

CAN VOLUNTARY ORGANISATIONS SURVIVE THE BEAR HUG OF GOVERNMENT FUNDING UNDER A CONTRACTING REGIME? - A VIEW FROM AOTEAROA/NEW ZEALAND

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The development of purchase-of-service contracting with voluntary organisations for social services in Aotearoa/New Zealand is examined - in the context of international trends and developments. It is argued that it useful to consider these changes as a part of longer term trends in the development of funding 'technologies' which both reflect and reinforce important changes in the relationship between the state and voluntary organisations.

However, even within the terms of advocates of contracting, significant cracks have begun to appear in the approach. In particular the gaps between the promise and the reality of contracting are examined, including some of the inherent contradictions within the contracting approach.

It is suggested that a crucial issue for voluntary organisations operating under a contracting regime is an even sharper appreciation of 'what makes a voluntary organisation' (in general) and the mission and values of their own organisation (in particular) - as contracting has been associated with pressures from different quarters to 'remake voluntary organisations in their own image'.

This leads to the identification of a number of possible strategies for voluntary organisations to cope with the 'bear hug' of government funding. The paper identifies the need to develop a basis for future arrangements around three important issues of: accountability and stewardship; choice and responsiveness; and planning and coordination.

BACKGROUND

Voluntary social service organisations in Aotearo/New Zealand have always been fragile and generally dependent, at least in part, on government funding since European settlement. But governments have also needed voluntary organisations (Tennant, 1989). Although many voluntary organisations have almost always relied on some government support, extensive help by way of widespread government subsidies is a much more recent phenomenon (Smith, 1996).

Partnership between government and voluntary organisations has been much talked about but little evidenced. An integrated approach between government and voluntary organisations has more often been a dream than a reality. Over most of the country's history since European settlement, governments and voluntary organisations have followed parallel tracks with little effective policy and programme interaction, let alone any sense of partnership. In much the same way that Pakeha (European settler) and Maori social services have moved in very separate - and frequently unequal - directions (Nowland-Foreman, 1995)

So that after more than a century of working side by side, a major official review of 'partnership' in social services concluded that government departments and voluntary organisations still had some way to go just to properly understand how the other functions. The review (SAC, 1982) argued that what was needed was a new concept in social services: *tahitanga* - people coming together with one heart and mind for a common purpose.

Since the 1970s in particular there had been a rapid but uncoordinated growth in government funding of community organisations for a variety of social and economic reasons. As a result, from the mid 1980s onwards - in what could be referred to as an example of 'the morning after' syndrome in public policy - there were a number of official reviews and many calls for reform. For example, the Department of Social Welfare (Wyn, 1984), Social Advisory Council (SAC, 1986), Ministerial Taskforce on Social Welfare Services (Buchanan et al, 1987), Ministerial Advisory Committee on a Maori Perspective for the Department of Social Welfare (Poau-Te-Atu-Tu, 1988) and New Zealand Planning Council (Driver & Robinson, 1986) all identified significant short-comings in arrangements for the funding of voluntary organisations. In summary these short-comings included:

- a confusion about, or lack of consistency in, responsibilities of various departments and funding programs - 'ad hoc approach';
- a large proportion of funds (around two-thirds of the \$75 million going to voluntary organisations in 1985/86) tied up in pre-allocated Votes appropriated by Parliament for usually large national voluntary organisations, and therefore unavailable for newer and smaller organisations - 'provider capture';
- adistorting incentives in certain funding mechanisms (for example, capitation grants encouraging an emphasis on numbers of children in residential care, perhaps at the expense of the quality of care provided, and not recognising alternate forms of care) - "'means' rather than 'ends' focused";

- an increasing awareness of the inadequate resourcing of Maori and other culturally appropriate services - 'monocultural';
- an emphasis on centralised decision-making, which was seen to reinforce the disadvantaged position of newer and more locally-based groups - 'centralised'; and
- an over-reliance on a submission-driven approach, with inadequate attention to planning the equitable distribution of funding for services on the basis of need - 'inequitable'.
- Major changes in the late 1980s and early 1990s forced voluntary organisations and government to confront each other in more explicit ways; and to some extent they have also involved Pakeha and Maori organisations needing to confront each other over how social services are provided. The core of these changes involved a move to purchase-of-service contracting for social services. Contracting offered the prospect of a more explicit partnership between voluntary organisations and government and a greater focus on outcomes for clients.

NOT 'OUT OF THE BLUE' - THE LONG TERM TREND

While the move to purchase of service contracting was consistent with a myriad of market-oriented public sector and other reforms occurring at the time, it was not totally disconnected with previous developments in funding arrangements. In Aotearoa/New Zealand, as in many other OECD countries, the pattern of development of government funding relationships has generally moved through a number of (largely) sequential stages:

- 1 donations to worthwhile organisations (*a list approach*)
- 2 program grants in response to submissions (*submission model*)
- 3 program grants allocated on the basis of some form of service planning (*needs-based planning*)
- 4 tendering for contracts to undertake specified services (*purchase of service contracting*)
- 5 funding to individuals to purchase services from accredited providers (*vouchers*) or the market (*cash allowances*) (See, for example, Nowland-Foreman 1995 & 1996, and Lyons 1995).

The first stage is identified as the 'list approach' as frequently a list existed - either officially or unofficially - of the voluntary organisations considered sufficiently reputable or worthy to receive an annual donation from the government. Generally the government behaved like many private donors. Causes it considered to be worthy were supported. It may have been difficult for new organisations or new causes to get on the list, but once there they were usually assured of on-going support each year. Grants were relatively modest but also largely untied. Reputable organisations could be expected to put the funds to good use. As a result transaction costs for both the organisation and the funder were minimal.

Viewed separately, each of these stages can be seen as an important step forward from the previous funding 'technology'. For example, the introduction of formal submissions - while later berated as favouring areas with the best submission writers over those with the greatest needs - was an important development in opening up government funding to a whole range of new voluntary organisations - especially those arising from the women's, self-help and community development movements.

Each of these stages, at least to some extent, also has the seeds of the next stage already embedded in it. For example, once government funding agencies took it upon themselves under needs-based planning regime to identify and define need, it is a short next step for these same funders to begin to identify and define the types of service responses they considers appropriate. And once that is done, a tender specification is virtually written. Whether or not formal tenders are sought, the government funder soon begins to conceive of itself as 'purchasing' services from voluntary organisations.

