a single source for all government procurement policy by the end of 2012 (combining guidance from multiple agencies, including MED, OAG, DIA, SSC and the Treasury).</li> <li>■ Best Sourcing Workstream is led by The Treasury and aims to strengthen the government's capability and expertise in contracting in order to improve the public sector's delivery of current functions and services and look for new contestable opportunities.</li> <li>■ One part of the Best Sourcing Workstream is a project to streamlining NGO contracts. This project is led by MBIE in conjunction with the Ministries of Social Development, Health, Justice and Te Puni Kokiri. MBIE is designing a standard form government contract for contracting with NGOs. This will solve the problem of NGOs having to be familiar with a wide range of contracts and needing to spend time reviewing and negotiating the terms of each government agency. MBIE currently is piloting the contract and standard terms with a small group of NGOs and Ministers will then decide whether to roll out further in 2013. Investing for Social Success may need to align with the new standard form contract.</li> </ul>	Lead Government Agency: SSC, MBIE, The Treasury

- The following tables list the social outcomes proposed as potential pilot candidates.
- Social outcomes were assessed as “likely” or “unlikely” to be considered for a pilot. The assessment was made on the basis of government priorities, lead agency resourcing, the time taken to achieve an outcome and whether there is significant existing work already occurring in relation to the social outcome.
- Lead agency support and resources has been confirmed for the Health Sector social outcomes. Resources have not yet been confirmed for Education, Social Welfare and Justice.
- Further work is required to develop the case for each potential social outcome including reframing the social outcome and identifying the benefits, community and government support, ease of measurement, potential service providers and the need for change.
- This is not an exclusive list and it is expected that further ideas will be added following market soundings.

Social outcome	Working Group Evaluation			Sector
	Likely to consider for pilot, lead agency support confirmed	Likely to consider for pilot, lead agency support not confirmed	Unlikely to consider for pilot	
Increase immunisation	✓			Health
Drug and alcohol recovery	✓			Health
Reduced binge drinking in teenagers (or under 25 year olds)	✓			Health
Address the late presentation of pregnant Pacific women in the 3rd trimester, high DNA rates, Gestational Diabetes and the significantly high mortality rates for Pacific babies	✓			Health
Getting people with short or medium term disabilities back into the work	✓			Health
Helping elderly stay in their homes	✓			Health
Smoking cessation	✓			Health
Decrease in teenage pregnancy rates / improvement in sexual health / decrease in terminations	✓			Health
Reduced child hospital admissions due to infectious diseases and respiratory conditions / decrease bronchiectasis / chronic respiratory illness	✓			Health
Improve mental health (including reducing youth mental health rates)	✓			Health

Social outcome	Working Group Evaluation			Sector
	Likely to consider for pilot, lead agency support confirmed	Likely to consider for pilot, lead agency support not confirmed	Unlikely to consider for pilot	
Reducing truancy		✓		Education
Reading skills in disadvantaged communities		✓		Education
Decrease in behaviour issues in children ages < 5 years		✓		Education
Increase those in early childhood education / Pre-school readiness		✓		Education
Reducing reoffending (including adult reoffending) / Offender rehabilitation		✓		Social Welfare & Justice
Youth Justice		✓		Social Welfare & Justice
Reduce the number of days children spend in foster care		✓		Social Welfare & Justice
Welfare dependency / Unemployment (services to support job seekers into employment, employment services for hard to reach groups) / Employment services for hard-to-employ groups		✓		Social Welfare & Justice
Homelessness / social housing		✓		Social Welfare & Justice



Social outcome	Working Group Evaluation			Sector
	Likely to consider for pilot, lead agency support confirmed	Likely to consider for pilot, lead agency support not confirmed	Unlikely to consider for pilot	
Reduce rheumatic fever			✓	Health
Reducing obesity (focus on maternal and newborn nutrition)			✓	Health
Higher physical activity rates in communities (or children or teenagers)			✓	Health
More integrated, patient centred self management of long term conditions, such as CVD			✓	Health
Address the low Pacific midwifery workforce - minimal numbers entering or completing training is also something that needs to change in order to contribute to better outcomes			✓	Health
Disability – general			✓	Health
Reduce multiple sclerosis rates			✓	Health
Decrease smoke exposure of children and young people			✓	Health
Decrease in admissions for injuries in adolescents			✓	Health

Social outcome	Working Group Evaluation			Sector
	Likely to consider for pilot, lead agency support confirmed	Likely to consider for pilot, lead agency support not confirmed	Unlikely to consider for pilot	
Increase education achievement			✓	Education
Reduce drop-out rates / College retention / NEET (not in education, employment or training) youth			✓	Education
Reduce assaults on children / Family violence / Decrease in admissions for assaults			✓	Social Welfare & Justice



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