VICTORIA UNIVERSITY OF WELLINGTON

Faculty of Commerce & Administration

**GRADUATE SCHOOL OF BUSINESS &
GOVERNMENT MANAGEMENT**

CONTRACTING FOR SOCIAL AND WELFARE SERVICES

**THE CHANGING RELATIONSHIP BETWEEN
GOVERNMENT AND THE VOLUNTARY SECTOR
IN NEW ZEALAND.**

VERNA MAY SMITH

**A RESEARCH PAPER
FOR THE DEGREE OF
MASTER OF PUBLIC POLICY**

VICTORIA
UNIVERSITY OF
WELLINGTON

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o te Upoko o te Ika a Maui*

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ACKNOWLEDGEMENT

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The staff of the Graduate School of Business and Government Management, and in particular Professor Claudia Scott, have supported and challenged me as a student. To them and to my supervisor, Bob Stephens, I wish to express my sincere thanks for assisting me to complete three years of enlightening study.

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CHAPTER ONE

INTRODUCTION

Ten years ago, the provision of government funding for the social and welfare services delivered by voluntary sector service providers was a simple process. In evidence presented to the Waitangi Tribunal in support of a claim by a Charitable Trust against the actions of the New Zealand Community Funding Agency heard last year, a witness who was employed by the Department of Social Welfare from early in 1988 describes the process at that time thus:

The Department of Social Welfare has operated funding programmes for many years...these programmes were grant funding. That is there was no contracting nor reporting as presently known. Also they were operated on a Head Office Wellington decision on the recommendation of a small team (3 or 4 people based in a Regional Office Auckland). (Crown Law Office, 1994 c, 6)

This simple process has, in the last decade, been replaced by a funding relationship between government and the voluntary sector which owes its origins primarily to theory emanating from the study of the operation of private markets and the internal organisation of firms within the marketplace. Agency theory and Transaction costs analysis, along with other theoretical perspectives from the world of the private business sector, have had a substantial influence upon the restructuring of the public sector in New Zealand during the last decade and in particular have provided the theoretical basis for the transformation of the relationship between government and the voluntary sector into one of principal and agents, bound by contractual terms and a regulatory framework for the monitoring of quantity and quality of social and welfare service outputs.

THEORY

1. INTRODUCTION

The purpose of this study is to investigate the effect of the independent variable on the dependent variable. The study is designed to test the hypothesis that the independent variable has a significant effect on the dependent variable. The study is conducted in a controlled environment to ensure the validity of the results.

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Agency theory and Transaction costs analysis, in addition to highlighting the need for contracts and their monitoring, also address the question of whether internal or external markets are more cost-effective. In doing so they have set out issues and concerns which illuminate the advantages of the state as a provider of direct services to its citizens by comparison with the state as contractor of services for its citizens with other organisations.

However, this debate has been informed not only by economic theory but by social and political movements which have changed the structure of New Zealand society during that decade. Firstly, the debate over whether it is the appropriate role for the state to guarantee the welfare of all its citizens or whether this is primarily the function of the family and the voluntary endeavours of charitable citizens has influenced the relationship between government and the voluntary sector in a number of ways. Secondly, debate about the appropriate structure of government and in particular a movement to see more decentralised delivery of services has formed a key basis for change during the period. The pressures of economic recession have further heightened concerns about the ability of the state to meet the needs of all its citizens and the extent to which responsibility for social and welfare services should be shifted back to the community for fiscal rather than ideological reasons.

Finally, during this decade, the call for self determination of iwi and the provision of resources for iwi to deliver services to their own people has arisen from quite different concerns and built a parallel movement for the divestment of social services responsibility by the state to iwi.

Today, therefore, government funding for social and welfare services is delivered by eighty-three community based staff through a process which specifies clear contractual terms for its receipt, binds the voluntary sector provider to delivery of particular service types and standards of quality and quantity and is contingent upon the provision of detailed information by the provider to demonstrate compliance with the conditions of the contract

 

document. Allocations of funding to the teams of specialist contracting staff are derived from the combined use of a population-based index designed to identify social and welfare services needs and a process of local assessment of needs and service provision capacity. Only those providers in an area which meet set standards of organisational performance are eligible for funding. While they are not required to competitively tender for a contract, neither can they simply apply for one. Instead they are selected for contract negotiations.