The development in funding technologies reflect and reinforce identifiable changes in how the relationship between government and voluntary organisations is conceived in the literature (see, for example, Salamon, 1981). Nyland (1993), also tracks the shift away from voluntary organisations being regarded as autonomous representatives of the community and towards being treated merely as convenient conduits for public services - "little fingers of the state" or what Wolch (1990) calls a "shadow state apparatus".

In a similar way, once the move has been made from funding organisations to funding specific services for specific classes of people under specific circumstances, it may be seen as but a short step to move to directly funding the identified person in need (through vouchers or allowances), rather than through the voluntary organisation intermediary. However, while a small step for funders, it can also be a giant leap for voluntary organisations as they move from being broker (if not planner and need identifier) to being merely

a service provider in the narrowest sense - bringing to completion the trend that has been summed up as 'non-profits for hire' (Smith, Stephen & Lipsky, 1993).

So while it may be seen as a 'natural' process of evolution or sophistication in the development of funding technologies (in parallel with the increasing sophistication and development of increasingly complex technology in industrial societies) it is important to recognise that, as in any other field, technologies are not value-free. Choices are being made - implicit as well as explicit - at each step of the process.

- Overall, as we move down this continuum, there are certain in-built features that are 'packaged' with the technology. For example,
- there are increasing administrative or overhead costs for voluntary organisations,
- there are increasing 'transaction' costs (for the funding transaction) for both voluntary organisations and the funding agencies,
- there is an increasing emphasis on the initiative coming from funder determined priorities and a diminution of the importance of the initiative of voluntary organisations (in identification of need, development of service or programme options and even in operational arrangements),
- there is a shift in the locus of control from voluntary organisations to funding agencies,
- there is an increase in the risks to which the voluntary organisations are exposed (and a resulting decrease in funding agency exposure), and
- there are increasing expectations on, and requirements for, voluntary organisations to behave competitively.

Far too little attention has been paid to these consequences as the new funding technologies have been implemented. These implications are important not just because of the shifts in the relationship between government funders and voluntary organisations but also because of their impact on communities and the clients served.

If an increased share of available resources must be spent on administrative and transaction costs, less is able for programmes and services. To the extent that voluntary organisations are effective in reflecting, representing and

responding to the communities they serve (unfortunately not always the case), blunting their influence and initiative may also undermine the responsiveness of services and programmes. We might also expect to see reduced choice and diversity over time with increased control under a unitary funding agency rather than a multitude of voluntary organisations.

It is also important to note that the fifth stage - vouchers and other forms of 'individualised' funding - can also individualise the problem or issue and individualise the responsibility. The responsibility for access is shifted onto the 'consumers' and the responsibility for supply is shifted onto service providers in response to market demand. Accountability is diffused and shifted to arms length from the funder.

Not all of the above stages are experienced exactly sequential. Nor is movement always in one direction. Often different funding programmes are at different stages at the same time. While the first stage is perhaps largely characteristic of funding regimes in colonial New Zealand and Australia, some list-style funding programmes persisted through till the 1960s and 1970s, and elements still exist in certain programmes today. There are examples of all five funding stages currently in operation.

The funding relationship in Aotearoa/New Zealand today, however, mainly slips back and forth between the second, third and fourth stages - with the rhetoric, if not the practice, mainly in the fourth stage - purchase of service contracting.

At times, however, there are contradictions within the same government funding agency or even within the same funding programme. For example, under the NZ Community Funding Agency 'contracts' are entered into for a whole service, but only a part-contribution is made (as if it were under the former grant model). This has perhaps been the single greatest source of irritation and frustration for voluntary organisations in Aotearoa/New Zealand (NZCCSS, 1992, 1993, 1994 & 1995).

Attempts to move into the fifth stage of individualised funding (vouchers and allowances) have generally been tentative and partial to date. Though funding for rest homes and aged residential care in Aotearoa/New Zealand exhibits many of the features of this approach. Perhaps one of the reasons for the reluctance for widespread implementation is that in its purest form individualised funding can represent a shift from 'budget-capped' funding (where the rationing is hidden in the waiting lists of a thousand voluntary organisations) to an entitlement approach where the rationing decisions are

more explicit in the eligibility criteria for beneficiaries - much like that in social security systems.

Individualised funding has been developed as a concept, at least in part, in response to consumer or client complaints about the patronising approach of certain voluntary sector (and other) service providers. People with disabilities, in particular, have frequently argued for a shift in power from large, whole-of-life service providers towards consumers. While outside the scope of this paper, there is some evidence to suggest that individualised funding may indeed shift power away from service providers. However, before it can be pushed across the table to consumers, this power may fall into the laps of the government funder (Nowland-Foreman, forthcoming).

Ironically changes in government funding technologies which have occurred in tandem with moves to reduce the role and size of government, cut 'red tape' and regulation, are seeing far greater levels of control by government over voluntary organisations than have ever occurred in the past. They are shifting the focus of government funders away from integration, coordination and effectiveness towards an overriding concern with competitive efficiencies. Outputs and even outcomes have come to mean quantities rather than qualities. And an almost exclusive focus on demand has left issues of supply to 'find their own equilibrium'.

Although I have noted above the essential continuities between the different funding technologies, there are also crucial differences and discontinuities. Each has its own world view which profoundly influences to what is given attention and what is overlooked. Take the example of the differences between a government deliberately seeding a community initiative through a needs-based planning process and calling for tenders on the assumption that the market will provide and competition will select the most efficient service-provider. In the first instance the emphasis is on appropriately addressing the service gap (in response to an identified need), and the community initiative or voluntary organisation is assumed to be sufficiently self-motivated to operate in the most efficient way possible. In the second case the emphasis is on the efficiency with which providers offer to provide a service, and the market is assumed to generate appropriate responses.

CONTRACTING - THE PROMISE AND THE REALITY

Internationally much has been promised of the move towards contracting of social services with voluntary organisations. A review of contracting in the

United States (Gutch, 1993) found potential advantages of contracting were often assumed to include:

- greater funding security
- longer term funding agreements
- more concern with outcomes than inputs, and
- greater equality between the funder and service provider.

The promise is also often held out (for example, Fulcher et al 1988) for:

- increased resources (so that community organisations can continue to serve their particular clients/missions and enlarge the scope of their particular activities), and
- increased access to governmental decision-making and the opportunity to influence public policy (as a result of the closer interaction involved in contracting with government).

However Gutch (1993) found that one of the striking features of twenty years of US experience with contracting is that none of these promised advantages actually appears to have been realised.

