

Neither mendicants
nor deal-makers

Contracting, government funding
and voluntary organisations

A background paper prepared for
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1.

2. Summary

What is happening to government funding of voluntary organisations in Aotearoa/New Zealand today? Where is it all heading, and what does this mean for voluntary organisations themselves?

Contracting is the word of the 1990s

And contracting for social services is a concept that the voluntary sector is having to come to terms with. Our experience of contracting may be difficult; or it may have brought some welcome clarity. It may be a mixture of both. Whatever our experience, voluntary organisations will not be able to avoid its implications. We have embarked on a path that has the capacity to change the very nature of voluntary organisations and social services in this country. It is crucial we know where we are going.

From the earliest colonial times, almost all voluntary organisations have been dependent, at least in part, on government funding - and increasingly so, especially in recent years. (This has not been helped by what is today one of the meanest tax regimes for private philanthropy in the developed world.)

Contracting has been described as both nothing new and a major change in the government's approach to funding. What does it actually involve? In essence it is merely a legally enforceable agreement that is usually written down. A successful contract, however, is always more than words on paper and encompasses the relationship between the parties to the contract. All parties need to feel they have achieved *something of value* for the contract relationship to be sustainable.

The long term trends

Contracting is also a critical step in a long term trend of tighter government requirements on the funding of voluntary organisations. Contracting is therefore superimposed on an even more important shift - *from* funding "worthy" organisations to ensure their continuation, *to* greater emphasis on using voluntary organisations to supply clients and communities with government-defined essential social services.

Frequently the pattern of development of government funding moves through the following stages:

1. donations to worthwhile organisations (the list approach);
2. program grants in response to submissions (the 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); and
5. funding to individuals to purchase services from accredited providers (vouchers) or the market (cash allowances).

The current situation in this country generally involves aspects of the second, third and fourth stages - sometimes moving back and forth between different approaches for different aspects of the one program. This often results in contradictory requirements - for example, contracts are entered into for a *whole* service but only a *part* subsidy is actually provided.

Privatisation or nationalisation?

Overseas, contracting is often associated with privatisation - the contracting out of services previously provided by government. In this country, however, the reverse is more often the case for social services. While there are some notable exceptions, contracting has more commonly been used to develop detailed specification, and therefore greater government control, over voluntary organisations who are seen as providing services "on behalf of government".

What are the risks and opportunities involved in such a move?

Although the focus of this paper is on implications for voluntary organisations, in order to get a proper perspective it is necessary to examine the potential advantages and disadvantages of contracting for the three main parties involved: clients and communities; voluntary organisations; and government.

For clients and communities, contracting can:

- ◆ provide a more sustainable environment for the expansion of government support for social 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* it can 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;
- ◆ 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 excessive resources are diverted away from direct service goals to extra paper work.

For voluntary organisations contracting can:

- ◆ result in more - or less - secure funding;
- ◆ encourage better planning and provide a useful discipline for more professional management;
- ◆ impose excessive administrative burdens, 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 not allocated.

Contracting as partnership or remaking the sector in your own image?

Contracting is successful when it establishes a “win-win” result. In order to achieve this the voluntary sector needs to develop strategies that will emphasise and get the most from the potential advantages (the opportunities) and ameliorate the potential disadvantages (the risks) of contracting. Such strategies need to begin by addressing the fundamental relationship between voluntary organisations and government.

What makes a voluntary organisation?

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.

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).

What kind of partnership?

Voluntary organisations are not mendicants begging for government aid, nor are they merely a new generation of slick (or not so slick) deal-makers vying for a contract here or a contract there.

Voluntary organisations are as much about participation as provision; citizenship as service. 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.

Voluntary organisations have much to contribute and want these contributions as a part of any partnership with government in its expression of concern for others and promotion of community or social cohesion.

The relationship between voluntary organisations and government should be one of interdependence and complementarity - which is fostered by mutual respect.

While it must always be recognised that 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. This could involve:

- ◆ explicit recognition of the contributions of voluntary organisations and the value of their knowledge of services and the community needs;
- ◆ fully funding those services the government is contracting for (including all legitimate overheads);
- ◆ only expecting accountability for what is funded;
- ◆ providing more reasonable funding periods, such as three years;

- ◆ early consultation at all levels; and
- ◆ fair and independent systems of review and dispute resolution.

Responsive to needs

While contracting is often linked to ideas of increased choice and responsiveness, there are rigidities in the very nature of contracting. They need to be moderated if services are to be responsive to client and community needs. Such strategies could include, for example:

- ◆ ensuring the minimum necessary external controls;
- ◆ greater use of funding blocks of related services;
- ◆ a more holistic approach to defining outcomes and accountability; and
- ◆ piloting new support models for smaller organisations.

It is also important to avoid competitive models that can undermine the valued qualities of voluntary organisations. Choice and diversity can also be achieved by collaborative strategies. A needs-based planning approach is an important part of ensuring a fair, broad resource allocation. However, it needs to be built up from identified benchmarks of service needs - if it is to be more than just a divisive rationing device.

A commitment to stewardship

Voluntary organisations have a commitment to stewardship of the resources entrusted to them. Government accountability requirements, however, are just one strand in the web of accountabilities on which voluntary organisations rest. It is important that they are held in balance and do not distort the goals and activities of the organisation.

There are a number of practical measures that could help minimise excessive or unreasonable reporting requirements. In particular it is crucial that voluntary organisations are closely involved in their development.

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.

If the dynamics of the market model are accepted, then voluntary organisations are likely to lose any differentiation from commercial organisations. If we allow our vision to be limited to that of merely agents providing government-defined services, then we will become indistinguishable from other state sub-contractors.

The challenge of contracting calls voluntary organisations to rediscover who we are, our unique nature and kaupapa for civil society, to regain our confidence and assert our place as an essential part of an open and dynamic economy.

3. Background

Historically, voluntary welfare organisations in New Zealand have been less widespread and had less reliable sources of private finance available to them than in many other comparable countries.

4. A fragile beginning

It has rarely been easy for voluntary organisations in Aotearoa/New Zealand. Historically they have been few in number compared, for example, to other countries at the time - like the United States, Britain or even the older Australian colonies - and had less reliable sources of private income.^[1]

While it is difficult to gauge the extent of voluntary welfare activity in the nineteenth and early twentieth centuries in this country, Tennant (1989) concludes it had long been insufficient for the demands placed upon it. She found voluntary organisations of the nineteenth century were invariably small and scattered, sometimes connected with a single church congregation and often selective about the groups that they assisted.

The idea of an independent voluntary benevolent society heavily supported by government subsidy was a model which New Zealand governments promoted from the 1860s and which they tried, unsuccessfully, to duplicate through the local hospital and charitable aid boards established after 1885.

5. Government funding and private philanthropy

From the earliest colonial times those voluntary organisations that did last have almost always been dependent on government funding. For example, as early as 1873 it could be claimed in the provincial *Weekly News* that not a single Auckland charity existed without some government support (quoted in Tennant, 1989).

From the earliest colonial times, almost all voluntary organisations have been dependent, at least in part, on government funding - and increasingly so, specially in recent years. (This has not been helped by one of the meanest tax regimes for private philanthropy in the developed world.)

The principle of voluntary charity was always stronger than the reality. It seems that many organised charitable ventures were short-lived in this country. Pakeha women were in a minority, and too heavily involved in their role as wives and mothers - breeders of an expanding white population - to sustain the important female charities that were a feature of Britain and the United States at this time. Even the churches were struggling to establish themselves, to repay mortgages on church buildings, and to attract qualified clergy. Their charitable ventures were equally likely to falter, according to Tennant (1989).

Lacking large revenue-producing endowments, voluntary charities relied primarily upon annual subscriptions. Considerable energy went into fundraising and the collection of subscriptions, tasks that became more onerous as initial enthusiasm flagged. This explains the increasing reliance on government grants and subsidies. Provincial government support of bodies such as the Otago Benevolent Association represented a desperate attempt to

maintain the voluntary principle in the absence of large reserves of private wealth.

Despite a long history of rhetoric supporting voluntary organisations - which has found renewed emphasis since the mid 1980s - it is of note that New Zealand today provides one of the meanest tax regimes for private philanthropy among the countries that make up the OECD. There are relatively low caps on tax deductible giving, a flat rate rebate on donations and virtually no exemptions for input taxes paid by charitable organisations (including full imposition of GST on grants).

6. Maori and Pakeha, Government and Voluntary: separate paths

Parliamentary debates of the time make it clear that one of the reasons for the establishment in 1846 by Sir George Grey's administration of four *state* hospitals in Auckland, Wellington, Wanganui and New Plymouth (and not the English pattern of voluntary hospitals supported by subscription), was the need to assist not only indigent Pakeha, but also (the colonised) Maori.

This was merely an example of the relatively significant role of colonial governments in early social services in this country, as hospitals were the main vehicle for the delivery of charitable aid as well as care for the sick poor.

Despite these common beginnings, as the management and funding of hospitals became more localised, services for Maori and Pakeha were to move in separate and unequal directions. It would be argued that because Maori failed to pay local rates they had no entitlement to hospital and relief services financed partly, at least, from such sources. On the whole separate systems in both government (the Native Department) and voluntary organisations (mainly individual church missions) became responsible for Maori welfare since that time.

In a similar way, a major Ministerial advisory committee was able to conclude that the statutory and voluntary sectors have followed parallel tracks with little effective interaction over most of the country's history since European settlement (SAC, 1982). Although voluntary organisations have always relied on public support, extensive help by way of government subsidies is a more recent phenomenon and an integrated approach between government and voluntary organisations has been more a dream than a reality.

However, over most of New Zealand's history the statutory and voluntary sectors have followed parallel tracks with little interaction. In much the same way that Pakeha and Maori welfare have moved in very separate (and

Partnership was much talked about but little evidenced. Even after more than a century of working side by side, a major review of partnership in social services could conclude that government departments and voluntary organisations still have some way to go just to properly understand how the other functions, and what

unequal) directions.

was needed was a new concept in social services: *tahitanga* - people coming together with one heart and mind for a common purpose (SAC, 1982).

Like the rest of New Zealand society, voluntary organisations have faced massive changes over the past decade. Changes for the voluntary sector have all involved voluntary organisations and government confronting each other in more explicit ways; to a lesser extent they have also involved Pakeha and Maori service needing to confront each other.

