# Crushed or Just Bruised? Voluntary Organisations – 25 Years Under the Bear Hug of Government Funding in Aotearoa New Zealand

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## Abstract

*What has happened in the 25 years or so since purchase-of-service contracting was introduced for government funding of voluntary organisations in Aotearoa New Zealand? This article provides a brief commentary on the various iterations of public policy on funding over that time, and the impact on voluntary organisations. Just when efforts to ameliorate the extreme sharp edges of 'contracting', undergirded by Agency Theory, seemed possible, governments have changed but policies less so. Despite significantly increased funding, the period ends with voluntary organisations (especially those dependent on government funding) possibly at their most vulnerable and insecure, and the wider role of the voluntary sector in supporting social capital and strong communities less appreciated (if not actively undermined). The need for the sector to assertively rediscover its intrinsic value and the unique role it can play in society is perhaps greater now than ever before. And there are promising signs this is possible – especially when needed most.*

## Keywords

Voluntary organisations; voluntary sector; government funding; purchase-of-service; contracting; social capital; New Zealand.

## The 1990s: Markets Collide with the Voluntary Sector

In 1997 *Third Sector Review* published 'Can Voluntary Organisations Survive the Bear Hug of Government Funding Under a Contracting Regime?'. The article examined the shift to purchase-of-service contracting for voluntary organisations in Aotearoa New Zealand at the beginning of the 1990s, in the context of international trends and developments. In the 25 years or so since this shift began, what has changed and what remains the same?

At the time, I argued that while the evolution through a number of largely sequential funding technologies that brought us to purchase-of-service contracting may seem to be an entirely 'natural' process of increasing sophistication, this was not just a technical or value-free development. Rather, it incorporated certain in-built value choices, including an increase in transaction and overhead costs, a shift in initiative and power to the funder, and an increase in expectations, risks and competitiveness for voluntary organisations (Nowland-Foreman 1997: 9).

Furthermore, this was part of a wider neoliberal takeover of public policy, initiated by the fourth Labour government (1984–1990), in particular implementing New Public Management, including an increased reliance on market-oriented strategies such as deregulation, privitisation, outsourcing, the structural separation of purchasers and providers, a greater emphasis on performance measurement, and a shift from input-based to output-based funding, and the delivery of public services by third parties under contract. While commenced under Labour in many policy areas, it was largely left to the subsequent National governments (1990–1999) to apply this approach to dealings with the voluntary sector.

The promise was made that this new approach would lead to more secure funding, greater flexibility for organisations, and a better partnership (DSW 1989, quoted in Nowland-Foreman 1997: 19). In fact, it resulted in almost the opposite. Within a year or two of its introduction, 'cracks' were already beginning to appear, not only in a litany of complaints from voluntary organisations bearing the brunt of these changes, but also in independent evaluations, and even in the relevant department's own (self-doubting) post-election briefing for the incoming government (Nowland-Foreman 1997: 19–22).

The 'purchasing' metaphor was surprisingly powerful, not only in shaping how governments dealt with voluntary organisations, but also in how it conceived of them, and ultimately threatened to remake voluntary organisations in someone else's image. What makes voluntary organisations unique is that they are as much about citizenship as service, as much about participation as provision. Voluntary organisations, at their best, encourage active citizenship and participation, mobilise resources, build community leadership, and enhance cooperation and trust (Nowland-Foreman 1998: 116–121).

To help change, or at least moderate, the terms of the public policy debates, a number of us concerned about the viability and wider role of the voluntary sector arranged a tour in August 1996 by Robert Putnam, who had recently popularised the concept of social capital. Putnam held discussions with government ministers and senior public servants. In conjunction with the Institute of Policy Studies (IPS), several high-level and influential seminars on social capital and public policy were convened between 1997 and 2000, and subsequently reported in a series of IPS publications on social capital (Robinson 1997, 1999 & 2002).

These ideas started to achieve some traction. In 1997 Statistics New Zealand began developing an official 'Framework for the Measurement of Social Capital in New Zealand' (Spellerberg 2001), and there was a growing recognition in the National-led government of the need to moderate the excesses of the contracting regime, with increasing backbench disquiet from voluntary organisations in their electorates. Then Prime Minister Jim Bolger used social capital as the theme of his annual address to the 1997 regional National Party conferences.