In so far as it can lead to better mutual understanding and greater transparency of respective obligations, the increased specification of contracting potentially offers some important opportunities. The range of risks and opportunities involved in contracting are well identified in the international literature. It is clear that these have implications for clients and communities, for voluntary organisations and for government funders in a shift to contracting (see, for example, Nowland-Foreman, 1995). A brief summary of some of these implications is included in the Appendix.

However there are some inherent contradictions in the very advantages proposed for contracting which are important to review in a little more detail.

Choice and responsiveness or control and rigidity

Contracting is frequently linked with themes of choice and responsiveness, but its success depends on rigid specification of funding requirements and greater control over voluntary organisations - which may undermine the very

characteristics (discussed further below) which have been identified as making provision by such organisations attractive in the first place. Some of these characteristics may include, for example: a holistic approach; flexible and particularistic; able to range across bureaucratic boundaries; lack of pressure to 'cream' (select off easier clients); and clear focus on or commitment to clients and service goals (rather than the procedures or the paper work).

In a major cross-country study, Kramer (1981) found that while the various welfare states differed in the extent of their reliance on voluntary organisations, they all share similar basic expectations of voluntary organisations as highly flexible and innovative. Yet there is also evidence to suggest that the greater the external bureaucratic controls the more likely that flexibility and innovation will be adversely effected (Leigh, 1994).

As the New Zealand State Services Commission contracting guidelines (1993) recognise, it is important to focus on client needs rather than bureaucratic neatness. In particular the Commission recognised that this might mean that blocks of related services may better meet needs. A similar recommendation was made in a review of health contracting in Aotearoa/New Zealand (Rivers Buchan Associates, 1995).

This is very close to acknowledgment of the importance of a holistic approach but has rarely occurred in practice. However, when called on to try and evaluate the child and family support services funded by the Community Funding Agency, their consultants were clearly frustrated in their attempts to pin down the nature of these services into more easily measurable, standardised and comparable parts for the funder (Deloitte Touche Tohmatsu, 1994).

Increased accountability, reduced responsibility

A more holistic and flexible approach is also often undermined by excessive reliance on performance indicators - even more so when directly linked to payments for services. Time and time again, the incentives established by such funding arrangements lead to a narrow set of desirable outcomes, 'creaming' of relatively better equipped people from among the client group, and a short term focus. This is no where better illustrated than in the funding of labour market programmes designed to assist long term unemployed people (see, for example, ACOSS 1994a).

Even the Australian Industry Commission (1994), which is one of that country's more vocal proponents of competitive tendering, acknowledges with

concern that government officials by their nature are more likely to be 'risk adverse' with respect to cost. It suggests that they are often overly concerned with meeting budgets rather than ensuring quality of service. There is now an increasing recognition in the literature that excessive emphasis on narrow accountability can actually undermine responsibility - see for example Edwards and Hulme (1995) writing in the UK and Kearns (1996) writing in the USA.

This is no mere trivial side issue in a field where intangibles can be crucial, outcomes are notoriously difficult to measure, real changes may only occur over relatively long periods, and success may only be identified by the absence of failure (for example, not be institutionalised, or not having their children brought back into care, or not reoffending).

Clearer 'outputs', but narrower roles

One common implication of narrowly specifying service outputs under contracting seems to have been a widespread reduction in support for preventative and community development programmes. For example, a study of the NZ Children and Young Persons Service by a former senior Treasury official (Weaks, 1994) highlights the need for the Service to focus on the dual goals of "preventing future referrals" as well as "resolving the problems that arise". However, in the provision of services for young people 'at risk', the priority of the Service is to purchase services from voluntary organisations for clients who have already come to the attention of the service (Robinson, 1992) - while it is arguable that preventative and community development services are the very activities that voluntary organisations are better equipped to carry out.

The distinctive advocacy functions of a voluntary organisation may also be constrained through fear of losing government funding, but this is not necessarily new to the contract regime. What is new is:

- a reduced acceptance of the legitimate role of voluntary organisations in policy and client advocacy (especially where they are increasingly seen as agents or extensions of the state);
- a general clarification by government funders in Aotearoa/New Zealand that government funds may not be used for these purposes and a reduced capacity for voluntary organisations to independently fund their advocacy functions (as organisations' funds are increasingly required to make up the deficit of tightly defined but only partly funded government contracts); and

- a more competitive atmosphere among voluntary organisations which undermines the traditional collaborative approaches important to policy advocacy.

In particular there appears to be a great reluctance in this country to support the necessary voluntary sector infrastructure (through, for example national coordinating bodies and standing consultation arrangements) for any effective contestability in social policy and programme planning advice. This contrasts with the strong theoretical recognition of the importance of this role of the voluntary sector by even the most enthusiastic advocates of market-oriented approaches.

Competition or coordination

One of the aims of contracting in Aotearoa/New Zealand was to increase competition among voluntary organisations (Shiple, 1991). Some government officials even suggested it was necessary to address excessive power of at least some voluntary organisations which was referred to as the problem of 'provider capture'. The implication being that increased competition for clients would promote more appropriate and responsive services.

There are many conceptual and practical flaws in relying on competition among voluntary services to achieve client responsiveness - not least of which was the risk recognised by the General Manager of the Community Funding Agency of "...loos[ing] the volunteer contribution that New Zealand social and welfare services rely on". As a result the Agency determined not to implement a 'pure' competitive contracting system (Smith, 1996). Similarly an official review of health contracting in Aotearoa/New Zealand notes that competitive purchasing to date has generally been limited (Ministry of Health, 1995).

Nevertheless even 'impure' contracting arrangements have promoted a more competitive culture. Contracts can include secrecy clauses, strategic plans become 'commercial-in-confidence', best practice and innovation become 'market advantages'. Distrust has risen and collaboration is more difficult.

As the review of Regional Health Authorities (RHAs) contracting notes:

The modest increase in observed competition is not the only market dynamic operating. The threat of competition, that is contestability, is a strong incentive. This has been present in

some of the tendering referred to above even though the final result is that the same provider is delivering the service.
(Ministry of Health, 1995)

Holding voluntary organisations to tightly defined contracts and threatening (even if only implicitly) an increased capacity to withdraw and move funding around certainly reduces the power of voluntary organisations. But it does not necessarily increase the power of clients or communities. Any such suggestions mistake the nature of the contracting relationship. After all the reality is that the government is the 'customer' of the voluntary organisation - and often a monopoly one at that. As Horsburgh (1995) observes, the clients can be just as much the 'raw material' as they always were.