7. The 1980s & 90s - coming together or confrontation?

The IHC Parents Association was founded on a purely voluntary basis in 1949 and for a period struggled on unaided, though it is now the largest voluntary organisation in Aotearoa/New Zealand - employing more than 2,000 staff, with an annual budget of more than \$80 million and substantial government support.

Marriage Guidance (now Relationship Services) began in this country in 1948, but only in 1960 did it benefit from new funding from the Department of Justice. The establishment of the Lottery Board of Control in 1962 marked a new level of funding available to voluntary organisations. Although previously there was some assistance to groups assisting people with disabilities, subsidy programs in the Department of Social Welfare only began with the formation of the new department in 1972. Women's refuges, playcentres, night shelters and kohanga reo were all community initiatives that were ultimately expanded with government support.

Since the 1970s in particular there has been an enormous growth in the number of voluntary organisations that receive some assistance from the Government. The rapid but *ad hoc* growth in government funding led to a number of 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-Ata-Tu*, 1988) and New Zealand Planning Council (Driver & Robinson, 1986) all identified significant shortcomings in what was described by the latter as the "unplanned and unco-ordinated" development of government assistance to

voluntary organisations. These problems included:

- confusion about, or lack of consistency in, responsibilities of various departments and funding programs;
- ■ a large proportion of funds (around two-thirds of the \$75 million going to voluntary organisations in 1985/86) tied up in preallocated Votes specified for usually large national voluntary organisations - such as Plunkett, IHC, Playcentres, etc - and thus unavailable to meet new and emerging needs;
- ■ distorting incentives in certain funding mechanisms (for example, capitation grants encouraging emphasis on numbers in care perhaps at the expense of quality of care, and not recognising alternate forms of care);
- ■ increasing awareness of the inadequate resources for Maori and other culturally appropriate social services;
- ■ emphasis on centralised decision-making, which was seen to reinforce the disadvantaged position of the newer and more localised groups; and
- over-reliance on a submission-driven approach, with inadequate attention to planning the equitable distribution of funded services on the basis of need.

Like the rest of this country, voluntary organisations have faced massive changes over the last decade or so. Many of these inter-related changes have been in response to the short-comings identified in the previous funding systems. Most have involved the application of market-based models to the public and voluntary sectors, in common with other reforms of the time. All involved the voluntary sector and government confronting each other more explicitly. Some have also involved Pakeha and Maori services needing to confront each other.

As these changes mostly occurred in tandem with the move to "contracting" as the main method of funding voluntary organisations, they are often confused and conflated with contracting - even though they could have occurred independently. It is, therefore, useful at least initially to separately identify these various developments in order to better understand both the circumstances and the impact of this bevy of changes that have confronted voluntary organisations. Some of the most significant changes include:

Many of these inter-related changes have been confused and conflated with the move to contracting, which occurred at the same time. Some of the most significant changes include:

- **funding outputs not**

- a shift from input to output-based funding;
- ■ a shift from funding an agency to funding a service;
- ■ a shift in resources to iwi and Maori-run services;
- ■ a shift from a submission model to greater use of needs-based planning;
- ■ a reduction in government grants to voluntary organisations;

- inputs;
- funding a service not an agency;
- shifting resources to Maori services;
- needs-based planning not submissions;
- reduction in government grants;
- increased competition for private funds; and
- increased demands on voluntary organisations.

- ■ increasing competition for private funds and volunteers (including from public entities, such as schools, hospitals and even community policing); and
- an increase in demands on voluntary organisations (as a result of increases in unemployment and poverty and reductions in direct government assistance to citizens).

A number of these changes involved important and desirable principles (for example, funding for results rather than interfering in budget line-items, addressing inadequate resources for Maori services, fairer ways of distributing available funds). 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 a durable basis for co-operation was undermined.

What was the government hoping to achieve with these changes? In July 1991 the then Minister for Social Welfare, released a major statement on social assistance, *Welfare that Works*, which heralded large scale changes in income support, health and education. The section on "Social Support" notes that a separation between the *funders* who in turn contract with the *providers* was already a feature of the funding of many health and social services. This would be further pursued and promoted because the Government saw, such an approach offering:

- "improved accountability from the providers of services as the funder must explicitly write a contract for services before the funds are released;
- ■ "increased competition for funds from providers of services, leading to an increase in the efficiency with which those funds will be used;
- ■ "an improved basis for ensuring the system is oriented towards making the best decisions to meet both the government's goals and the needs of those requiring support, because the funding agency is better able to switch its funding if the service deliverer fails to meet the standard of services demanded by the contract...;
- ■ "greater personal choice for users of the service because, where an agency is both funder and provider, the user is inhibited from seeking the services elsewhere; and
- "improved flexibility, creating a basis from which those representing particular groups can seek to have services tailored to meet their specific needs." (Shipley, 1991 *emphasis added*).

Then in May, 1992 the New Zealand Community Funding Agency was established as one three new operating "business units" of the Department of Social Welfare. One of the key tasks for the

What was the government hoping to achieve? More accountability of voluntary organisations to government; more competition among services to get greater efficiency; more freedom to switch funds, or threaten to do so, in order to achieve greater compliance with government requirements; more choice for clients among different services; and the growth of specific services to meet the needs of specific groups.

Community Funding Agency is contracting with voluntary organisations for the provision of social services. In 1994/95 the Agency will enter into 1,500-2,000 contracts involving \$92.8 million. Contracts are also issued by the various Regional Health Authorities and a number of other funding bodies. In 1992 the New Zealand Federation of Voluntary Welfare Organisations identified thirteen government departments providing funding to voluntary organisations.

While government funding of voluntary organisations has grown considerably, it still represents a relatively small proportion of overall government social programs. Funding from the Community Funding Agency, for example, represents just under one per cent of the budget of the Department to which it belongs.

It is also important to remember that government financial assistance represents only a proportion of the *cash* budgets of voluntary organisations. And on top of that voluntary organisations mobilise substantial assistance in-kind (including volunteers, unpaid work of employees, community good-will and uncosted donated goods and services).

A recent survey of both small and large voluntary organisations by the New Zealand Federation of Voluntary Welfare Organisations (quoted in Hawke & Robinson, 1993) found that, even without taking into account that assistance in-kind:

- 25 per cent of voluntary organisations depend on donations for at least half their income;
- ■ over 50 per cent of voluntary organisations depend on donations for at least a third of their income; and
- half the voluntary organisations have more than 50 per cent of their income from total private sources (donations, trading and investments), and nearly half of these achieve more than 75 per cent of their income from private sources.

This major upheaval for a chronically under-resourced and often fragile sector followed a period of rapid, but unco-ordinated growth in government funding of voluntary organisations, which started in the 1960s and accelerated in the 1970s.

Though, government support for voluntary organisations still represents only a tiny fraction of total government spending on social programs and only a proportion - perhaps a minor proportion in most cases - of the total budgets of voluntary organisations.

8. Contracting - Getting something of value

9. What is a contract?

At the time of the introduction of the new contracting regime for social services in this country, the Department of Social Welfare argued that it was an attempt to develop a fairer, more open, client-oriented and culturally appropriate means of reaching funding agreements with the Department (DSW, 1989).

As such it was portrayed as a major change in the way the government was to relate to voluntary organisations, requiring extra time and understanding for the adjustment - "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", warned the Department.

Contracting for social services has been described as both nothing new, and a major change. What does it actually involve? In essence, it is merely a legally enforceable agreement that is usually written down. The law defines many of the mechanisms of a contract.

A successful contract, however, is always more than the words on the paper; it encompasses the process or relationship between the parties of the contract, who must both feel they have achieved something of value to them.

At the same time, however, the essential continuity with previous grant processes was also stressed: "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 have already had contracts with DSW." (DSW, 1989).

So what does a contract actually involve? The Community Funding Agency (CFA, 1993) defines a contract as a legally enforceable agreement between the Agency and a service provider. It is an exchange of promises by each party to do something of value for the other, which must involve:

- offer and acceptance;
- ■ payment;
- ■ intention to create a legal relationship;
- ■ certainty as to the terms of the agreement; and
- capacity to contract.

These elements are consistent with the general common law understanding of what is involved in a contract.^[21]

Originally the Department of Social Welfare (DSW, 1989) put greater emphasis on contracts being *mutually negotiated* agreements that would be based on a number of key principles for social services, namely:

- culturally appropriate services;

- a client focus;
- mutuality;
- clarity;
- flexibility in how outcomes are achieved and in response to changing needs;
- local decision-making;
- effectiveness (getting the best quality services);
- accountability of services and the department to the client and each other;
- openness (in program criteria, procedures for agency selection, and details of decisions);
- equal outcomes of services and fair treatment of all;
- good employment practices; and
- security of funding.

Much of this detail and the emphasis on the underlying principles has been lost in the briefer and more pragmatic outline of contracting published by the Community Funding Agency (CFA 1993). The earlier more extensive outline of contracting by the Department also noted the important distinction in the Children, Young Persons and their Families Act, 1989 between contracts for the provision of agreed services (Part VIII, s407) and grants as financial assistance to community groups (Part VIII, s406).

The State Services Commission (1993) argues that for a contractual arrangement to work effectively, it is necessary for everyone involved to:

- be clear about what each has promised to do for the other, and
- gain a benefit from the arrangement.

This emphasis on a "win/win" outcome begins to take us beyond the mere words-on-a-paper and suggests, as Williams (1992) argues, the strength of a contract is not its structure (what is written down) but the process (or relationship) which generates a willingness for the parties to abide by the spirit and conditions of the contract.

10. A new way of funding

Where does contracting fit into the funding relationship between governments and voluntary organisations? In one sense a contract is only an administrative device, which can be essentially neutral in its impact. Much of the analysis, the advantages and disadvantages of purchase-of-service contracting are just as relevant to other financial transfers between government and voluntary organisations, such as grants and subsidies.

However, there are some important differences of *degree*

Contracts are more likely to:

- **be in response to government rather than community initiative;**
- ■ **be more specific in their service requirements; and**
- **include increased accountability and/or performance requirements.**

In many respects these are both the key defining differences of contracting *and* the critical issues involved in coming to terms with the contracting culture and its impact. As such the introduction of contracting is one more step in a tightening process that has been developing for some time. Frequently the pattern of development of government funding involves the following stages:

1. donations to worthwhile organisations, usually a small number of established church and voluntary agencies (*list approach*);
2. program grants on the basis of submissions, perhaps involving public announcements of grant availability (*submission model*);
3. program grants allocated on the basis of some form of services planning (*needs-based planning*);
4. tendering for contracts to undertake specified services - either competitive, fixed-cost or selective tendering (*purchase of service contracting*);
5. funding - with more or fewer restrictions - to individuals to buy needed services, either from accredited providers (*vouchers*) or the market (*cash allowances*).