Clearly these changes in the process of funding have had major implications both for the effectiveness with which government is able to support the delivery of voluntary sector services and for the operation of the voluntary sector providers themselves.

Some things have remained the same, however. The contribution of government funding on average still constitutes only 25% of the revenue of the providers it funds. Most providers depend upon the generation of substantial additional funding from a variety of sources including philanthropic trusts, contributions from users and voluntary individual donations of labour, money or other goods.

And the tension between government funders and providers arising from this relationship, though focused on different issues now, remains as strong. This is in part because the new relationship, which gives government considerably greater control of that voluntary sector activity which it funds, has thrown a spotlight for the first time upon the perennial issues of accountability and efficiency in meeting social and welfare service need.

This research paper examines the nature of these profound changes in the funding relationship between government and the voluntary sector, their theoretical basis and their effect on the operations of funders and service providers. In Chapter Two the voluntary sector and the services under study are defined and placed in the context of a brief history of social policy in this country and the major influences upon its development. In Chapter Three the

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relevance of writing in the area of the new public management and the new economics of institutions to the reform of the public sector and the development of funding policies for voluntary sector social and welfare services is considered.

The methodological tool at the heart of these changes is the contract for services. In Chapter Four an evaluation of contracting out from a variety of perspectives is presented. Its evolution as a funding tool and its development in tandem with the restructuring of the Department of Social Welfare is set out in Chapter Five. Finally in Chapter Six an analysis of responses to the changes in the relationship between government and the voluntary sector is undertaken.

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CHAPTER TWO

THE VOLUNTARY SECTOR AND SOCIAL CHANGE

The changing relationship between government and the voluntary sector in New Zealand has occurred against a backdrop of fundamental changes in public policy over the last decade. At the heart of these changes lies the debate about the proper role and size of the state and the degree of responsibility it holds for the welfare of its citizens. This debate is informed not only by political philosophy but by new trends in economic analysis and has resulted in the restructuring of the public sector. The current process for funding voluntary sector organisations has developed in response to the restructuring of the public sector and prevailing political philosophy but also in response to popular movements, including the movements for decentralisation and for Maori self-determination which have influenced social policy in this country, to some extent in spite of those first two powerful influences.

The Voluntary Sector

The voluntary sector is variously characterised as the non-profit sector, the charitable sector or the third sector and is clearly differentiated from public and private sectors or households. Rose (1993, 12) defines it as:

"associations of individuals or other legal entities for pursuit or promotion of some common interest or purpose other than production of goods and services for sale in the market."

That definition includes within its scope the thousands of sports, cultural and political organisations as well as welfare organisations which operate as voluntary organisations in the household sector. It also incorporates the business oriented organisations such as trade associations providing services to member companies and government sector voluntary organisations such as schools, hospitals and research based organisations.

 

Robinson has reported on the findings of an international study of non-profit organisations which identifies a formal constitution, non-governmental character, non-profit distributing, self governing, non commercial, non religious and involving volunteers as the key characteristics of this sector (Robinson 1994a). All these organisations may include paid and unpaid staff. They are independent and can be formed or closed down by choice. They are further distinguished, it is contended, by a characteristic of responsiveness and innovation, albeit to the interests of a small section of the community (Robinson 1994b).

Social and welfare voluntary sector organisations share these characteristics but are further defined by Snively as organisations "for those people who do not otherwise have sufficient access to either private or public resources, such as low income families or victims of family violence" (Snively 1994 8). She distinguishes "genuine charities" from non-profit organisations, which are beneficial for other reasons, on the basis that charities are benevolent, acquiring resources from different people than those who are the intended recipients. They may deliver services or they may provide funding for the delivery of services or other charitable purposes.