This also has implications for approaches such as individualised funding which aim to use vouchers to achieve consumer sovereignty. The difficulty of course is that social service 'markets' do not always behave as the proponents of market approaches would wish they did. Sometimes coordination is needed and leads to a better result with a more efficient use of resources.

Although the review of health contracts in Aotearoa/New Zealand found many contracts require 'linkages', 'liaison' or 'communication' with other relevant providers, the very structure of contracting arrangements can undermine a collaborative approach:

In fact, there is a significant conflict between RHAs working with providers in a cooperative partnership manner, while at the same time keeping sufficient distance to allow contestability. This is not easily resolved. (Ministry of Health, 1995)

The Aotearoa/New Zealand experience - what actually happened?

At the time of the introduction of the new contracting regime for social services in Aotearoa/New Zealand, the Department of Social Welfare portrayed it as a major change in the way the government was to relate to voluntary organisations, requiring extra time and much understanding for the necessary adjustment. Thus the Department warned:

Reaching a mutually agreed contract may be both a 'learning' and time-consuming process for all groups concerned. Adequate time, reasonable expectations and common-sense will be important assets throughout the process. (DSW, 1989)

At the same time the Department rightly stressed (in the same document) the essential continuity with previous grant processes:

There's nothing new about contracts for social service funding. For many years now, DSW has been providing funds or grants to community groups and organisations... In the past, funding arrangements were generally recorded in writing and in this sense many groups already had contracts with DSW.

In a similar way, the then Minister for Social Welfare in a major statement on social assistance (Shipley, 1991) noted that a separation between the funders who in turn contract with different providers - the funder/provider split which is an essential feature of purchase-of-service contracting - was already a feature of many social services.

The Minister argued this would be further pursued and promoted by the government in order to achieve: greater accountability of voluntary organisations to government; more competition among services to get greater efficiency; more freedom for the government to switch funds, or at least threaten to do so, to ensure greater compliance with government requirements; more choice for clients among different services: and the growth of specific services tailored to meet the needs of specific groups. (Shipley, 1991)

Analysis of contracting is often confused and conflated with concepts of 'contracting out' (privatisation). In the United Kingdom and the United States it may be true that many tasks or services which were previously undertaken directly by government are now contracted out to voluntary (and in some cases, commercial) service providers. However, in Aotearoa/New Zealand (like Australia, see Lyons 1994) contracting has only rarely been used to directly privatise social services. There are some notable exceptions, such as the transfer of Maatua Whangai Resource Centre (a branch of the Childrens and Young Persons Service providing social work and fostering services for Maori children and their whanau (extended family)) to a voluntary, iwi (tribal) social service organisation- Te Runaka Ki Otautahi O Kai Tahu.

Far more frequently, however, contracting social services in Aotearoa/New Zealand has represented the reverse features from that usually associated with 'privatisation'- increased government control over services previously conducted much more autonomously by voluntary organisations receiving less narrowly specified and less tightly monitored grants. While there are good

reasons to group together concepts such as privatisation, commercialisation and contracting - since they all change the principles of provision to market related processes and outcomes - the form of contracting implemented here has involved greater rather than less government intervention

The shift towards purchase-of-service contracting in Aotearoa/New Zealand has also occurred in tandem with:

- a shift from input to output-based funding;
- a shift from funding an organisation to funding a project or service;
- a shift in resources to iwi and Maori-run services;
- a shift from a submission-based model to needs-based planning;
- a reduction in government grants to voluntary organisations;
- increasing competition for private funds and volunteers (including from public, or formerly public, entities such as schools, hospitals, fire brigades and police);
- increasing demands on voluntary organisations - as a result of increased unemployment and poverty, and reductions in direct government services or assistance.
- A number of these changes may involve important and desirable principles (for example, funding for 'results' rather than interfering in budget line items, addressing inadequate resources for Maori services, distributing available resources in a fairer way, etc). However, the sudden swing from benign neglect to shaking the voluntary sector by the neck surprised and disturbed many voluntary organisations. With no negotiated *tahitanga*, the opportunity for building a durable basis for cooperation - let alone partnership - was lost.

The Department of Social Welfare was correct in describing contracting for social services as both a major change and nothing new. Much of the analysis of the impact of purchase-of-service contracting is just as relevant to other forms of financial transfers between governments and voluntary organisations. For example, even the very characteristic of 'competition' - a defining feature of competitive tendering arrangements - entered the scene when the list approach first gave way and submissions were publicly called for.

However, there are important differences of degree which have the capacity to change underlying relationships between government and voluntary organisations. Contracts are more likely to:

- be in response to government rather than community initiative;
- be more specific in their service requirements,
- promote a more competitive ethos, and
- involve increased counting, accounting and accountability.

In this context it can be seen as a critical step in a long term trend of tighter government controls over voluntary organisations. Contracting has been superimposed on an even more fundamental shift - from funding 'worthy' organisations to ensure their continuation to greater emphasis (at least in the rhetoric) on using voluntary organisations to supply clients and communities with government-defined essential social service.

In Aotearoa/New Zealand, much had been promised. For example, voluntary organisations were promised (DSW, 1989):

- **more secure funding** (contracting would address the unsatisfactory situation where "community groups have not always had certainty about funding from year to year - or even month to month. The renegotiation of a contract must provide adequate time, possibly six months, to allow for the effects on staff and clients");
- **greater flexibility** ("the agency should be allowed to manage, develop and change their service in order to best achieve the desired outcomes"); and
- **a better partnership** ("Contracts should be mutually negotiated between the Department and the provider agency. the Department is committed to the concepts of partnership and equality in decisions on service delivery...").

A small scale evaluation (Leigh, 1994) of the Community Funding Agency (CFA) - the 'business unit' established within the Department of Social Welfare to implement the new contracting regime - found that, despite many voluntary organisations having a good relationship with their outreach worker from CFA, a majority were dissatisfied with the Agency's contracting process.

The contracting process was described as 'closed' rather than transparent, the ideal of mutual negotiation did not exist in most cases, there was often no negotiation and little discussion between the CFA and the voluntary organisation about the services being contracted, or the terms of the contract. Most felt a lack of involvement in the contracting process and frustration with the one-sided nature of the process:

CFA come in and tell us how much we are going to get (in terms of money), how we have to be accountable and what we have to do - but nothing about what they have to do, except when they have to pay us, and they don't even do that on time.
(voluntary organisation quoted in Leigh, 1994)

This evaluation also found some evidence of reduced flexibility of services as a result of contracting. Monitoring by the New Zealand Council of Christian Social Services has also consistently shown considerable insecurity, uncertainty and delays in funding since contracting was introduced (NZCCSS, 1992, 1993 & 1994).