Contracting is one further step in a long term trend in tightening government requirements on funding voluntary organisations.

It is superimposed over an even more significant shift:

- from funding worthy organisations to ensure their continuation

- to greater emphasis on guaranteeing clients and communities access to certain services (specified by government).

The current arrangements in this country primarily involve aspects of the second, third and fourth funding approaches - sometimes even moving back and forth between different approaches for different aspects of the one program, which often results in contradictory requirements. For example, whole organisations are accredited but only specific services are funded; contracts are entered into to "secure" a whole service, but only a part subsidy is made towards its costs, and so on.

On another level some funders such as the Lotteries Board are able to apply different approaches to the funding of different activities - covering almost all of these approaches depending on what is relevant in different circumstances. For example, provision of equipment or assistance directly to people with disabilities; contributions to community efforts to raise funds for a community facility; or seeking out organisations interested in sponsoring a needed service.

Some voluntary organisations have also suggested that the Lotteries Board has been able to move across these different approaches to funding without rigidly imposing the same degree of control that other funding bodies seem to see as a necessary part of operating a *needs-based planning* or *contracting* approach.

At its best, such developments involve moving from a focus on the voluntary organisations ("the organisation is funded as a matter of right") to a focus on those who are meant to benefit ("client access to a service as a matter of right").

But it is not without its costs. Such a move involves a new way of funding, which in turn requires new ground rules, new technologies and new ways of operating. Both governments and voluntary organisations have at times been slow to fully appreciate the implications of the new environment they are now operating in.

And at times it can seem that the changes occur more thoroughly with the rhetoric than the actual funding programs. For example, security and flexibility of funding may be reduced or taken away from the voluntary organisation without any effective rights being transferred to the clients. The major challenges are in the following areas:

Partnership

- recognition of the respective strengths of both government and voluntary organisations in a way which really makes a difference;
- joint negotiation at all levels (for example, setting program goals and service standards, not just in service planning) *and*

early in the process;

- countervailing measures to ensure the unique characteristics of voluntary organisations are not undermined by fulfilling government funding requirements;

Responsiveness

- recognition of the long term dangers of relying on inappropriate market models such as quasi-competition to promote greater choice and responsiveness;
- ensuring needs-based planning builds up from identified needs rather than merely divides up a pre-determined allocation;
- investing in service infrastructure to enable the balance of certainty and flexibility required to enable *real* choices;

Accountability

- recognising the legitimate reporting trade-offs for greater accountability and greater specification of outcomes;
- paying the full price (including proper overhead costs) when a specified service or outcome is purchased;
- realistically matching requirements for monitoring, supervision and accountability to the resources available for these tasks.

The full implications of such a shift are only just beginning to be appreciated by both voluntary organisations and government. It will require:

- a better understanding of partnership between the two parties;
- a greater emphasis on responsiveness to needs; and
- a new approach to accountability.

Each of these issues is considered in more detail in Part C, in an attempt to identify some of the issues that need to be confronted if voluntary organisations in Aotearoa/New Zealand are to negotiate a constructive response to the challenges of contracting of social services.

11. Best practice versus centralised funding units

This new approach certainly requires a significant investment in the development of new technologies - contracting procedures, negotiation processes, needs-based planning systems, unit costing methodologies, output and outcome measures and so on. While this will of necessity lead to an emphasis on funding processes for some time, it is important to keep in mind that any such processes are only ever means to an end.

It is the *policies* (what services, in what form, for whom) that should always be driving the *processes* (how grants are provided). For this reason there are dangers in the development of specialist units whose only functions are funding - separate

from the policy behind the funding. A survey on health contracting and voluntary organisations (Rivers Buchan Associates, 1993), for example, found a very positive response from voluntary organisations to the role of the (then) Public Health Commission because: "PHC contract analysts have a good understanding of issues, health promotion concepts and the culture of community-based organisations."

On the other hand one of the concerns of church child and family support has been that "some CFA staff are only able to assess administrative information and therefore focus on these matters to the detriment of assessment of social work practice...." As a consequence they argue for greater use of the skills and experience of Childrens and Young Persons Service staff, for example, in the approval, assessment and review of their services (NZCCSS, 1992).

The recent inquiry of the Australian Industry Commission (1994) into charitable organisations proposed a single Funding Management Board to receive allocations of funds from a number of government departments and be responsible for establishing and monitoring all funding arrangements with voluntary organisations. A similar idea was put forward by the 1988 Curran Report into the finances of New South Wales.

Both proposals have been roundly rejected by voluntary organisations in Australia (despite the superficial attraction of only having one funding body to deal with), because it is recognised that separating administrative and financial considerations from the policy context in which the activity needs to take place is undesirable and ultimately unsustainable. For example, the funding unit has to build up its own "content" expertise, thus leading to duplication with the functional departments or divisions (NCOSS, 1995).

It would be akin to reverting to the old style system of a centralised Public Service Board that undertook all the recruitment and training of staff for all government departments.

The New South Wales Government also rejected the Curran proposal and instead pursued a much more practical path of promoting "best practice" among the various government funding bodies. Thus the NSW Office on Social Policy has recently published a report, *Funding Policies and Practices*, which sets out a partnership approach to policy development and encourages best practice across funding bodies in that State. It has won widespread community support (quoted in NCOSS, 1995).

There is considerable value in such a more limited unit which is able to assist funding departments (or divisions within departments) with the standardisation of contracts, undertake relevant research and development of administrative processes,

and gather and disseminate information about best funding practice. Without line responsibility for funding, it is also able to monitor and review funding arrangements across government, separate from those bodies actually delivering the funding programs.

While the new approach will require the development of many new funding technologies, it is important that the process remains firmly driven by the policy objectives of the services and programs to be provided. The funding arrangements must always remain means to an end.

For this reason there are dangers in excessive concentration of responsibility for funding voluntary organisations, specially if this also

**means separation from
the relevant policy areas.**

12. advantages and disadvantages of contracting - who wins, who loses?

In NZ, contracting has only rarely been used to privatise a social service. More usually it is used to move in the opposite direction - more detailed specification and hence greater government control over voluntary organisations receiving grants.

What are then possible advantages and disadvantages of such a move - for clients and communities? for voluntary organisations? for government?

In much of the overseas literature, specially in the United Kingdom and the United States, *contracting* is equated with *privatisation*. Tasks or services that were previously undertaken directly by government are now contracted out to voluntary (and in some cases commercial) organisations.

In Aotearoa/New Zealand there are a few notable similar examples, such as the transfer of Maatua Whangai Resource Centre (a branch of the Childrens and Young Persons Service providing social work services, fostering etc for Maori children and their whanau) to the voluntary, iwi social service - Te Runaka Ki Otautahi O Kai Tahu. These, however, are the exceptions. If anything, contracting social services in this country more usually represents the reverse - increased government control over services and activities that were previously conducted much more autonomously by voluntary organisations receiving less tightly specified and monitored grants.

Therefore, in assessing the impact of contracting social services in this country it is important to compare contracting with previous grant arrangements, rather than with direct provision of the services by government.

One of the essential elements of contracting is its greater clarity and specificity, specially where there had previously not been written funding agreements, or, as was more usually the case, where the contract has considerably increased the specificity of former funding agreements. This feature underlies many, if not all, of both the advantages *and* disadvantages of contracting.

Insofar as it leads to a better mutual understanding and greater transparency of mutual obligations, this greater specification offers many advantages. 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 that make provision by voluntary organisations attractive.

While this paper is primarily concerned with the implications of contracting for voluntary organisations, this is impossible to properly assess without looking at the implications of contracts for all three parties involved:

- clients and communities;
- ■ voluntary organisations; and
- the government.

13. The score card for clients and communities

Voluntary organisations if they are not to lose sight of their

purpose will be ultimately concerned with the impact of contracting on their clients and communities. Disadvantages for voluntary organisations would be mere inconveniences if contracting brought substantial improvements to the people they serve. On the other hand, if contracting holds substantial risks for these people, voluntary organisations (and governments) must seriously question the viability of such an approach.

Despite the clients and communities served by social services being their *raison d'être*, this is the area where least is known about the impact of contracting. Much has been written about the advantages (and disadvantages) of services provided by voluntary organisations compared to those directly provided by government, however the debates are more often based on ideological convictions rather than research.

In this country these comparisons are only relevant to the contracting debate insofar as contracting might, say, provide a more sustainable regime to expand government support for voluntary organisations because of increased control and accountability. This occurred for example in Australia and the United States. However, contracting can just as easily be introduced as a rationing mechanism at a time of cutbacks in government support (and/or in the face of increasing needs), as may be closer to the context of Aotearoa/ New Zealand.

To the extent that contracting opens up more opportunities for particular groups to "bid" to operate their own services, contracting can result in more appropriate services. Groups set up along lines of gender, region, ethnicity or other common interest can potentially provide a greater diversity of services and provide more opportunities for participation. This also offers a unique way of helping to maintaining culture, and has been actively promoted in this country by the transfer of resources to iwi and Maori-controlled services.

On the other hand, increased prescriptiveness and narrower service requirements of contracting can reduce opportunities for community initiative, participation and development.

Insofar as contracting is associated with a more needs-based distribution of available resources, it may also give a better deal to more disadvantaged clients and communities. However, in practice so-called "needs based planning" more frequently is used to redistribute resources *among* poor or disadvantaged people. Some may benefit, but at others' expense, and the resulting divisiveness - one region against another, one client group against another, Pakeha against Maori - can deflect attention from the need to address an overall shortfall, so that all miss out in the long run.