The non-profit sector as a whole has continued to expand throughout the last two decades, moving from 5.7% of non-market production value in 1983/4 to 6.1 % in 1990/91, producing goods and services to the value of \$594m in that year (Saville Smith 1994,7) and employing 1.5% of the employed workforce. It is difficult to identify the proportion of this effort which is performed by social and welfare organisations but, according to the Census of 1991, of those 18.8% of adult New Zealanders who do voluntary work (an increase of 14% during the previous intercensal period), 67% were involved in health, welfare, education or youth work.

This research paper further defines its subject as those social and welfare organisations funded by the Department of Social Welfare to deliver services.

Of six government departments involved in funding non-profit agencies in 1992/3 (Education, Justice, Internal Affairs, Health, Social Welfare and Maori Affairs) the Department is clearly the dominant funder, with \$132 million of the \$210 million voted for funding to non-profit organisations in that year. Eligibility for funding is dependent on the organisation providing services of a type set out in the Purchase Agreement between Government and the Department of Social Welfare to a standard of quality set by the Department (DSW 1994; NZCFA 1993a,b,c;1994c,d). Services to be purchased are for families in need of support (including residential care for children in need of care and protection; counselling for families and individuals including victims of crime; day and holiday programmes for young people and programmes to develop family or whanau resources such as parenting skills), services for community welfare (including women's refuge and emergency housing services; signposting, advice and advocacy services and refugee services) and services for people with disabilities including housing and vocational programmes. The Department has shown a consistently expansionary trajectory over the preceding nine years (Saville Smith, op cit, 16) although the transfer of disability funding to Vote Health in 1993/4 has slowed this pattern. In 1993/4 funding was allocated by the Department to 1300 voluntary sector organisations.

Social Policy in New Zealand

It will be useful to provide a brief history of the development of social welfare policies in New Zealand in order to place the role of the voluntary sector providers of social and welfare service in context and to illuminate current expectations of the provision of social and welfare services. Economic pressures, social philosophy and popular movements have interacted during the history of social welfare service development to produce the present structure.

A Typology of Social Services Structures

Esping Anderson (1990) has recorded the social services structures of eighteen western economies to create an index based on three types of provision - reluctant welfare states, in which self reliance and the assistance of voluntary formal or informal support is expected and strict means-testing applies to state welfare provision; conservative, with primarily insurance-based provision associated with labour force participation; and social democratic, characterised by universal, rights-based and comprehensive social service provision.

Myrdal, writing in the 1930s, had envisaged a continuing process of social policy development through three stages:

"a paternalistic conservative era, when curing the worst ills is enough; a liberal era when safeguarding against inequalities through pooling the risks is enough; and a social democratic era, when preventing the ills is attempted. The first was the period of curative social policy through private charity and public poor relief; the second a period of social insurance...and the third may be called the period of protective and co-operative social policy" (in Smith and Lipsky, 1993, 15).

It must be said that, far from Myrdal's normative vision of an underlying pattern of evolution towards a higher form of social services provision, social and economic policy development in this country has reflected a pragmatic and pluralist character which has blended aspects of each of these stages, tolerated both universalist and targeted patterns of benefit entitlement, has treated certain groups such as workers and older people with greater generosity than other needy citizens and has continued to extol the self reliance of its citizens while at times embarking upon highly interventionist roles for government (Stephens, 1987, 306). It is contended that there is a unique blend of antipodean welfarism, grounded in the desire of the state to ensure full employment or an

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equivalent living wage, which represents a middle, liberal, way between two extremes (Castles 1985).

The Royal Commission on Social Policy records the role of voluntary sector organisations from pre-European times (in which the responsibility of the group for the welfare of the individual was axiomatic) through expectations of reliance on kin and private charities by early settler governments, to the emergence of many church-based voluntary agencies in response to the series of economic depressions in the late nineteenth century, supported by fitful legislative provision for welfare, and finally to a complementary role under the high degree of collective responsibility espoused by governments from 1935 (RCSP II 779).