Part funding is no new phenomena, but is it less an issue when funding is supporting community defined initiatives. Given the narrowing of purposes that are funded under a contracting regime which focuses on specific government priorities, the question arises as to who is subsidising whom? Some international evidence suggests that voluntary organisations may be commonly required to subsidise government 'contracts' by 15-20 per cent, and that this subsidy largely takes the form of lower wages, longer working hours and substitution through volunteers and charitable fund-raising (Gutch, 1993). In Aotearoa/New Zealand the major government funder of social services on average requires a subsidy for government contracts with the voluntary organisation of 60-75 per cent - even before issues of lower wages, longer hours or use of volunteers are taken in to account (Smith, 1996).

The RHA contracting arrangements have also

...not quite turned out as the voluntary organisations expected them to. Organisations expected a partnership with RHAs, to be able to negotiate, and expected contract terms an conditions that reflected the amount of money in the contract and the size of the organisation. On the whole these expectations have not been met. (Rivers Buchann Associates, 1995)

Ernst & Young (1996) found in an official study for the CFA that after four

years of contract-style funding by the agency, voluntary organisations had been squeezed - more was being delivered with less CFA contribution. More than eighty per cent of organisations surveyed reported they had increased the quantity or quality of services they provided, however this growth had "...been extracted at a price for the not-for-profit sector...[as]: 81.8 per cent of providers report an increase in the time spent applying for funding; 52.9 per cent of providers report that their financial reserves have decreased; and 31.9 per cent of providers report a decreased capacity to replace assets." (Ernst & Young, 1996)

The increased compliance costs, cannibalisation of assets, and undermining of the capacity to invest in future service developments should all bring into question the long term viability of these trends. As CFA itself acknowledge in understated officialese:

Efficiencies have been maximised within the sector during the last four years and attention must now be given to achieving a sustainable balance between resourcing levels and output expectations over the longer term. (Department of Social Welfare, 1996)

Perhaps more surprising is the admission in the briefing papers to the incoming government that there are fundamental limitations in the structure of the contracting approach itself:

There are inevitable tensions in the funder/not-for-profit sector relationship when the resource for allocation is finite. The not-for-profit sector, however, has articulated strong opposition to parts of the new funding arrangements common under purchase-of-service contracting. There is criticism by many in the sector of the fragmentation of funding sources, different accountability requirements, and high compliance costs. There are complaints that the substitution of family and community based services for state delivered services has not been adequately resourced, and that the not-for-profit sector is bearing the cost. There has been reaction from some of the not-for-profit sector who consider they are regarded as merely an agent of the state, subject to contract provision (with highly specified cost, quantity and quality measures)..

A more general theme emerging from the not-for-profit sector, and gaining more attention, is that the not-for-profit sector provides more to the community than just the services it delivers.

Voluntary associations provide an opportunity for contribution and the exercise of altruism which contributes to social cohesion and social capital formation...

It has been argued elsewhere in this paper that a strong and viable not-for-profit sector also offers innovation, flexibility in service provision, and a public good externality as a result of the voluntary nature of some of its activities.

If this argument is accepted, current arrangements with the sector based on purchase-of-service contracting may not, in themselves, be sufficient to maintain a healthy not-for-profit sector, and other mechanisms to promote and secure the capacity of the sector may need to be considered. (emphasis added, Department of Social Welfare, 1996)

What does it profit a society if it gains a brave new world of efficient service providers but loses its voluntary sector soul? - a case study

Apart from the aggravation and frustration, the diversion of resources to increased administrative and compliance costs and the lack of flexibility and control over one's destiny, there is a danger that contracting may have had a less visible but potentially even more insidious effect on voluntary organisations.

One major voluntary organisation with a long history in New Zealand has documented how the progressive implementation of the contracting regime led it to focus more clearly on the formal service 'outputs' of the organisation (Renouf, 1995). This in turn has led to identified efficiencies as it "began the task of becoming a more efficient and effective business-like organisation". In four years it:

- built up its internal management systems and controls
- strengthened its planning, budgeting, monitoring and reporting systems
- paid attention to income diversification seeking out trusts, corporate sponsorship and sale of goods and services
- began to diversify and separately cost its different 'products'
- looked at its different client groups and began to target these differently

(‘market segmentation’)

- re-organised so that 30 affiliated but separate organisations became a unitary organisation with a flat management structure
- reduced overhead costs
- produced ten per cent extra hours of service for the same money, and
- moved to a totally paid workforce, cutting the number of counsellors and tutors by 75 per cent with no reduction in the hours of service provided.

At the same time these changes were not without their costs:

- significant capital of the organisation had to be invested in computer systems to generate information for reporting and financial control (this reduced its ‘nest egg’ and discretionary investment income)
- many hours are spent in writing grant/sponsorship applications for small sums of money (\$5-10,000)
- the organisation has found itself trying to span discretely different ‘market niches’ - providing services to low-income people (two-thirds of its clients are outside the workforce or on low incomes), but also trying to attract corporate purchasers to cross subsidise services
- there is a constant focus on financial ‘break-even’ which welfare-oriented staff find uncomfortable, and
- there are insufficient resources to do research and development tasks, especially to test effective outcomes.

This last point is very interesting - could it be they are so focused on outcomes that they cannot afford to check if the outcomes they are achieving are useful and effective?

Perhaps most poignant, however, ‘community involvement’ has been totally replaced by ‘professional management’. It seems that ‘community involvement’ was not just a luxury they could no longer afford it was a positive barrier to achieving the kind of management they now aspired to. The agency found that lay people giving 3-4 hours a month could no longer

manage complex organisations.

Further, the previous benefit provided by the organisation of education and training of numerous local people as counsellors and tutors and committee members, whose expertise was shared in the wider community (in the Parents and Teachers Association, at the Play Centre, the Guides and sporting clubs, local council and political parties, environmental and residents groups), has been lost. As a very focused service provider, it is no longer a training ground for the greater community good. The organisation can no longer assist women, who gained valuable experience, confidence and skills and prepared for workforce re-entry, through voluntary work. As the organisation lamented in its 1991 Annual Report, "The user pay philosophy often swamps organisations that have an influence beyond their service delivery."

In retrospect at least the organisation now recognises that the reduction in opportunities for citizen participation in local voluntary organisations will effect the 'web of belonging' and 'commitment to others' - what has been called by some the social capital (Putnam, 1993) - which underpins community life. By some accounts the organisation may have shifted from being a contributor to the social capital, social cohesion and community well-being in dozens of communities across the nation, to being a net drain on those communities.