For clients and communities contracting can:

- provide a more sustainable environment for the expansion of

If it involves a shift in initiative and control from voluntary organisations to government, its impact on the appropriateness of

government support for voluntary organisations or be used as a rationing mechanism in times of cut-backs or increasing needs;

- **open up more opportunities for particular minority groups to “bid” to operate their own services (resulting in more appropriate services and cultural maintenance);**

- **reduce opportunities for community initiative, participation and development**

- **result in a better distribution of available resources, or it can be divisive and divert attention away from overall inadequacies;**

- **result in more or less appropriate services, depending on whether governments or voluntary organisations are more in touch with the needs;**

- **begin to guarantee access to services in more standardised ways;**

- **make it more difficult for voluntary organisations to flexibly respond on an individual basis and to respond in an**

services depends on who you see as more in touch with client and community needs. Voluntary organisations have no monopoly on virtue. They too can become tired and irrelevant, or be more concerned with their own organisational survival than the needs of the clients and communities they serve. However, the daily face-to-face confrontation with human needs usually provides a safeguard against irrelevance for almost all voluntary organisations. This is the other side of the funder-provider split.

While government's strength is its commitment and capacity to ensure all are treated equally, the strength of voluntary organisations is their diversity and particularity. This means that the increased government control involved in contracting is likely to lead to pressures on voluntary organisations to begin to guarantee access to services in more standardised ways.

At the same time these pressures also make it more difficult for voluntary organisations to respond on an individual basis. Even with the growth of the *case management* approach - an operating style borrowed from voluntary organisations and now widely appropriated by the public sector across the developed world - there are still inevitable pressures (overt and covert) to restrict and standardise the services that are funded.

In particular the increased specification of the services to be provided under contracts makes it more difficult for voluntary organisations to provide a holistic service. If an organisation is contracted to provide an employment placement service, for example, the funder is usually not interested in the organisation spending time worrying about the housing or other welfare needs of the jobseeker. However research into what programs actually help people most disadvantaged in the labour market (ACOSS, 1994b) found that it was the multi-purpose voluntary organisations which took this holistic approach that got the best results - at times in contradiction to funding guidelines and subsidised from their own income.

This conflict arises because government programs and departments by their nature need to compartmentalise. Unfortunately real people do not live in bureaucratic categories. Voluntary organisations, specially those much maligned multi-purpose agencies, are best placed to take an integrated approach. A small scale evaluation of contracting in New Zealand involving a stratified sample of twenty voluntary organisations and some staff of the Community Funding Agency (Leigh, 1994), found evidence of such reduced service flexibility as a result of contracting.

The emphasis on measurable outcomes usually associated with contracting almost always involves incentives which may encourage “creaming” - the in-built tendency under a contracting system to concentrate services where there is greater chance of success - often to the detriment of the most disadvantaged clients and

integrated, holistic way;

- **result in “creaming” - the in-built tendency to concentrate services where there is greater chance of success; and**
- **mean excessive resources are diverted away from the goals of direct service provision to extra paper work.**

communities (Fulcher *et al*, 1988) (ACOSS, 1994b). Even though this may be resisted by voluntary organisations with a strong commitment to serving the most disadvantaged people, there is still the problem that more difficult clients cost more to provide services for (at a time when the greater specification of contracting makes cross-subsidisation more difficult).

Finally, because of the volume of paperwork and the complexity of the contracting process, Gutch (1993) argues that in the United States much of the focus on the client has been lost. Reports from the United Kingdom (quoted in Gain, 1994) and Aotearoa/New Zealand (Leigh, 1994) suggest a large increase in administrative costs. An international survey of the literature (Fulcher *et al*, 1988) confirms that the demand upon voluntary organisations for record keeping and fiscal sophistication in budgeting, may mean excessive resources are diverted away from the goals of direct service.

Possible advantages for clients and communities:

- ◆ more sustainable funding base
- ◆ increased cultural and other diversity of sponsors
- ◆ better distribution of resources
- ◆ more appropriate services
- ◆ more standardised access

Possible disadvantages for clients and communities:

- ◆ easier to cutback services or not meet increased needs
- ◆ less community initiative and participation
- ◆ a diversion from inadequate resources
- ◆ less appropriate services
- ◆ “creaming” of easier clients
- ◆ diversion of resources from services to extra paperwork

Overall, it appears that contracting *per se* is neither necessarily good nor bad for clients and communities served by social services. It can hold a promise or a threat. Assessing the actual outcomes for clients and communities will very much depend on

the cloak of the *concept* of contracting being lifted so that the detail of what is being implemented can be exposed to scrutiny.

14. The score card for voluntary organisations

Voluntary organisations are at the centre of the contracting relationship - sandwiched between government funders and the clients and communities they serve. They are also the party for whom the impact of contracting is most researched. The literature consistently identifies actual or potential impacts in the areas of accountability and monitoring; goal-setting and independence; implications for preventative services, community development and advocacy; and the financial relationship.

Accountability, monitoring and red tape

The clearer requirements of contracting can encourage better planning in voluntary organisations, as the organisations know what they are (and are not) being funded for. The pressures and exposure that contracting bring may also provide a useful discipline in encouraging greater professionalism in the management of services.

Contractual obligations can require organisations to be more accountable in terms of stating their objectives, outlining the costs of delivering a specific service, keeping records of service use and evaluating performance if they have not already done so before.

Nevertheless, accountability requirements are a double-edged sword. Leigh (1994) found that most voluntary organisations are willing to be accountable. However, they are concerned about the volume of information required, the changing nature of the requirements, and the time and resources needed to accommodate the funder's monitoring requirements (perhaps on top of their own):

"Monitoring requirements are good, they do help us, but it has cost us. We have to carry the costs along with an increasing client load and decreasing funding. CFA have offered no assistance." (Voluntary organisation quoted in Leigh, 1994)^[3]

Questions were also raised by voluntary organisations about whether the information collected said anything useful about the *quality* of their services and what (if anything) the information was actually used for. A number of these concerns were shared by Agency staff interviewed in the same research. Smyth (1994) questions the efficiency, for example, of the compliance costs involved in a 33-page contract for \$12,000 funding from one Regional Health Authority.

For voluntary organisations, contracting can encourage better planning and provide a useful discipline for professional management.

However, these pressures often impose excessive administrative burdens (transaction costs), specially for smaller organisations. They deflect energy from direct service and are not usually recognised by government funders.

Many voluntary organisations, specially newer and smaller agencies, lack suitable record keeping, cost control systems and managerial capabilities (Kramer, 1981). Most are focused on service delivery at the client and community level and may not have sophisticated management and accounting systems or highly trained staff to do such tasks (State Services Commission, 1993).

The impact of the extra costs of contract management overheads (the “transaction costs”) and over regulation is made worse by the inappropriate structures, time consuming and impersonal procedures, and inadequately resourced and under-trained staff which seem to characterise contracting wherever it has been introduced (Gutch, 1993). It also goes against the general trend of deregulation and the removal of as much red tape as possible from government relations with commercial organisations.

Goals, controls and independence

Increased dependence on government funding, specially when it is associated with the greater specificity of contracting, brings with it the possibility of increased government control. This is likely to affect flexibility and responsiveness - the very advantages sought from voluntary organisations.

As well as having external systems of accountability imposed, voluntary organisations can also be subject to various policy restrictions that relate to client eligibility and how services are delivered (Fulcher *et al*, 1988). And it is important to be aware that these restrictions can be both explicit and indirect - exercised, for example, by requirements to have access to client files. Leat *et al* (1984) identify what they call a web of hidden informal restrictions.

The increasing importance of government funding for voluntary organisations has been accompanied by a deepening penetration by the state into voluntary organisation, management and goals. This phenomenon has been identified across the developed world. For example Nyland (1993) identifies the shift away from voluntary organisations being regarded by government as autonomous representatives of the community and towards being treated merely as if they are convenient conduits for public services - “little fingers of the state”. Transformation of the voluntary sector into what Wolch (1990) calls a “shadow state apparatus” could ultimately shackle the voluntary sector’s potential to innovate and create progressive social change.

How real is this risk? Some have cited evidence that agencies feel their goals have changed and their working methods more tightly controlled. While others argue that voluntary organisations have been able to maintain their independence through *principled pragmatism*, and specially multiple sources of funding.^[4] The ability to maintain independence may also be related to the size

and type of agency. Smaller, newer groups are more likely to depend on a single source of government funding and may be more susceptible to government requirements. (Gutch, 1993).

Prevention, community development and advocacy

As contracts have become more precise they have tended to focus on a narrower band of services more closely related to core government responsibilities and there has generally been a decrease in funding for preventative and community development programs. For example, in the provision of services for young people "at risk", the priority of the Children and Young Persons Service is to purchase services for clients who have already come to the attention of the Service (Robinson, 1992).

A Study of the Financial Practices of the Children and Young Persons Service - headed by Andrew Weaks, a former Treasury official involved in the State sector reforms of the late 1980s - highlights the importance of the Service needing dual goals of *preventing future referrals* (expressed as the first goal) as well as professional services to *resolve the problems* that arise. It would be ironic if at the same time opportunities are further reduced for voluntary organisations to offer preventative and community development services - the very activities they are arguably most suited to carry out.

There is also grave concern that the greater government control over voluntary organisations exercised through the contracting process will undermine their flexibility and responsiveness - the very advantages sought from voluntary organisations - and risk the independence that is one of their defining characteristics.

While voluntary organisations are acutely aware of these pressures, it appears as if they have been able to successfully resist becoming "little fingers of the state" to date, by a judicious mix of idealism (in their commitment to their mission and the people they serve) and pragmatism (in the ways they play the

With cost overheads for voluntary organisations being continually pruned and contracts becoming more narrow, there may be little time to undertake advocacy work. Managing contracts becomes a full time occupation in itself and voluntary organisations are looking increasingly to umbrella organisations to lobby for them.

The distinctive advocacy functions of a voluntary organisation may also be constrained through fear of losing government funding (Fulcher *et al*, 1988) - acceptance of government funding can make voluntary organisations more cautious in their criticism of government, but there are conflicting findings as to whether this has yet had the effect of actually gagging voluntary organisations (Gutch, 1992).

Nevertheless, there is certainly a growing tension in many voluntary organisations between providing a required service to ameliorate an identified need and working to address underlying issues or change government policy.^[5]

Who is subsidising whom?

Unlike contracts for cleaning, catering, road repairs and building maintenance, social service contractors *pay* for the privilege of winning government contracts. More than anything else this is the most telling demonstration that while the language is "contracting", what really counts - the money - remains firmly entrenched back in

funding game).

the previous regime of subsidies, grants-in-aid and "contributions".

In the past, voluntary organisations have often identified new or changing needs and developed services to meet them, and in turn the government has often responded by providing funding, usually on a grant-in-aid basis. Although these grants only reimbursed a part of the total costs involved in providing a service, this was accepted as the service was addressing a need the organisation had identified and was committed to and their independence was preserved.