## The 2000s: Good Intentions Are Not Good Enough

There were very few substantial changes in place before a Labour-led government (1999–2008) came to power, able to tap into widespread discontent in voluntary organisations, with a commitment to replace the 'contract culture' with a new partnership paradigm. In opposition, the shadow minister and relevant caucus committee had been very open to such policy proposals as a number of us had presented to them. It provided an easy way to distance itself from the 'market extremism' of the National-led government. The shift to a 'social development' approach (based on partnership, social inclusion and a joined-up approach) also usefully echoed many of the 'third way' policy planks from the United Kingdom, which had heavily influenced the New Zealand Labour Party in general and the incoming Minister for Social Development, Steve Maharey, in particular.

There was an initial flurry of significant, though often symbolic, changes in the machinery of government (a minister was appointed and an Office for the Community & Voluntary Sector were established), and some blunting of the excesses of contracting, following two hard-hitting reviews conducted jointly with voluntary-sector leaders (Community and Voluntary Sector Working Party 2001; Community-Government Relationship Steering Group 2002). The new government, although keen, faced a sector without a single representative association with which it could negotiate, and was reluctant to immediately jump into a 1998 English-style compact. In a rare instance of listening to the sector, the government did not unilaterally impose a compact, and allowed the two high-level reviews to investigate and identify the causes for dissatisfaction in the sector–government relationship and map out what might be needed to address it.

Based on a recommendation from the first review, Prime Minister Helen Clarke signed her government up to a Statement of Government Intentions for Improved Community-Government Relationships (affectionately knows as the SOGI) (New Zealand Government 2001), and the new Office for the Community & Voluntary Sector sponsored various cross-government initiatives and resources to promote 'good practice' in funding, accountability and consultation. Significantly, it did not insert proposals to achieve good relations with the sector into the performance criteria of departmental chief executives, and associated reporting and complaints procedures, as recommended by the sector reviews. Nor did it pursue the 'next step', in the English example, of explicating its compact into five more detailed Codes of Good Practice (on Funding and Procurement; Consultation and Policy Appraisal; Volunteering; Black and Minority Ethnic (BME) Voluntary and Community Organisations; and Community Groups).

Over time, there were a number of small initiatives and pilots that explored alternative approaches, but mainstream funding arrangements remained largely intact – despite efforts to move towards more 'joined up' funding, reduced compliance costs, and more long-term and stable funding. When the government was on its way out, it finally committed significant funds (an extra \$52 million in 2008–09, increasing to over \$192 million in 2011–12) under Pathways to Partnership to address the problem of part-funding for contracted social services and building in sector capability and infrastructure funding.[1] Around this same time, the government also commissioned a sector association to undertake a review of the SOGI, which did not report back until there was a change in government.

It has long fascinated me why there was so little rolling back of the 'contract culture' under the nine years of the fifth Labour-led government, despite its promise and continuing rhetoric. The intent seemed genuine to observers like me; indeed, the independent review of the SOGI was entitled 'Good Intentions'. Perhaps it was the seductive simplicity and relentless consistency of the underlying Agency Theory. Perhaps it was because, in the decades since the reforms, the national public service may have been largely purged of anyone in senior leadership roles other than those who had only ever had experience of public-sector management and policy-making in these terms. Schick (2001: 3) also suggests that:

> *. . . in contrast to other countries in which the reform meant adding peripheral elements to the pre-existing managerial system, in New Zealand, the reforms are the system. There is no other managerial system. This means that dismantling the reforms would require the government to divest itself of the ways in which it prepares and administers the budget, runs departments, links ministers and managers, and decides what to do.*

Whatever the reasons, the 'contract culture' persisted, albeit in less aggressive form.

## The 2010s: The Dangerous Embrace Quietly Tightens

The current National government (2008 to date) came in before very little of Pathways to Partnership could be implemented, and redirected just 20% of the total promised increased funding to a time-limited Community Response Fund (to support voluntary organisations facing financial difficulties or increased demands following the 2007–09 global financial crisis). The new government also quietly went about unpicking most of the previous government's other sector initiatives.

The new government received the review of the SOGI, which recommended entrenching its principles even more concretely into the administration of government. Nevertheless, the new government allowed the SOGI to lapse, eventually replacing it in 2011 with Kia Tutahi Relationship Accord between the Communities of Aotearoa New Zealand and the Government of New Zealand. Though largely unobjectionable, this has been described as even more anodyne and hollow than the original SOGI, and notably fails to reflect any of the fifteen recommendation of the SOGI review. Despite a recent review in 2015, the accord has largely slipped into policy obscurity.[2] For example, it has not been mentioned by government or the sector in the current big shake-up of social services funding.