What makes a voluntary organisation?

This raises the crucial question of rediscovering and reasserting what makes a voluntary organisation. What may also need to be identified is what of a voluntary organisation's identity and nature may be at risk under current contracting regimes.

While voluntary organisations are private (like private sector businesses) and not-for-profit (like public sector departments), they are neither mini-bureaucracies nor failed commercial enterprises. Often, however they are treated as if they are. Others often think they know better and (sometimes with the best intentions in the world) want to make the voluntary sector into their own image.

At times voluntary organisations are berated into becoming more 'business like' - ironically just at the time when many in the business world are discovering the (commercial) advantages of becoming more 'community minded' - with the growing emphasis on cause-related marketing and the crucial role of intangible 'assets' like people and values. For example the

US management guru, Tom Peters, from perhaps the world's largest firm of management consultants, McKinsey and Co, prefaces his research on what makes successful companies, *In Search of Excellence*, (1982) with the summary, "This book, if it is anything, is about caring and commitment."

At other times voluntary organisations are cajoled into being more accountable to government (for government funds) when what is really meant is becoming more like government - in their recruitment practices, in their accounting procedures, in their record-keeping, in their service eligibility criteria, in a standardisation of the way in which they operate, and so on.

Voluntary organisations are a unique way of social organising based on values of:

- independence (*'freedom of association'*)
- altruism (*'concern for others'*), and
- community (*'collective action'*) (Hawke and Robinson, 1993).

What makes voluntary organisations unique is that they are as much about participation as provision; as much about citizenship as service. The voluntary sector can provide an outlet for the expression of community concerns, advocacy for clients or members, an opportunity for people to give to others (time, money and other resources), and a place to work for change. I have deliberately chosen to use the slightly old-fashioned and frequently misunderstood label of voluntary organisations in this paper to emphasize one of their essential features. They are 'voluntary' because people have voluntarily come together - not because of commercial motives or under force of law but because of a common commitment to a cause.

They are an essential part of the fabric of civil society. A sector that has arisen from the community to help overcome alienation and market failure cannot be remade along either bureaucratic or market principles without destroying its essence.

As Billis (1993) has identified, volunteers, members and trustees are the key distinctive features of voluntary organisations, but all too often - despite the lip service - are regarded as peripheral attributes, if not irritating manifestations of 'amateurism'. Yet he also identifies how on other occasions these distinctive aspects of voluntary organisations are held to be invaluable characteristics of the good organisation, and attempts are made to graft them on to governmental agencies.

It would be dangerous to idealise voluntary organisations and foolish to see the clients of voluntary organisations as mere fodder for community and volunteer involvement, especially if the cost was ineffective services or waste of scarce resources. But it is equally dangerous to overlook the wider roles that a healthy voluntary sector can play in promoting a more vibrant and sustainable society.

Voluntary organisations have much to contribute and want these contributions recognised as a part of any negotiated relationship with Government. Mutual respect is most likely to be fostered when each party does what they do best.

The new theories of governance, epitomised by Osborne and Gaebler (1992), want to 'reinvent government' - frequently as a pale imitation of the market. On the other hand the new government is expected to only steer, not row - but sometimes the galley slaves want a chance to put their hand to the tiller and would not mind a hand from government muscle bent to the oar.

While it is beyond the scope of this paper to argue the case in any detail, I would want to propose that governments are best at providing or at least ensuring uniform or standardised services and entitlements on an equitable basis for all. Voluntary organisations, on the other hand, are best able to provide individualistic services (shaped to individual needs) in a holistic way (crossing bureaucratic or other boundaries) from particularistic value bases. The values may be religious, social justice or feminist, human rights oriented or based on compassion. To expect otherwise is to judge them both on the wrong criteria.

This is the spark that can make the difference in effective voluntary organisations. Their services cannot be 'standardised' without losing or deeply burying this spark. They are not necessarily good at distributing their services to all eligible people on a standard basis. They do not fit easily into the straight-jacket of homogeneity. Governments will make the most out of the contribution of voluntary organisations when this is recognised.

Voluntary organisations at times also need to better appreciate those processes that good governments can be good at: such as ensuring equitable access, providing reliable, standardised services, operating with high levels of procedural fairness.

While the power relationship between government and voluntary organisations is not and cannot be equal, voluntary organisations still want and expect a genuine partnership that is given practical expression in the

contractual relationship.

In practical terms, this could involve:

- explicit recognition of the contributions of voluntary organisations (including their value base) and the value of their knowledge and experience of services and community needs;
- fully funding those services the government is contracting for (including all legitimate overheads) and only expecting accountability for what is funded;
- providing more reasonable periods of funding approvals, such as three year contracts (subject to continued satisfactory performance and appropriations of parliament) and adequate lead times for contracts, for example 3 months notice of funding decisions;
- early consultation and negotiation at all levels; and
- fair and independent systems of review and dispute resolution.

THE WAY FORWARD

Accountability and stewardship

Voluntary organisations have a responsibility to account for their effectiveness, but it misunderstands their nature (and is likely to be counter-productive) if voluntary organisations are treated as if they are not interested in the delivery of affordable, accessible and appropriate services with least waste of resources.

Commercial enterprises are expected to provide a return on their capital for their owners. Voluntary organisations, when they are made up of people who invest their time, enthusiasm and commitment (often as well as money) expect a return in the form of satisfaction - the satisfaction of meeting real needs, of seeing quality services developed and provided, of seeing that they make a difference. If anything this makes voluntary organisations more likely to be intrinsically 'results' oriented than statutory bodies merely fulfilling mandated obligations or commercial enterprises focused only the 'bottom line' - where the services and products are mere means to an end.

Early work by Kramer (1981) suggested that previously governments generally demanded a very low level of accountability and nobody seemed

to want to upset the balance. He quotes one government official as saying “if we knew more, we’d have to pay more”. Unfortunately that proportionality has been broken in Aotearoa/New Zealand - governments want to know more and more and are willing (in many cases) to pay less.

As often noted, there can be significant compliance costs involved in increasingly intrusive accountability requirements - which ultimately means that limited resources are diverted from direct service delivery. This is not necessarily a bad thing if it means more effective use of available resources. Voluntary organisations chronically under-invest in service infrastructure. One crude indicator is the employment of managerial and administrative staff. In Australia, such staff make up 4 per cent of both public and private sector employees in the community services industry - compared to an all-industry average of almost three times that rate (ACOSS, 1994b).