However, when the Government pre-determines its priorities for what will be funded (most of which are a narrow range of essential social services, many related to core government responsibilities), specifies in considerable detail what is required from organisations, *and* expects 100 per cent accountability to government (despite providing only a percentage, and sometimes only a small percentage, of the total service cost), it - not unexpectedly - causes considerable irritation and resentment among voluntary organisations (Robinson, 1992).

Gutch (1993) estimates that internationally most government contracts for social services end up being subsidised by voluntary organisations by 15 - 20 per cent. This subsidy takes the form of lower wages, longer working hours, and substitution through volunteers and charitable funds. The "subsidies" from the voluntary organisations are even higher in this country. Not only are voluntary organisations expected to make the type of *hidden* contributions to which Gutch refers, but most government funding persists with the pre-contracting approach of only making a "contribution" towards even the *cash* cost of a service.^[6]

As well as only funding part of the *direct* service costs, contracts frequently either do not fund at all or only nominally fund the *indirect* service infrastructure costs - such as training, research and development, administrative support. Strain and failure of voluntary management and such chronic under-investment in service infrastructure are often directly related (Inglis & Rogan, 1993).^[7]

As well as these more visible forms of under-funding, voluntary organisations may also find themselves subsidising subtle forms of "hidden privatisation", through public sector cost-shifting. For example, one of the main thrusts of the Children, Young Persons and their Families Act, 1989, was to replace institutional care for young people with care within the whanau/family and community. Most Department of Social Welfare homes were closed and staff re-deployed or made redundant. However, the funds saved were not fully reallocated to community care. (Robinson, 1992)

However, it is certainly clear there has been considerably greater control over what services are funded. Prevention,

As a result, a variety of voluntary organisations are providing services at a vastly reduced cost for clients who formerly would

community development and advocacy have all but disappeared in contracted funding programs, making it much more difficult for voluntary organisations to be involved in the very types of activities that they are perhaps most suited for.

have been the direct responsibility of the Department. Although the total flow of money from the Department to the voluntary sector increased with the Act, the funds available for *community-defined* services actually decreased and the *total* Government expenditure on care and support services (departmental and voluntary) has decreased.

In a similar way Crown Health Enterprises are under considerable pressure to reduce their "losses". The cost of surgery can be reduced by earlier discharge, with the resulting costs transferred to the patient, family and voluntary organisations - specially those supporting older people (Smyth, 1994). People with psychiatric and intellectual disabilities are less likely to be cared for in large-scale institutions and more likely to be supported in the community. While the resources may follow the individuals actually moved in the *initial* deinstitutionalisation, there is a grave risk that families and voluntary organisations will find themselves in future supporting people with disabilities who previously would have been fully assisted by the public health system - but with only partial (or no) assistance from the Government.

The promise versus the reality

In summary it seems that contracting offers more in promise than in reality for voluntary organisations. A review of twenty years experience with contracting of social services in the United States found that 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 funder and service provider (Gutch 1993).

The promise is also often held out for:

- *increased resources* so that voluntary organisations can continue to serve their particular clients/mission *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 (Fulcher *et al*, 1988).

Possible advantages for voluntary organisations:

- ◆ greater funding security
- ◆ less influence in internal operations
- ◆ better planning and more professional management
- ◆ increased interaction and better partnership with government

Possible disadvantages for voluntary organisations:

- ◆ less secure funding
- ◆ increased and more complex administrative demands
- ◆ diversion of resources to contract management
- ◆ more external controls
- ◆ reduced capacity for prevention, community development and advocacy
- ◆ less co-operation with other voluntary organisations
- ◆ distorting voluntary organisations priorities and subsidising government priorities

Combined with the financial pressures of “contracts” that only partly fund what they purport to be purchasing (and as a result require voluntary organisations to subsidise government priorities)...

However, Gutch found that one of the striking features twenty years of American experience with contracting is that none of these promised advantages actually appear to have been realised. This is consistent with the experience in this country, where much was also promised, including:

- *more secure funding* (contracting would address the unsatisfactory situation in the past where “community groups have not always had certainty about funding from year to year - or even month to month. The re-negotiation 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...")
(DSW, 1989).

A small scale evaluation of the Community Funding Agency (Leigh, 1994) found that despite many voluntary organisations having a good relationship with their outreach worker, a majority was dissatisfied with the Agency's contracting process. The 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 Agency and the voluntary organisation about the services being contracted for, 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 consistently shown considerable insecurity, uncertainty and delays in funding (NZCCSS, 1992, 1993 & 1994).

Not only in this country, but across the world, most contracts are still only for one year, voluntary organisations work under great difficulties trying to plan ahead, are trapped in a never-ending cycle of form-filling simply to maintain their services, and face reduced financial security - with levels of funding systematically squeezed and recurrent cash flow problems. (Gutch, 1993)

How contracting is introduced is as important as any theoretical advantages or disadvantages that contracting may offer. However, it is significant that these problems are not unique to Aotearoa/New Zealand. They have been found in every jurisdiction where contracting has been introduced. Nor are they merely "teething" problems when new systems are being introduced (though they are undoubtedly worse in the transition period as the NZCCSS monitoring has shown). They remain apparent in the United States, for example, after more than twenty years experience of contracting.

There are clearly endemic problems in the contracting regime that have failed to be addressed in jurisdiction after jurisdiction. In part, they stem from a failure of those implementing such policies to realistically recognise the *costs* as well as the *benefits* involved. That is why it is important to look at the impact of contracting on government funding bodies.

...and their experience that contracting has failed to deliver much of what it promised, voluntary organisations are understandably more than irritated and resent:

- **getting less**

- to do more,
- with no greater security,
- increased and more complex administrative demands, and
- subject to more external control.

Contracting offers governments more control over voluntary organisations and their services - though monitoring and evaluating social services is not as straightforward as it sounds.

There are few risks for government in funding voluntary organisations as government funding rarely substitutes for but rather is subsidised by funding from other sources.

The greatest limitation of contracting for government lies in its unwillingness to recognise that it is much more expensive to administer than grant funding and to allocate the necessary resources for its implementation.

15. The score card for government

In almost every country where contracting has been introduced, it has been done so at the government's initiative. It would be expected, therefore, that contracting should offer some very clear advantages for government. The State Services Commission (1993) argued that contracting allows for the allocation of risk; clearer expectations of performance; clearer specification of what the government wishes to purchase; and increases the accountability of service providers for the use of public money.

The then Minister for Social Welfare (Shipley, 1991) also saw the opportunity for increased competition among services to achieve greater efficiencies. However, while there may be some evidence of less co-operation among voluntary organisations (under the contracting regime, some information is now commercial-in-confidence and Regional Health Authority contracts apparently routinely include secrecy clauses), it is difficult to promote price competition when only a (floating) contribution is made towards a service.

If tendering on price were pursued, it would almost certainly undermine the government's other stated objective of promoting greater cultural and provider diversity. All the international evidence suggests that tendering on price results in a concentration of contracts among (a sometimes relatively small group of) larger, more established service-providers, who are better able to take advantage of economies of scale, risk-spreading, and higher levels of public support.

Contracting also offers the prospect that governments can more easily satisfy themselves about compliance with their objectives. In particular it has been argued that contracting means that determined services can be initiated and terminated more rapidly and more easily by government.

Looked at from the other perspective, it means governments are more able to influence the services and service standards of

voluntary organisations - though this is still not as simple as sounds. In practice there are inherent difficulties for government in monitoring standards and securing adequate accountability from voluntary organisations (Fulcher, *et al*, 1989). By their nature social service goals are diffuse and defy simple measurement - thus the widespread substitution of outputs (or through-puts) for substantive outcomes in most monitoring and evaluation.

Even more fundamentally, government departments are rarely able to allocate sufficient staff to oversee organisations' performance (Kramer, 1981). The government can become just as submerged as voluntary organisations in the annual round of paperwork (Gutch, 1993). Contracting has required a range of new procedures and new skills in government officials (see State Services Commission, 1993). Training needs have been frequently identified in monitoring reports on the Community Funding Agency, as has the need for *more* not less contact with Agency outreach workers (NZCCSS, 1992, 1993 & 1994) (Leigh, 1994) (Deloitte Touche Tohmatsu, 1994).

Possible advantages for government:

- ◆ greater control over voluntary organisations, their services and resources
- ◆ more transparent use of public monies
- ◆ better able to report and assess impact
- ◆ cheaper services through competition

Possible disadvantages for government:

- ◆ increased administrative costs
- ◆ substitution of public for private funds
- ◆ alienation of voluntary effort and private contributions

While contracting may often be implemented in tandem with policies associated with a reduced role for government, it is actually *more* expensive for governments to administer than the traditional grants regime, because by its nature it requires a significantly larger and more pro-active role for the funding body. That is why the Community Funding Agency is more expensive to administer than the more community-oriented Community Organisation Grants Scheme or Lotteries Grants Board. In jurisdiction after jurisdiction where contracting has been introduced, governments have shown that they are rarely willing to pay the real cost. More than any other reason this underlies why the reality of contracting

consistently fails to live up to its promise.

Perhaps the greatest risk for government, however, would be if the voluntary organisations withdrew their private input - either because they are pushed too far or because of a variation on the "crowding out" theory. It is sometimes suggested that government funding of voluntary organisations is wasted because it discourages private giving and fund-raising and other voluntary contributions. For example the Social Advisory Council (1986) opined, "While too little government support can cause a service to collapse, too much can suppress the community involvement which provides the dynamic for voluntary action." Leat *et al* (1986) empirically tested this assumption. They were able to conclude that government funding does not appear to reduce the amount of money raised from other sources, nor the effort expended on such fundraising.

Instead they found, in this important sense, government funding is not a substitute for but is rather subsidised by funding from other sources. It is further "subsidised" by the contribution of volunteers. Their data suggest that although it is true that higher government funding leads to the employment of more paid staff, these paid staff do not displace but rather involve *more* volunteers. In fact the study identified a three-fold multiplier effect of government funding in generating community resources.

This does not answer whether there may be a withdrawal of good-will, which probably depends on how far the contracting regime pushes voluntary organisations. It will certainly not happen easily because of the strong commitment that voluntary organisations typically have to getting on with the job of serving their clients and communities. However, to the extent to which this reservoir of good-will is continually drained and not replenished, it remains a real risk for government.