As time passed, the increasing policy emphasis under this government – especially in its third term – has been purchasing and reporting on outcomes (preferably through Results Based Accountability™), even tighter targeting of services purchased to pre-determined political priorities, calculating return on investments (in reducing long-term public expenditure), being evidence-based (particularly through greater use of 'big data'), more competitive and arms-length procurement processes (based around the Government Electronic Tendering System, designed for purchasing paperclips and other supplies for government use), and reducing compliance costs through standardised contracts (developed by the procurement branch of the Ministry of Business, Innovation and Employment).

Funding programmes are now going through massive upheaval and change – for example, the Productivity Commission's recommendations for More Effective Social Services, and the Ministry of Social Development's Community Investment Strategy, which aims to cut funding to whole classes of services no longer seen to be in Priority Result Areas, and target remaining funding based on fit with a pre-determined national Results Measurement Framework. Some government agencies also decided to actively reduce the number of organisations from which they purchased services, such as the ACC reducing its home support contracts from 86 to six, while various district health boards reduced regional contractors from up to fourteen local organisations to as few as three, including encouraging competition from international commercial providers (NZCCSS 2015).

In recent months a social bond (pay-for-results) experiment, which took three years and $1.6 million to put in place, collapsed, with the provider walking away before services commenced. This should not have been a surprise, as earlier research for the Department of Internal Affairs (Ross Philipson Consulting 2011: 32) concluded that social bonds are not a practical option in the current Aotearoa New Zealand market, and significant issues need to be addressed even before a trial was viable (including inadequate financial returns for excessive risk, inadequate scale and excessive transaction costs, and outcome measurement difficulties). While this 'evidence base' remains shaky, it has not discouraged the government from continuing to push further social bond pilots (Ministry of Health 2016).

The overall policy push adds up to even less acknowledgement of the wider role of voluntary organisations in contributing to community cohesion and social capital, and a tighter focus back on procurement of services to meet government priorities and requirements (what was long ago described as 'little fingers of the state'; see Nyland 1993). This has the potential to make voluntary organisations even more vulnerable (as first diagnosed in 1996 by Ernst & Young, reported in Nowland-Foreman 1999: 21), and to repeat the worst excesses of contractualism, aggressive

Agency Theory (with its emphasis on the primacy of controlling 'agents', who are assumed to be only motivated by naked self-interest), and what iconoclastic British accountant Michael Power (1994) early identified as the 'audit explosion'. Power argues that this emphasis derives from two powerful but contradictory (neoliberal) trends: increased pressure to contract out, downsize and decentralise, while at the same time exerting greater control over the very functions that have just been made autonomous. This is at the heart of the drift towards what he disparagingly calls 'managing by numbers'.

One small but important response has been research initiated by the New Zealand Council of Christian Social Services (Neilson et al. 2015; Neilson 2016), to identify the value community-based and voluntary organisations add above and beyond what government contracts. The two reports document the 'organisation specific capital' (a term cunningly appropriated from Treasury 2013) that voluntary organisations can and do contribute to wider social or community value – including social cohesion and inclusion, willingness to 'go the extra mile' (work 'holistically'), community development and empowerment.

Ironically, it's worth noting the evidence-base that an emphasis on outcomes and especially their measurement has any impact on improving the actual results for service participants is very thin – with pay-for-results contracts (social bonds) on even shakier grounds (Nowland-Foreman 2016: 20–22). However, we do know that such approaches risk not only undermining the wider roles and contribution of voluntary organisations, but also distorting service provision, through:

- managing for the pre-determined outcomes, rather than being holistic and responsive to the individual;
- reducing the time horizon to a short-term (reporting cycle) focus;
- unintended and counter-productive incentives for cutting corners;
- under-investment in quality and the service infrastructure;
- 'cherry picking' easier-to-serve participants; and
- diverting funds to increased monitoring, reporting and transaction costs. (Nowland-Foreman 2016 & The Treasury 2013).

There is also a risk that it encourages reduced transparency. As Paton (2003: 28–29) warns:

> *The problem is that the language of performance takes no prisoners. Through its lenses, the world is straightforward, situations are or should be controlled, the issues are clear, the criteria unambiguous – and results have either been achieved or they have not. Uncertainty, patchiness, ambiguity, riders and qualifications – all these can be read as excuses, signs of weakness . . . Hence performance management seems to be accentuating the familiar discrepancy between an organisation's public and private faces. Whatever the strains, stresses and disorder that are occurring 'backstage', the 'frontstage' impression is still upbeat, a tale of rationality and order, progress and achievement.*

Furthermore, in practice, Schick (2001: 13) – a global New Public Management guru – concludes that 'measuring outcomes is a frustrating task [even for governments themselves. They] invest considerable resources and years later have little to show for it. Managers and policy analysts fight over what is to be measured, over the causes and effects of change, over who should be accountable for what, and so on. They fight over whether a particular result is an intermediate outcome or an end outcome, as if these terms had scriptural meaning.' These difficulties are intrinsic, rather than just a lack of skills, because as one moves along the 'logic chain' from inputs, through activities (throughputs), and outputs to outcomes, it progressively:

- becomes harder to actually measure anything;
- becomes more ambiguous and less clear what is actually happening (let alone why);
- means you have less control over what happens;
- means you need to wait longer and longer to see what actually happens; and
- is increasingly effected by many more confounding and at times unanticipated external factors.