Some accountability requirements can improve service planning and development. But all too often it represents a dead weight cost to voluntary organisations who may already have their own parallel systems in place.

The volume of the paper work and the complexity of requirements (especially if they change frequently) impacts on both large and small voluntary organisations. The larger, more established organisations are more likely to already have their own systems in place. Sometimes this can mean that it will be easier to produce required reports (though this can also sometimes involve costly alterations to existing systems), but it also means there is likely to be less benefit to the organisation.

Many of the smaller and newer organisations report that they appreciate the value of setting up reporting and other systems required by funders (especially where assistance to do so is also provided) as it can help them plan and manage their service. However they are the same organisations most likely to be overwhelmed by these administrative requirements. As a result, the international trend under contracting over the last 10-15 years (Kramer, 1994) has been the increased size and scale of operation and the greater formalisation or bureaucratisation of voluntary organisations. Generally the bigger organisations get even larger, and the smaller ones get bigger, if they survive. Ironically, smaller community-based organisations survive in the contract culture by modifying the very qualities that might have made them attractive as contractors in the first place: being smaller, more informal and perhaps more accessible.

A number of useful models have been developed elsewhere to assist smaller organisations retain their identity and still survive in a more demanding

management environment. These include lead-agency arrangements in conjunction with larger organisations, networks of service partners with other small organisations, and greater investment in resourcing agencies and administrative support bureaux (Industry Commission, 1994, Inglis & Rogan, 1993).

But government accountability requirements represent just one strand in the web of accountabilities upon which voluntary organisations rest. It is important that they are held in balance and do not distort the goals and activities of the organisation. Rather than accountability versus autonomy, perhaps the issue should be rephrased in terms of how voluntary organisations can

- 1 meet the legitimate accountability requirements of government funders,
- 2 while also meeting the legitimate accountability expectations of other key stakeholders (such as clients and communities served, donors and supporters, volunteers and staff, board and members, etc), and
- 3 without restricting the very qualities of flexibility, responsiveness and other values that make effective voluntary organisations so valuable in society.

In part the answer lies in restoring some form of proportionality in the accountability requirements - instead of expecting organisations to be 100 per cent accountable for 25 per cent funding.

The practical impact of reporting requirements also need to be closely monitored. Frequent changes in requirements can be very expensive and frustrating. In a recent survey of its members NZCCSS (1996) found that 80 per cent of family and children's services faced changed contract compliance requirements from the previous year, and for almost 90 per cent of these organisations the requirements had also increased.

Reporting burdens are resented all the more when there is little or no feedback and reports seem to disappear into a funding agency 'black hole', and Rivers Buchan Associates, 1995). Voluntary organisations also frequently identify that the information they are required to report on is not the most useful or relevant way to describe or monitor their activities (NZCCSS, 1995).

It is little wonder then that when Bernstein (1991) analysed the methods used by administrators in seventeen New York voluntary organisations to manage

contracted services, he found managers internally altered compliance requirements so they benefit the agency, while maintaining expected feedback for the funding body. In effect two levels of compliance exist, one is superficial for regulatory purposes, the other is a more comprehensive internal system to assist the agency “get on with the real work”.

Progress will be made when funders recognise in their practices that:

- established organisations have long-running data collection and record-keeping systems that should not automatically be assumed to be disposable;
- multiple reporting requirements need to be sensibly integrated and one sector’s accountability requirements should not automatically presume to take precedence over legitimate accountability expectations;
- reporting efforts should not be disproportionate to what is being funded;
- ‘utility statements’ (detailing the uses to which collected data will be put) and proposals on how funders propose to report back should be prepared and justified before new or changed reporting requirements are instituted; and
- organisations are more likely to take accountability requirements seriously if they are involved in their development and understand their rationale, and especially if there use is regularly demonstrated by feedback of results.

Choice and responsiveness

In so far as it leads to better mutual understanding and greater transparency of respective obligations, the increased specification of contracting offers some important opportunities. However there are also some inherent contradictions in these very features.

Contracting is frequently linked with themes of choice and responsiveness, but its success depends on rigid specification of funding requirements and greater control over voluntary organisations - which may undermine the very characteristics discussed above that make provision by such organisations attractive in the first place, for example: a holistic approach; flexible and particularistic; able to range across bureaucratic boundaries; lack of pressure to ‘cream’ (select off easier clients); and clear focus on or commitment to

clients and service goals (rather than the procedures or the paper work).

In a major cross-country study, Kramer (1981) found that while the various welfare states differed in the extent of their reliance on voluntary organisations, they all share similar basic expectations of voluntary organisations as highly flexible and innovative. Yet there is also evidence to suggest that the greater the external bureaucratic controls the more likely that flexibility and innovation will be adversely effected (Leigh, 1994).

As the New Zealand State Services Commission guidelines (1993) recognised, it is important to focus on client needs rather than bureaucratic neatness. In particular the Commission recognised that this might mean that blocks of related services may better meet needs. This was very close to acknowledgment of the importance of a holistic approach. However, when called on to try and evaluate the Child and Family Support Services funded by the Community Funding Agency, Deloitte Touche Tohmatsu (1994) were clearly frustrated in their attempts to pin down the nature of these services into more easily measurable, standardised and comparable parts.

Careful not to offend its political masters and mistresses pushing the contracting model, the NZ Ministry of Health's review of contracting still specifically warns:

The degree of increased specification in the 1994/95 contracting round has placed significant pressure on relationships between purchaser and providers... This is not to suggest that the pace has been so fast that control has been lost, but it does appear that in the past year haste may have led to some less than optimal outcomes of the contracting process.. The transaction costs and rigidity of increased specification... need to be weighed carefully to ensure a strong focus on outcomes, not on specification for its own sake. (Ministry of Health, 1995)

A more holistic and flexible approach is also often undermined by narrow reliance on performance indicators - even more so when directly linked to payments for services. Time and time again, the incentives established by such funding arrangements lead to a narrow set of 'desirable outcomes', 'creaming' of relatively better equipped people from among the client group, and a short term focus. This is no where better illustrated than in some of the funding of labour market programmes designed to assist long term unemployed people (for example, ACOSS 1994a).

Even the Australian Industry Commission (1994), which is one of that country's most vocal proponents of competitive tendering, acknowledges with

concern that government officials by their nature are more likely to be 'risk adverse' with respect to cost. It suggests that they are often overly concerned with meeting budgets rather than ensuring quality of service. This is no mere trivial side issue in a field where intangibles can be crucial, outcomes are notoriously difficult to measure, real changes may only occur over relatively long periods, and success may only be identified by the absence of failure (for example, not be institutionalised, or not having her children brought back into care, or not reoffending).