Many western democracies, including New Zealand, followed a path from vigorously espoused libertarianism of the nineteenth century through an expansionist period for the state under social democratic governments which took over the functions of many private agencies such as friendly societies to ensure uniform and comprehensive provision for all people in a certain category. This has been followed by a return to a high degree of economic libertarianism during the 1980s, characterised by highly targeted access to state provision and increasing reliance on voluntary formal and informal provision of services (Hood, 1990; Boston 1992; St John 1992, James 1992, Koopman Boyden, 1992).

It can be predicted that, in a new environment of economic growth, a fourth stage, characterised by a high degree of community-based formal and informal provision of services, in which individuals and organisations are better funded and supported by the state but services are planned and "governed" locally, will be synthesised out of the models of recent history.

 

Ideological Underpinnings

The two key ideological influences which underpin these social policy structures have been libertarianism and social democratic theory. The first values individual freedom above all and aspires in its social policy formulations to encourage and achieve self reliance of individuals and their families. The role of the state is a minimal one, to provide basic safeguards for the operation of the economic marketplace in which all players are free to maximise their utility. Welfare is primarily the responsibility of the family and the charitable endeavours of citizens who provide additional relief for the needy. The growth of charitable endeavours in the nineteenth century accompanied the period in which this ideology was at its height. The resurgence of libertarian approaches in the late twentieth century has been accompanied by a characteristic invocation of self sufficiency for the family, reliance upon volunteerism in social welfare services and the provision of a basic safety net of welfare assistance by the state (DSW,1991 j; St John 1992).

Social democratic ideology seeks a larger role for the state in ameliorating inequalities of opportunity through the conferring of basic social as well as civil and political rights which regulate the free operation of the economic marketplace and redistribute resources. The social welfare characteristics of such a state are universal entitlements to a broader range of social and welfare benefits, often delivered directly by the state. The reliance of citizens upon voluntary charitable welfare is much reduced. But the role of charitable organisations remains valued because of their innovative character and responsiveness to new social issues, their cost effective use of the free good of voluntary contribution and the positive benefits of enabling citizens to contribute to the well-being of others.

Economic Pressures

It is arguable that economic factors have been the most significant influence on the development of political thinking in New Zealand. The need to attract and support new immigrants and build an economic infrastructure in a period of rapid colonial development established at an early point an interventionist role for the state (Stephens, op cit 305). Repeated economic slumps heightened awareness of the need for collective action to support families in need and ensured the election of governments committed to redistributive policies and the direct provision of social services.

In New Zealand the period from 1938 to 1975 saw the most rapid development of social service provision and redistribution of income by the state. The States Services Commission characterised the role of the state, perhaps with some exaggeration (Castles, 1985; Esping Anderson 1990), during the first half of this century in the following way:

"strong expectations formed...that the State should provide comprehensive education, health and social security systems, funded from its revenue...[and] protect the viability of key industries both to assure high levels of employment and to maintain and increase the volumes of...exports upon which the country's economic well-being depended. together these expectations gave the State a high degree of involvement in New Zealander's lives...New Zealand was a shining example of a successful welfare state" (SSC, 1994, 1).

However, periods of economic decline and change arising from shifts in demographic profiles have brought with them different social policy responses. It is this factor which is most often cited as justification for the dramatic retrenchment from previous levels and types of government expenditure in recent years:

"By the early 1980s our indebtedness was considerable and increasing apace...Concerns were gathering overseas with international creditors...The Government saw the State sector... not so much as a tool for reform , but a significant part of the problem. It felt that the State cost too much, contributed too little to wealth-generating production and was a dead weight on our society" (SSC 1994,2).

Public policy response was threefold - deregulation of markets in the private sector, privatisation of state-owned trading departments and reform of the core public service. The social policy response to these concerns has followed two stages. The first, associated with the Labour Government of 1984-90 involved the attempted decentralisation and, in some cases devolution of service delivery responsibility to community-based providers of services. The second phase, which accompanied the election of the National Government in 1990, was one of increased retrenchment in government expenditure to the extent that it can be contended that the state, while remaining the primary funder for education, health and welfare services, has now emphatically departed from an earlier aim of ensuring that citizens had sufficient income to allow them to "belong and participate" (Royal Commission, 1972) and now provides only a safety net for targeted minimal support for those citizens who can demonstrate greatest need (DSW1991 j; Boston, 1992; St John, 1992). Shirley (1992) contends that New Zealand, along with Britain and USA, has now developed systems characteristic of the reluctant welfare state.