As a result, the closer we actually get to outcomes (what is most important), the more expensive, time-consuming, uncertain and unreliable are the measures.

Only very recently (Statistics NZ 2016) have we had data on the size and scope of the sector in Aotearoa New Zealand at two points in time – 2004 and 2013. While two points don't necessarily give us a long-term trend, the comparisons are revealing, especially given these two points traverse a significant part of the time covered by this article, and outline the broad landscape voluntary organisations have operated in. Over the nine-year period, the sector has continued to grow, with 114,000 organisations in 2013 (up 18 per cent), and paid jobs in the sector increasing even faster, up 30 per cent to 137,000 full-time equivalent positions. Government funding for the sector has also increased, though probably not the 50 per cent suggested because of likely underestimate of health funding in 2004. In nominal terms, overall income for the sector has increased by 65 per cent. Unfortunately, expenditure has increased 68 per cent. Although only a small gap, it is on the wrong side of the ledger, and as a result seven out of ten of the non-profit activity areas that Statistics NZ reports on were 'dissaving' in 2013 (which means drawing down their reserves or going into debt to meet their costs). This compares with just one activity area 'dissaving' in 2004. Furthermore, while more people are volunteering for these organisations (up 20 per cent to 1.2 million), they are contributing far fewer hours – down a massive 42 per cent. No wonder voluntary organisations are feeling squeezed.

## A True Story Comes Back to Bite

My 1997 article told the story of one long-standing national organisation as it re-formed itself to be more 'businesslike' and efficient, and focus more clearly on measurable outputs. By the mid-1990s it achieved much, including moving from a predominantly volunteer workforce to a totally paid workforce, and the cutting of frontline staff by 75 per cent with no reduction in service. At the same time, it reduced some overhead costs and was able to provide a 10 per cent increase in hours of service at no extra cost.

However, some other transaction and compliance costs increased, using up most of its reserves to invest in better IT and financial systems for increased reporting. It experienced tensions in trying to span discrete 'market niches' in pursuit of income, and its 'welfare'-oriented staff found the constant focus on financial 'break-even' uncomfortable. There was also less opportunity for research and development, liaison and collaboration with others (unless it could generate income). Community involvement was replaced by professional management, and community capacity-building was replaced with a focus more on internal efficiencies.

This could be seen as a success story of a 10 per cent increase in efficiency, or a cautionary tale of how much of value was lost just for the sake of 10 per cent more hours of service. I worried at the time that they risked shifting from 'being a major contributor to social capital, social cohesion and community well-being in dozens of communities across the nation, to being a net drain on those communities' (Nowland-Foreman 1997: 24).

What has happened since then? By 2015, just a decade later, the organisation employed 183 staff, and saw 25,000 to 30,000 clients each year, plus a further 30,000 clients since 2011 for the Christchurch Earthquake service. It had grown to be Aotearoa New Zealand's largest provider of professional counselling and relationship counselling, and the largest single provider of Ministry of Justice non-violence services. However, that same year this organisation collapsed and was declared insolvent, after surviving many changes and challenges since its establishment in 1949. While it was a well-respected professional service-provider, the organisation ultimately paid the price, I suspect, for the lack of a strong web of community support willing to fight for it, and the lack of a strong volunteer base or independent income, which might have enabled it to survive the hostile environment it faced.

Although the organisation was not without its own problems, it had received no inflation adjustment on its contract with the Ministry of Social Development for seven years, and it reports increasingly working with more complex cases, and having to draw on reserves to support only partial funding by government for quality services. The proximate cause of its demise was the withdrawal of nearly $5 million in government funding over three years (mostly as a result of unilateral changes to Ministry of Justice contracts). The organisation argued that it had cut spending as quickly as it could, saving nearly $4.5 million, and planned to break even in 2015 until faced with an unfunded requirement to train for new Ministry of Justice contracts. Paradoxically, over this time the organisation was separately funded a ring-fenced $1.3 million by the Ministry of Social Development for a leading-edge IT and clinical practice reporting system (Vital Signs Consulting 2015; PwC 2015).