Strategies to constrain or counteract rigidities in the contracting regime and promote services responsive to client and community needs could include, for example:

- ensuring the minimum necessary external controls;
- greater use of block funding of related services;
- effective recognition of the role of voluntary organisations in prevention, community development and advocacy; and
- a more holistic approach to defining outcomes and accountability.

Planning and coordination

Traditionally contracting is associated with needs based planning mechanisms that assume and perhaps encourage a competitive approach - between different needy regions, among different voluntary organisations. A collaborative needs based planning approach, however, can be a less damaging (and perhaps a more effective) way of ensuring appropriate services - especially if serious attempts are made to promote a three way partnership involving clients and communities, as well as government funders and voluntary service providers.

In collaborative community models of needs-based planning, both the types of new or expanded services and the selection of the providers are carried out through an open, joint community planning and decision-making process. Quantitative needs-based data (usually population adjusted indicators of need) provide the foundation, which is built upon with qualitative information about needed service developments. Then by comparing service supply with need, it is possible to identify relative shortfalls.

There would be discussion within the community about which organisation are best placed to deliver a particular service and how the overall spread and distribution of services can be best arranged to cooperatively meet client and

community needs.

Needs-based planning (especially when properly designed and implemented in a collaborative way rather than imposed as an 'expert' solution) can be an excellent tool for equitable broad resource allocation. However they can also be perverted into a rationing device where relative need is confused with adequacy of services. The result is resources reshuffled among under-serviced areas - redistribution among the poor. Furthermore, because resource reshuffling mainly occurs with recurrent resources, this can result in an overall lowering of the service sum and a waste of much initial investment by government and the community (Gain, 1994).

Rathgeb Smith (1989) reviewed 25 years of contracting with voluntary child welfare organisations in the United States. She found that although it may have resulted in more equitable distribution of shrinking government resources, the impact on client services was less clear - except that some clients previously supported by voluntary organisations no longer received the same level of service.

If needs-based planning is to offer more than just a fair way to slice up a shrinking pie, it needs to build up from identified needs, not just divide down from pre-determined allocations. This will require the identification and development of service benchmarks. This should have been a pre-condition before shifting from funding organisations to funding services. It helps to ensure that the focus really is shifted to ensuring access for clients to an identified range of priority services.

CONCLUSION

The development of contracts in the social services is a symbol of wider changes facing the voluntary sector. While in some senses only an administrative tool, they are also the flying wedge of a whole new relationship between governments and voluntary organisations, among voluntary organisations, and between voluntary organisations and the clients and communities they serve.

Voluntary organisations had a fragile beginning in colonial New Zealand. Many Pakeha organisations have discovered the cost of not sharing resources with, and not recognising tino rangatiratanga (full chieftanship over things Maori) of the tangata whenua (indigenous people), and the cost of an uncritical and unnegotiated growth in dependence on government funding.

In Aotearoa/New Zealand today, voluntary organisations are at a cross-road - under immense pressures from many sides. If the dynamics of the market model are accepted, then voluntary organisations are likely to lose any differentiation from commercial organisations. If they allow their vision to be limited to that of merely agents providing government-defined services, then they risk becoming indistinguishable from other state sub-contractors or 'little fingers of the state'.

Robinson (1992) has argued that voluntary organisations are essentially distinguished by their relationships: "A critical function of a voluntary organisation is its ability to move outside pre-determined boundaries, to 'look over its shoulder' and be aware of ancillary, secondary or surrounding issues and issues which may cross over functional boundaries such as health, justice, housing, recreation, etc."

Elsewhere (Hawke & Robinson, 1993), he also highlights the importance of hope - the ability to offer the possibility of change or improvement in the future - as an important, although often under-valued or unexpressed value of the voluntary sector. At their heart, voluntary organisations can provide an expression of 'possibilities'.

The challenge of contracting calls voluntary organisations to rediscover who they are, their unique nature and kaupapa (vision) in civil society, to regain their confidence and assert their place as an essential part of an open and dynamic economy.

APPENDIX: RISKS AND OPPORTUNITIES IN PURCHASE OF SERVICE CONTRACTING

From a review of the international literature, Nowland-Foreman (1995) has identified the range of risks and opportunities involved in a shift to a more formalised contracting regime, for clients and communities, for voluntary organisations, and for government. the literature identifies:

For clients and communities, contracting can:

- provide a more sustainable environment for the expansion of government support for social services (either by linking with medium range planning or merely by providing a politically more 'acceptable' alternative to direct expansion of public services), or it can be used as a rationing mechanism in times of cut-backs or in the face of increasing needs;

- open up more opportunities for particular minority groups to bid to operate their own services;
- result in a better distribution of available services and resources or be divisive and divert attention away from overall inadequacies;
- result in more - or less - appropriate services, depending on whether government or voluntary organisations are more in touch with needs;
- focus on results for clients and communities rather than merely inputs to voluntary organisations;
- give inadequate attention to the supply side, by assuming it will automatically adjust to 'market' demands;
- begin to guarantee access to services in more standardised ways;
- make it more difficult for voluntary organisations to respond flexibly to meet individual needs and in a more integrated, holistic way;
- concentrate resources in services where there is a greater chance of success ('creaming'), and thus limit innovation or work 'at the edge'; and
- mean resources are diverted away from direct service goals to extra paper work.

For voluntary organisations contracting can:

- result in more - or less - secure funding (more security is often promised under contractual arrangements, but competitive contracting is equally frequently premised on the capacity to move funding from one provider to another);
- encourage better planning and provide a useful discipline for more professional and effective management ;
- impose extra administrative burdens and high transaction costs, especially for smaller organisations;
- undermine the flexibility and responsiveness of voluntary organisations, and put at risk their independence; and

- put at risk preventative, community development and advocacy work.

For government contracting can:

- offer more control over voluntary organisations, their services and their resources - although monitoring and evaluating social services is not as straight forward as it sounds and governments can become just as submerged as voluntary organisations in the associated paper work;
- mobilise community resources for government-determined priorities, as government funding is rarely a substitute for, and is more often subsidised by, private sources of funds and volunteer effort; and
- be difficult to manage effectively as usually government is unwilling to recognise that a contracting system is much more expensive to administer than grant funding, and adequate resources are often not allocated.

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