Volunteers and donors who thought they were providing the icing (rather than the cake) may at some stage balk at continued subsidisation of narrowly drawn, government-identified priorities. Wherever the contributions of voluntary organisations are taken for granted or treated as just another commodity to be bought, sold and counted in purely mechanistic transactions, the unique character of voluntary organisations and the "gift relationship" is threatened.

16. Partnership or remaking the sector in your own image?

As the State Services Commission (1993) identified, contracting is successful when it establishes a win-win situation from which all parties involved, benefit. For this reason it is important that strategies be developed to: emphasise and get the most from the potential strengths of contracting; and shore up, or ameliorate the identified weaknesses. These strategies need to begin by addressing the fundamental relationship between voluntary organisations and government.

17. What makes a voluntary organisation?

While voluntary organisations are *private* (like private sector business) and *not-for-profit* (like public sector departments), they are neither mini bureaucracies nor failed commercial enterprises. Too often, however, they are often treated as if they were.

	PUBLIC	PRIVATE
FOR PROFIT	State Owned Enterprises	Business Enterprises
NOT FOR PROFIT	Government Departments	Voluntary organisations

Voluntary organisations are neither mini bureaucracies nor failed commercial enterprises, but are a unique form of social organising based on values of:

- **independence (freedom of association);**
- **altruism (concern for others); and**
- **community (collective action).**

At times they are berated by calls to become “more business-like” and, misunderstanding the unique nature of voluntary organisations, it is sometimes argued that the logical extension of contracting must be competitive tenders open to all bidders - including commercial providers. The danger of treating voluntary organisations merely as just another contractor and relying on competition to ensure client and community needs are met, is discussed below.

At other times voluntary organisations are cajoled into being more accountable to government, when this really means becoming more *like* government - in their recruitment practices, in their record-keeping, in their eligibility criteria, in the standardisation of the way they operate, and so on. Ironically these calls can often be made at the same time! No wonder voluntary organisations can become confused, especially ones that may be unsure of their identity.

In a major cross-country study, Kramer (1981) found that while the welfare states differ in the extent of their reliance on voluntary organisations for the provision of social services, they all share a basic perception of voluntary organisations: “...**these agencies are expected to be innovative and flexible, to protect**

Voluntary organisations are as much about participation as provision, citizenship as service. 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.

particularistic interests, to promote volunteer citizen participation, to meet needs not met by government. Through the provision of opportunities for citizen participation, sponsoring of social services, dispersal of social power, and an increased sense of civic efficacy, voluntary agencies are believed to strengthen the pluralist and democratic forces of society."

Robinson (in Hawke & Robinson, 1993) suggests that the three defining values of the voluntary welfare sector are:

- (i) *independence* (freedom of association);
- (ii) *altruism* (concern for others); and
- (iii) *community* (collective action).

What makes voluntary organisations unique is that they are as much about participation as provision - as much about citizenship as service. The voluntary sector also provides an outlet for the expression of community concerns, advocacy for clients, an opportunity for people to give to others (time, money and other resources) and a place to work for change. They are "voluntary" because people have voluntarily come together; freely *chosen* to work for a particular goal or kaupapa - under neither statutory requirement nor motives of financial gain.

"The voluntary sector provides a focal point for the expression of concerns, and a place where the values of sections of society can be actualised and turned in to practice

"This creative function of the independent voluntary sector has been acknowledged in Eastern Europe as critical to the emergence of 'civil society'. This term was popularised by the democratic opposition movements in the Czech and Slovak Federal Republic, and in Hungary and Poland in the late 1970s and early 1980s. A review of the non-profit sector in East Central Europe by the Rockefeller Brothers Fund, *The Rebirth of Civil Society*, suggests that the non-profit sector provides a 'vibrant and deeply rooted network of organisations and institutions that mediate between the citizen and the state: the connective tissue of a democratic political culture'." (Hawke & Robinson, 1993)

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 spirit.

18. What each party has to offer

In essence, voluntary organisations seek a partnership with government and are concerned to ensure that sufficient funding is

As a result voluntary organisations are not mendicants begging for government aid, but have much to contribute and want these contributions to be recognised as a part of any partnership with government in social services.

The relationship between government and voluntary organisations can be seen as one of interdependence and complementarity - which is fostered by mutual respect.

provided and that their contributions (financial and non-financial) are appropriately recognised. Governments are concerned with the financial accountability and the performance of voluntary organisations.

The Industry Commission (1994) in Australia identified that a partnership will depend on each side recognising the particular strengths (and limitations) of the other. Voluntary organisations bring a number of strengths to the relationship. These include:

- financial contributions (including funding recurrent costs of service delivery from donations, fund-raising and commercial operations, and capital contributions including use of buildings and land owned by churches and voluntary organisations);
- ■ contributions of volunteers;
- ■ goodwill within the community (both the recognition of the organisation's credentials and trust in performance such as that developed by the long established organisations, and the community networks of the more recently formed organisations);
- ■ professional skills, expertise and experience of staff and boards;
- ■ a commitment to respond to individual needs; and
- recognised advantages in service delivery (voluntary organisations can deliver services flexibly, in some cases using their own resources outside the constraints of government programs).

Voluntary organisations also bring to the relationship an underlying organisational and administrative structure - whether the corporate structure developed by middle-sized and large organisations or the services of the voluntary committee of a smaller organisation. The costs of maintaining this administrative structure are often not adequately recognised in the funding arrangements.

On the other hand, government brings a number of features to the relationship:

- funding;
- a legislative framework (the basis for parliamentary and public accountability);
- a commitment to see all citizens treated fairly and on the same basis: and
- a framework for service delivery on a national basis.

Together the relationship between government and voluntary organisations can be seen as one of *interdependence and complementarity*. This relationship can be fostered by mutual

respect, which can be best developed by improving communication so that each understands and respects the other's views. It is crucial to this relationship, the Industry Commission found, that the contribution of voluntary organisations is recognised, both for the resources they contribute and their knowledge and experience of the community and especially those who are most disadvantaged.

19. What kind of partnership

While recognising the power relationships are *not* equal, voluntary organisations want a genuine partnership...

Partnership is usually defined as working together to implement agreed goals. While it is recognised that the power relationships are not equal, too often in the social services it has been transformed into a concept whereby voluntary organisations are expected to function as an *agent* of government, despite the contribution of substantial resources in the form of time, experience, assets and money by the voluntary organisations. The Minister for Social Welfare in his foreword to *From Welfare to Well-being* (1994) clearly recognises that, "Tremendous progress can be made if the community will work in partnership with the Government sector." However, this initiative seemed to be quickly demeaned into merely ensuring the community better understands the Department of Social Welfare's goals and activities in the strategies outlined in the body of the report.

A true partnership is more likely to involve:

- ⇒ government supporting and resourcing the activities of voluntary organisations which are in line with government policy;
- ⇒ where the voluntary sector participates through choice in government social programs which they see as being beneficial to the broader community; and
- ⇒ where the community itself is actively involved in identifying needs, setting service directions and implementing solutions that work.

...that is given practical expression in the contractual relationship. This would involve:

- **explicit recognition of their contributions, and the value of their community and service knowledge;**
- **fully funding those services the government is contracting**

20. Putting partnership into contracts

Contracts formalise the relationship between the Government and voluntary organisations. So while they often serve to bring these tensions to a head, they can also be the means of resolving them. This could be achieved by explicit recognition in the contract of the voluntary organisation's contribution of resources and of valuable service and community knowledge. Given that values are perhaps the main currency of voluntary organisations, it might also mean explicitly recognising the value-base of both the voluntary organisation and the government funding body in providing the contracted service.

It would mean fully funding those services that the government is

- (including overheads);**
- **only expecting accountability for what is funded;**
- **generally funding on a 3-year basis;**
- **obliging early consultation at all levels (from social policy to data collections); and**
- **fair systems of review and dispute resolution.**

contracting from voluntary organisations (including as the Australian Industry Commission highlights, administrative overheads, training and staff development, legitimate wage movements, etc) and only expecting accountability to government for what they fund.

The Industry Commission also highlights the need to fund voluntary organisations on a reasonable basis - generally three years, subject to continued satisfactory performance and annual appropriations of the Parliament - as a legitimate trade-off for the increased accountability. Three year funding would also help to provide tangible evidence of trust, and provide a better basis for service planning.

It should mean contractual obligations on the government to prior consultation with voluntary organisations and their recognised representatives (such as umbrella organisations) on all matters affecting the service - from social policy to program development to service guidelines to data collection. The Industry Commission highlighted the crucial importance of the *quality* of the consultation, and the obligation for *early* consultation at all levels.^[8]

It might also mean ensuring there are: adequate, independent avenues for voluntary organisations to seek a review of funding decisions; suitable procedures for terminating, reducing or significantly changing contracts, which incorporate principles of natural justice and include third parties to the contract (such as clients and communities) who may be adversely affected by such decisions; and mutually agreed arrangements for handling disputes (mediation should play as important a role as a possible so as to reduce potential legal costs).

21. RESponsive to needs - Competition, planning and collaboration

While contracting is often linked to ideas of increased choice and responsiveness, there are rigidities in the very nature of contracting that need to be moderated to ensure responsiveness to client and community needs. For example:

- **ensuring the *minimum* necessary external controls;**
- **greater use of funding blocks of related services;**
- **a more holistic approach to defining outcomes and accountability; and**
- **piloting new support models for smaller organisations.**

22. Counteracting rigidities in contracting

Voluntary organisations are interested in meeting the needs of people in society, working towards a better quality of life for those least able to benefit from our society, strengthening the ability of communities to participate fully in society and empowering individuals and groups to identify and address their own needs. Choice, meeting needs and responsiveness are highly rated values.

As we have already noted, while contracting is frequently linked to notions of increased choice and responsiveness, its very success depends on rigid specification of funding requirements and greater control over voluntary organisations, which may undermine the very characteristics that make provision by voluntary organisations attractive. There is evidence that the greater the external bureaucratic controls the more likely that flexibility will be affected.

As the State Services Commission (1993) guidelines on contracting stressed, it is most important to focus on client needs rather than bureaucratic neatness. The Commission recognised that this might mean that *blocks of related services* may better meet needs rather than the continual atomisation of contracted services into more easily measurable, standardised and comparable parts, as seemed to be desired by Deloitte Touche Tohmatsu (1994) in what was clearly a very frustrating attempt to pin down the nature of Child and Family Support Services in their evaluation of these services.