It is noteworthy that the government of the day felt politically able to allow such a longstanding organisation to fail. The Ministry of Social Development appeared indifferent to the future of the organisation, instead focusing on contracting other organisations to pick up their share of the current 7000 clients. Support for the voluntary sector infrastructure and the wider role of the sector had been thoroughly eclipsed by a focus on the measurable delivery of discrete services, possibly in this case with the unconscious acquiescence of the organisation itself. The organisation boasted that its clinicians spent over 60 per cent of their time with clients (compared with the government Child Youth and Family Services' less than 30 per cent face-to-face time with clients), it met and exceeded contracted 'volumes', and it was at the leading edge of contracts focused on client outcomes. It was the very model of a modern social service provider, but, in the end, this was not enough for its salvation. It made it no less financially vulnerable, even as its wider contribution to social capital and community cohesion may have shrivelled.

## Finding Hope in Disastrous Responses

Beyond the destruction, albeit spectacular and high-profile, of one long-respected voluntary organisation, what is the verdict of the impact of purchase-of-service contracting on the sector? Has it been crushed or just bruised? As a Cantabrian who lived through the experience, perhaps the answer is best illustrated in the response to the 2010–11 Christchurch earthquakes. When asked about any positive side to this disaster, I am confident most people would not mention the billion-dollar construction activity, the high-profile Anchor Projects, the 100 Day Plan, the role of government or the role of developers. Instead, it is much more likely they would mention neighbours helping neighbours, the increased sense of community, the brilliant new voluntary organisations that sprung up to transform our recovery (such as Student Volunteer Army, Farmy Army, Gap Filler, Greening the Rubble, Festival of Transitional Architecture (FESTA), Ministry of Awesome, Renew Brighton, Avon-Otakaro Network and CanCERN), and the reinvigorated established organisations that rose to the occasion (especially marae, Maori Wardens, churches, residents' associations and other local groups such as Project Lyttelton).

Many of these new organisations were the response of a new group of community activists, often from the next generation. The Student Volunteer Army (SVA), for example, began as a Facebook page and still exists today. It has now established its own foundation, and has had an international impact (for example, in the recovery from the 2011 Fukushima earthquake and tsunami). One of its key founders, Sam Johnson, fortunately didn't follow official advice from Civil Defence when told to go home and leave it to the experts. At its peak, SVA ended up coordinating work, welfare and catering for 1800 volunteers. Even more importantly, it recognised its wider role beyond service delivery and shovelling that ubiquitous liquefaction:

> *We needed to ensure students not only volunteered for one day, but sufficiently enjoyed the experience to want to bring their friends along for a second day. The Facebook page enabled us to survey the volunteers on their enjoyment of the day before, and helped to maintain enthusiasm. It provided a familiar place for volunteers to interact with one another and tell stories from their experiences. And that team cohesion fed out through the work to the community. While the initial workload involved cosmetic clean-up, the impact on community mental health and wellbeing was phenomenal. The physical volunteering helped the grieving process, and allowed individuals to feel that they were contributing to the recovery of the city. Each day, volunteers were encouraged not only to focus on manual labour, but to spend time listening and talking to residents, strengthening intergenerational connection, and supporting virtual and physical communities (Johnson 2012: 21).*

This reinforces a view I have long held that voluntary organisations, at their best, are 'carriers of hope' in their communities. First, hope requires dissatisfaction with how things are (otherwise it lapses into complacency). But it also requires the sometimes foolish but always brave belief that people can make a difference (otherwise it's fatalism). I believe that cannot ultimately be crushed. We may lose sight of it from time to time, but however severely bruised, it is embedded in the voluntary sector's DNA.

## NOTES

1. The February 2008 'Pathway to Partnership' Cabinet Paper provided three options, and Cabinet approved the most expensive option, which would enable funding of the full costs of essential contracted social services, automatic annual cost adjustment payments, and forecasted volume increases, and to 'build workforce and [organisational] capability, support [organisations] to work more closely together to reduce duplication, get more resources into services, and focus more on achieving outcomes and less on inputs/ programmes' (Ministry of Social Development n.d.).
2. Very few organisations ended signing up to the accord; the review (HuiE 2015) found, for example, that 68 per cent of respondents were not involved in any initiatives aimed at improving engagement between government agencies and communities, few of those who said they were involved described specific initiatives led by both government and communities, and almost all respondents, 87 per cent, were not aware of the accord principles.

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