Decentralisation

Barretta-Herman (1994) considers that the decade from 1984 - 1994 has seen the emergence of the "welfare society" model of social service provision, replacing the "welfare state". In the "welfare society", a pluralism of delivery

systems, including increased family responsibility, involvement of community-based providers of services and a decentralised structure for state-funded services was seen by Barretta-Herman to have replaced the earlier comprehensive provision, by the state, of benefits and services. It should be noted that this model is not necessarily one of retrenchment from the social democratic vision that the state will ensure provision of the needs of all its citizens. It is possible to retain this vision yet to meet those needs through a variety of forms of direct and indirect service delivery. The model is likely to be associated with retrenchment from that vision where the level of government investment in social services falls to the extent that reliance is placed upon the voluntary sector to fund and provide services to replace rather than complement the activities of the state.

The New Zealand Planning Council in its review of "Social Policy Options" in 1987 recorded its advice to governments over the previous several years to shift responsibility towards individual and community responsibility and away from the state's centralist responsibility, and to achieve a shift of emphasis;

"back to informality, with the family, workplaces, voluntary societies, employers and neighbourhood groups assuming more relative importance than in the past." (NZPC 1987 21).

In this structure the state's role is not as a provider but as a supporter and funder of services. The welfare approach is replaced by a shared responsibility for caring, and the Planning Council invokes the examples of women's refuges and support groups for people with disabilities as community based approaches endowed with the "desired attributes of flexibility, participation, greater co-ordination, efficiency and effectiveness, clearer definition of need and better targeting [and] increased self reliance" which can be achieved with the necessary transfer of resources and accountability (NZPC 1987,42).

The period also saw the early development of decentralised and in some cases devolved structures for social service delivery, drawing voluntary sector agencies and iwi into a partnership with the state.

This development arose from a recognition that community based services have an ability to respond more rapidly to local needs, to influence lifestyle and the social environment in their communities more readily as well as having "the potential to reduce service delivery costs, while making all types of care more responsive to consumer needs, more accessible to disadvantaged groups and allowing a concentration on more positive action"(ibid,48). Competition between such groups should "provide greater choice, greater and more rapid responsiveness to needs" (ibid 53). Accompanied by devolution of decision-making power and accountability to these groups, this could lead to "a more diversified social policy environment...where the costs of many services were shared between the state, the community and the users" (ibid 54).

In the period from 1984 to 1989 the funding appropriated to the six government departments with major responsibility for funding voluntary sector social and welfare organisations (but excluding funding from the proceeds of Lottery) grew in inflation adjusted dollars from \$79.6 million to \$140.5 million (Saville Smith 1994) while funding for direct service delivery through education, housing and health was maintained or increased and the level of social security benefits was protected.

This period has been followed by a further increase to \$210.2 million in 1992/3 but a distancing of government departments from these voluntary sector providers through explicit agency relationships for service delivery based on non-negotiable government priorities (Robinson 1994 b, 3, SSC 1993). It has also been accompanied by significant reductions in levels of social security benefits and continued reductions in expenditure on direct service delivery, such as in the area of housing (Boston 1992).

1. The first part of the report deals with the general situation of the country and the progress of the work during the year.

2. The second part of the report deals with the results of the work during the year. It is divided into two main sections: the first section deals with the results of the work in the field of research and the second section deals with the results of the work in the field of administration.