A holistic approach may be more possible if contracts focused more on outcomes - rather than service outputs - to the extent that this is realistic in the social services. The practicalities of such an approach are discussed further below.

A further tendency that needs to be closely monitored is the observation that the increased specification and greater formalisation of contracting inevitably favours large voluntary organisations over smaller ones. To date the reverse has probably been the case in New Zealand, with small, Maori and local organisations apparently actively discriminated in favour of large, national voluntary organisations. Without recourse to more favourable subsidies (which may be difficult with increasing emphasis on unit costing) and/or expensive staff support, it is difficult to know how long this can be maintained in the face of pressures that seem to have applied in every other jurisdiction that has introduced contracting.

As Kramer (1994) observes, the major trends in the internal

structure of voluntary organisations observed during the last 10-15 years are *increased size and scale of operation* and *greater formalisation* and bureaucratisation: Generally, the bigger organisations get even larger, and the smaller ones get bigger, if they survive...enabling them to better absorb the indirect costs and delays associated with purchase of service contracting. It is ironic that 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 more accessible..."

The Community Funding Agency has a policy of actively trying to encourage smaller organisations and appears to provide a larger subsidy to such organisations. It is unclear however how sustainable such an approach is. When a local Outreach Officer of the Agency requested a more established voluntary organisation with a strong administrative base to take under its wing some smaller organisations providing the same type of services, she confided that originally she had encouraged the proliferation of smaller organisations in this area, but had subsequently found that they just could not cope with the accountability and other demands of the contracting regime.

A number of useful models have been proposed 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 large voluntary organisations, or *networks of service partners* with other small organisations, or *greater investment in resourcing agencies and administrative support bureaux* (Industry Commission, 1994) (Inglis & Rogan, 1993). Assistance could be provided to umbrella organisations to test and promote such models among voluntary organisations.

23. Competing for clients

It is important to avoid competitive models that can undermine the valued qualities of voluntary organisations. Choice and diversity can also be assured by collaborative strategies.

Welfare that Works (1991) outlined that the Government saw contracting as a way of increasing competition among service providers in order to increase efficiency and choice for clients. There would also be a greater capacity to switch funding from one organisation to another. Generally it is assumed that such goals are best achieved through a system of competitive tenders - but would that work or would it undermine the very nature of voluntary organisations?

Ketner and Martin (1993) have developed a continuum with two contrasting models of purchase-of-service contracting - as a partnership or a market. It is based largely on the relative degree of competition and accountability involved. *Partnership* is based on co-operation and, although it minimises power relationships, has room for negotiation. The *market model* assumes that there is competition (although this is rare in practice) and that the primary emphasis is on cost-efficiency. For example, they conclude that if

lowering costs is a high priority to government, then the market model is appropriate; if flexibility in targeting resources to meet needs is an objective, then the partnership model is best suited.

The partnership model seeks to develop a comprehensive human service system based on the collaborative efforts of government and voluntary organisations. On the other hand, the market model seeks to encourage competition among service contractors (usually voluntary and commercial) to increase the outputs of service delivery by minimising the cost of those services to government.

However, even on its own terms the competitive approach may not achieve greater cost-efficiency, if it does not take into account the substantially higher administrative costs involved in monitoring organisations which may only be concerned with profit-maximisation and cost reduction in a field where intangibles can be crucial and outcomes are notoriously difficult to measure. It may also ultimately result in the withdrawal of the substantial contributions mobilised by voluntary organisations.

Lyons (1995) also demonstrates that it is not possible to transfer market concepts to social services by merely focusing on the demand side (for example by giving vouchers to clients) and letting the supply look after itself. At least some investment in the service infrastructure is required to enable the balance of certainty and flexibility required for real choice.

Titmuss (1970), in his seminal study on different approaches to human blood procurement and transfusion, found that some services cannot be turned into commodities and subjected to the rules of the market without adverse repercussions. In the case of donated blood, when it is bought and sold, it is: more expensive to produce (cost); there is greater wastage and inefficient distribution (efficiency); and greater health risk and poorer quality (outcomes).

The Australian Industry Commission (1994) which is an enthusiastic advocate of competitive tendering, for what primarily appear to be ideological grounds, acknowledges with concern that government officials can be risk adverse with respect to costs, and rely on price alone in selecting providers. They are often overly concerned with meeting budgets rather than ensuring quality of service. Where budget cuts are operating in parallel with funding reform, there may be considerable incentives to focus on obtaining the lowest price for services with consequent dangers to quality.

The introduction of crude competitive pressures has even more fundamental adverse effects on the wider social services, according to overseas research (quoted in QCOSS, 1995). Case studies in the United Kingdom illustrate that competition acts against service integration and causes division within the sector when the system requirement is integration, collaboration and co-

operation rather than segregation. Because it fails to appreciate the differences of voluntary organisations, a competitive tendering approach can actually reduce real choices and responsiveness. "Overlap" and "duplication", anathemas to service planning, are the very pre-conditions of effective competition.^[9]

In rejecting such an approach it is important not to confuse competitive tendering with the benefits of funding which is related to clear, transparent and mutually agreed performance indicators. Contract funding of any sort allows for performance review, so long as the prior work has been put in to developing the standards and indicators.

24. Planning for needs

A needs-based planning approach is an important part of ensuring a fair, broad resource allocation, but it needs to be built up from identified benchmark service needs - if it is to be more than a divisive rationing device.

If crude market forces are inadequate, other allocational mechanisms are required to ensure the best use of available resources. Needs-based planning approaches have been developed to provide a fairer system than the previous common practice of patronage - when particular organisations, "known" to be reliable for good services or merely "co-operative", were approached by funders to deliver a new, or take over an existing, service.

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

There is often discussion within the local community about which organisations would be best placed to deliver a particular service and how the overall spread and distribution of services can be best arranged to promote co-operation and co-ordination. It can also be designed to allow for input by consumers and thus ensures government decision-making is informed by a high level of relevant information derived from the affected community.

But such an approach is not enough. Rathgeb Smith (1989) reviewed 25 years of contracting between governments and voluntary child welfare organisations in the United States. She found that although it may have resulted in more equitable distribution of shrinking governmental resources, the impacts on client services were less clear - except that some clients previously supported by voluntary organisations may no longer receive the same level of service support.

Needs-based planning is an excellent tool for equitable broad resource allocation.^[10] But it can also be perverted into a rationing

device where *relative* need is confused with *adequacy* of service levels. The result is resources reshuffled between under-serviced areas, where one is relatively more under-serviced than another. Because resource reshuffling mainly occurs with recurrent resources, this could result in an overall lowering of the service sum and a waste of much initial investment by government and the community (Gain, 1994).

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 pre-determined allocations. This will require the identification and development of service benchmarks. This is fully consistent with the shift from funding organisations to funding services (and perhaps ultimately clients) - as it puts the focus on ensuring access for clients to an identified range of priority services.

These priority core services need to be identified, minimum reasonable levels of service provision established, costs assigned which may vary from area to area and then compared to current distribution of these particular services to identify areas of shortfall. This would provide a firm basis for seeking budget allocations to meet a given proportion of identified need - instead of relying on notoriously unreliable waiting list or similar indicators of demand.

These core social services would then form the basis of those services that were fully funded by government over time. Considerable flexibility would be retained by not prescribing *how* these services might be delivered in particular communities - but if correctly identified (by a collaborative process involving government, voluntary organisations, clients and communities) there will be little doubt that citizens across New Zealand have the right to services such as child care, supported employment for people with disabilities, a continuum of domiciliary and residential care for older people with disabilities, support services for families in crisis and so on in their community or region.

In addition there would still need to be flexible assistance for community initiatives beyond this essential core. Such grants could be outside the contracting system and locally allocated in response to community-identified need within fairly broad parameters.

25. Accountability - Outputs, outcomes, effectiveness and going through the paces

Voluntary organisations have a commitment to stewardship of the resources entrusted to them...

26. A commitment to stewardship

Piri Simpson reminds us (in Hawke & Robinson, 1993) that *responsible stewardship* is one of the core values of Christian social services, and suggests it involves:

- use of personal skills and attributes;
- ■ effective use of resources, ie fully accountable;
- ■ standards of service, identifiable, measurable;
- ■ adherence to ethics, answerable; and
- accountability to the members, the donors for the resources that they have given to the organisation.

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

Commercial enterprises expect a return on their capital. Voluntary organisations, when they invest their own time and money and enthusiasm, expect a return in the form of satisfaction - the satisfaction of meeting real needs, of seeing quality services developed and provided, of seeing they make a difference. If anything this makes them more likely to be intrinsically "results" oriented than government bodies merely fulfilling mandated obligations or commercial enterprises focused on "the bottom line", and where the services or products are merely means to an end.

27. Getting the balance right

...But it is important that accountability requirements from government (which are just one strand in a web of accountabilities on voluntary organisations) are balanced and do not distort the goals and activities of the organisation. There are a number of practical

Earlier work by Kramer (1981) suggested government generally demanded a very low level of accountability and nobody seemed to want to upset the balance. He quotes one government funding official as saying 'if we knew more, we'd have to pay more'. Unfortunately this proportionality has been broken. Governments want to know more and more and are willing to pay less and less.

As already outlined above there can be significant compliance costs in meeting increasing accountability requirements, which ultimately mean that resources are diverted from direct services. Gutch (1993) reports that in the United States it has been the volume of paperwork and the complexity of the contracting process, that has especially made it difficult for smaller, local

measures that could help minimise excessive or unreasonable reporting requirements. In particular it is crucial that voluntary organisations are closely involved in their development.

groups to secure contract funding.

Accountability means at a minimum having to answer to those who control a necessary resource. Voluntary organisations are suspended in a web of multiple accountabilities: to their boards, by-laws, clients, staff, contributors and other funding sources. This is further complicated by the diffuse goals and technologies of social services, making it difficult to produce evidence of effectiveness. As we see below, these factors help explain the substitution of *inputs* and occasionally *outputs* for substantive *outcomes*, and they contribute to the extremes of over and under-regulation.

Rather than accountability versus autonomy (the conventional dualism), perhaps the issue should be rephrased in terms of how voluntary organisations can be accountable without restricting the very qualities of flexibility and responsiveness that make them unique. In part the answer lies in restoring some form of proportionality - instead of expecting organisations to be 100 per cent accountable for only 30 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; established organisations may have long-running data collection and record-keeping systems that should not be automatically assumed to be disposable; multiple reporting requirements need to be sensibly integrated and one group's accountability requirements (that of government) should not automatically presume to take precedence over legitimate accountability requirements of others; and reporting efforts should not be disproportionate to what is being funded.

Organisations are more likely to take accountability requirements seriously if they are involved in their rationale and development, and if their use is regularly demonstrated by feedback of results. If something is not likely to be used, it should not be collected "just in case". This is an important part of realistically matching the requirements for monitoring, supervision and accountability to the resources available for these tasks.

28. Measuring performance or performing measurements

Reliance on process indicators alone is no longer adequate for those concerned with performance. However, an exclusive reliance on inappropriate output

It is important not to fall into the trap of replacing substance with form (where the measuring becomes more important than doing or where something becomes important merely because you can measure it). Traditional funding models have placed emphasis on the *process* of service provision, generally failing to link accountability to any type of *performance*. Such an approach comprehensively (even painfully) deals with details such as staffing, facilities and equipment required to produce a service, and emphasises line-item budgets and cost-reimbursement

indicators can equally skew performance towards superficial characteristics, often unrelated to desirable outcomes for clients.

A judicious mix of process and output indicators jointly developed by government, voluntary organisations and representatives of clients is more likely to provide meaningful indicators of performance.

payments.

One negative outcome of this model of funding is that a service can receive funds for years without providing evidence that it has made any impact on the client's well-being. For example, a situation can occur where children spend years in residential care without any positive changes ever being demonstrated. Another negative outcome is that accountability may merely mean ensuring that funds expended by a contractor conform to pre-approved budget items.

It is natural that an emphasis on outcomes would seem a more attractive form of accountability. However, what is unique about social services is that they are highly personal, holistic and difficult to quantify. Sometimes you can only measure failure, not success. Other outcomes, such as the number of people with disabilities placed in open employment, are highly vulnerable to influences beyond the control of the service - for example, the state of the economy. There may even be fundamental disagreements about what the desirable outcome is - restoration of a young person to her family or successful transition to independence?

An illustration of the practical confusion that exists is provided by NCOSS (1995): the Australian Industry Commission instances "hours of counselling" as an input and "families assisted" as an output for family support, whereas the Victorian Department of Health and Community Services calls an "hour of counselling" an output and describes the "number of clients" assisted as a throughput!

McReady (1986) provides an empirical example of the limitation in using a fixed budget approach that typically uses input/output service information to reimburse programs. Input/output information is comprised of "dollar volume of expenditures, volume of service and unit cost". For example, if agencies are reimbursed on the number of home visits per day, it gives an incentive to minimise the duration of each visit to increase the total visits. Taken to extreme, the possibility exists for agencies to take on only the easiest level of clients, thus maximising their productivity and income reimbursement.

There are substantial cost and technical difficulties in measuring outcomes for clients, and at the same time funding solely based on outputs (as a proxy for outcomes) risks skewing performance towards meeting superficial characteristics, often unrelated to desirable outcomes for clients. NCOSS (1995) argues that social services are not a production line and that what happens between inputs and outputs is an essential part of the quality of a service and its outcomes for clients. Instead of merely swapping an exclusive reliance on processes with a single-minded reliance on outputs, they propose funding according to a sensible combination of process indicators and output indicators designed to provide the

optimum likelihood that desirable outcomes will result.

Examples of process measures suitable for indicating likely outcomes include: staff training including cultural sensitivity; physical accessibility of service; and levels of fees charged. Examples of outputs which alone may be inappropriate measures of likely outcomes include bed utilisation ("quicker and sicker" discharge); hours of budget counselling (when the client needed emergency relief); and a delivered meal (to which the client was allergic).

Successful indicators will be developed jointly between government funders, voluntary organisations and (wherever possible) representatives of clients or their advocates. The joint development of performance indicators can also help overcome conflict or confusion over program goals and promote a shared understanding of what everyone is trying to achieve. Examples of programs already operating in this way in New South Wales include the Community Services Grants Program and substitute care funding following the Usher Report.

29. Conclusion

The development of contracts in the social services is a symbol of wider changes facing the voluntary sector. While in some senses only a neutral administrative tool, they are also the flying wedge of a whole new relationship between government 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 and not recognising tino rangatiratanga with the tangata whenua, 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 market models are accepted, then voluntary organisations are likely to lose any differentiation from private, business organisations. If they allow their vision to be narrowed to merely agents providing government-defined services in response to specific contracts, then they will become indistinguishable from 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 (in 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 in this country to: rediscover themselves, their unique nature and kaupapa in civil society; to regain their confidence and assert their place as an essential part of any open, vibrant and dynamic economy; and to effectively negotiate their future.

^[1]This paper primarily deals with formal voluntary organisations in the form they have most commonly been known since European settlement. Social organisation of whanau, hapu and iwi in Maori society along with the informal networks of Pakeha society (what is sometimes referred to as the "household sector" involve different issues which are beyond the scope of this paper.

^[2]In addition to the elements of a contract contained in common law, some of the main legislation dealing with aspects of contract law in Aotearoa/New Zealand include:

- *Contract (Privity) Act, 1982*, which gives a third party benefiting from, but not involved in the making of a contract, rights to enforce delivery of its benefit under the contract;

- *Contractual Remedies Act, 1979*, which deals with the situation where parties have been induced by misrepresentation to enter into contracts;
- *Contractual Mistakes Act, 1977*, which sets rules for dealing with situations where, as a result of mistakes, there is an unequal or disproportionate exchange of value under the contract;
- *Illegal Contracts Act, 1970*, which allows the courts discretion to validate the whole or parts of a contract which breaks the law, involves an illegal act or is in some way contrary to public policy; and
- *Arbitration Act, 1908*, which establishes procedures and processes of arbitration for dealing with disputes arising from contracts (State Services Commission, 1993).

^[3]These problems are by no means confined to one country or any particular funding agency. Kramer (1994) found that the major criticisms of contracting arrangements by the managers of voluntary organisations in the United States dealt more with “deadlines, excessive red tape and other transaction costs” than any philosophical debates about autonomy or distorting their goals. The added cost of contract management overheads, including the work involved in submitting required reports on time and in appropriate formats, has been consistently found to impose high data management burdens on voluntary organisations. These additional transaction costs incurred by voluntary organisations in the contracting process are *not usually recognised by government funders* (Gutch, 1992).

^[4]Berstein (1991) analysed the methods used to manage contracted services by administrators in seventeen New York voluntary organisations. He found that managers internally altered compliance requirements so they benefit the agency, while maintaining expected feedback for the funding body. Two levels of compliance exist, one is superficial for regulatory purposes, the other a more comprehensive internal system to assist the agency to ‘get on with the real work’. Ethical issues were raised concerning the obligations of the managers to clients, their voluntary organisations, and to the funding body. The study reveals managers whose priority is their clients, even if this affects compliance to funding bodies. He also found that voluntary organisations with other sources of income could influence the contract process to alter eligibility requirements and service structures to better suit their organisational philosophy.

Bernstein’s study found that the mission of their organisations was the most crucial factor in voluntary managers’ decision-making, and organisations found a variety of ways to cope with the changes in the character of their funding sources without having to abandon their goals. This is consistent with findings in Aotearoa/New Zealand (Leigh, 1994) that although voluntary organisations were acutely aware of the risks to their independence, most did not believe that their goals had ultimately been affected.

^[5]Robinson (1992) warns that this may result in the unplanned and unconscious aping by voluntary organisations of government’s separation of policy development and service delivery. He notes that some commentators have already identified the emerging “opportunities” for voluntary *service providers* in a competitive welfare system, but with little opportunity for input into *policy development* from activist organisations - following the centralisation of policy development within government, and little evidence of facilitation of effective policy contestability.

In the United Kingdom, the Griffiths Report, *Community Care: Agenda for Action* (1988), heralded contracting in that country under the Thatcher administration as an enthusiastic advocate of that approach to funding social services. Yet it still recognised the role of voluntary organisations which goes beyond the direct provision of services (the developmental work, advocacy, campaigning and education) as sufficiently important to justify having a parallel system of general core grants from government to voluntary organisations.

^[6]In one small survey, Leigh (1994) found that the approximate proportion of an agency's service costs funded by the Community Funding Agency was as low as 7 per cent and as high as 80 per cent for the local agencies and between 6 and 57 per cent for the national agencies surveyed.

^[7]One crude indicator of the under-investment in voluntary infrastructure is the employment of managers and administrative officers. In Australia, where data are available, managers make up 4 per cent of employees in the community services industry (both public and private), compared to an average of almost three times that rate (11 per cent) across all industries (ACOSS, 1994a). This issue was recognised in Australia by the Industry Commission (1994) which consequently recommended that governments fund the full costs of providing agreed services, including administrative overheads, training costs (for both staff and volunteers), research, program development and evaluation.

^[8]These principles can be specified in very practical forms, as is demonstrated by the New South Wales Community Services Consultation Protocol, jointly developed in that State by the Department of Community Services and the State umbrella organisation for voluntary organisations (quoted in NCOSS, 1995). As well as dealing with problems of consultation that are one-sided and not meaningful, it sets out ways of enhancing consumer involvement in both government and voluntary organisations. Mostly, it is about changing the *culture* both in government and the voluntary sector - reinforcing the need for partnership, the need to consider the best and widest possible range of advice before making decisions and to result in a better understanding by all the parties about constraints and desirable directions.

^[9]A Churchill Fellowship in Europe and the United States found competition led social service organisations to compromise quality, conceal information on innovative approaches to service delivery and move from a client service delivery focus towards a managerial administrative focus - with resources diverted from services to administrative costs (quoted in QCOSS, 1995).

^[10]Nevertheless there are still a number of common errors in the implementation of needs-based planning systems which can undermine their credibility:

- inadequate weighting is provided to the qualitative community assessments, compared to the basic population-based quantitative indicators;
- within the quantitative indicators, all components are automatically assumed to have equal weighting;
- indicators are chosen which include an element of double-counting because of the inter-related nature of many common social indicators (without deliberate assessment as to their priority);
- indicators of cost differential are confused with indicators of need (for example, geographic isolation is always assumed merely to be a need indicator without thought to the different unit costs of providing services in low population density areas);
- indicators are applied globally, instead of in relation to particular programs which can be identified as addressing specific needs; etc.