3. The third part of the report deals with the financial situation of the institution during the year.

4. The fourth part of the report deals with the personnel situation of the institution during the year.

5. The fifth part of the report deals with the general conclusions of the work during the year.

6. The sixth part of the report deals with the general conclusions of the work during the year.

Popular movements

Both ideological and economic forces have their expression in political movements and activities which also generate social policy outcomes. In addition to those described above, the impact of interest groups and popular movements for the enhancement of opportunities for women, older people, people with disabilities and minority ethnic groups and in support of changing family structures have advocated for and obtained significant public policy developments in recent years. The impact of these movements is frequently found most immediately in those voluntary sector providers of social and welfare services. Just as the activities of charitable institutions of the nineteenth century such as the Royal New Zealand Foundation for the Blind predated the delivery of state assistance to people with a visual impairment, so in the seventies and eighties did movements such as the National Collective of Independent Womens Refuges and the Society for the Intellectually Handicapped develop their services independently of the state and significantly in advance of any public sector response to these public policy issues.

The Treaty of Waitangi

Perhaps the major public policy development occurring in the period under review, and driven more by a popular movement than by economic rationalism, was the elevation of priority for settlement of claims by iwi under the Treaty of Waitangi and the development of Government policy on a bicultural strategy for public policy, *Te Urupare Rangapu*. The former provided the potential for the development of a strong economic base for iwi through expedited settlements of long-standing Treaty claims and the latter required devolution of programme delivery to iwi and the promotion of a public service which was more responsive to the needs of Maori clients. (O'Reilly 1991, 320).

The impact of this movement upon social welfare practice in New Zealand is conveyed in the report *Puao-Te-Ata-Tu* (1986) which guided the restructuring of the Department of Social Welfare towards increased decentralisation, devolution and greater participation by the community in policy and provision of social services. Linked to this movement, the passage of the Children, Young Persons and Their Families Act in 1989 provided the legislative basis for the development, regulation and funding of family- and community-centred care for children in need of care and protection, replacing the state-run and primarily institutional services for children provided prior to that time.

These developments have occurred outside the mainstream of economic and political debate about the role of the state and voluntary sector provision but have had a fundamental impact on the current structures for social and welfare provision. Significant tension may arise in seeking to integrate these developments into the new relationship between the state and voluntary sector agencies. The different imperatives implicit in the concepts of devolution and the discipline of agency relationships and the issue of adequate resourcing of community-based service providers are at the heart of these tensions.

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CHAPTER THREE

PUBLIC SECTOR REFORM

Dramatic public sector reform accompanied other public policy initiatives in the last decade. These reforms sought to change the constraints and incentives on government managers and to achieve better value from public spending (Scott et al, 1990, 153-5). In doing so they provided the basis for the new relationship with voluntary sector social and welfare service providers.

There were three Acts which provided legislation for these changes. First, the State Owned Enterprises Act of 1986 converted the old trading departments into businesses along private sector lines. The State Sector Act of 1988 made departmental chief executives fully accountable for managing their organisations efficiently and effectively. The Public Finance Act of 1989 changed the basis of state sector financial management from a focus on inputs such as the cost of production to one on outputs - actual products - and their outcomes - the overall results achieved from the Governments point of view.

Policy advice which guided the reforms drew heavily upon "an analytical framework grounded in public choice theory, managerialism and the new economics of organisations, most notably agency theory and transaction cost analysis"(Boston 1991,2). This framework is explored below.

The New Public Management

Hood (1990) captures the essence of the new public management (or managerialism), which he describes as a "fast-moving constellation of ideas" which derives more from the practical experience of managers in the private sector than academic endeavour. There are eight key characteristics of this body of work - a strong focus on the development of management skills; a shift from input controls and procedures to quantifiable output measures and performance targets; devolution of management coupled with strong reporting and

monitoring requirements; disaggregation of the large bureaucracies into quasi-autonomous agencies; a preference for contracting out of public service provision; imitation of private sector practices such as corporate planning, performance management, investment in management information systems and marketing, and a stress on cost-cutting and improving efficiencies (ibid,9).

Hood notes the synergy which has developed between this body of practical theory and the academic analysis of bureaucracy undertaken by the public choice and institutional economics schools. Indeed it is often difficult to separate out the respective influence of these two bodies of work in the public sector reforms which have been undertaken in the last decade and which have clearly drawn upon both contributions.

The New Economics of Organisations

The work at the heart of the new economics of institutions (or the new institutional economics) is agency theory and transaction costs analysis. These explain social and economic behaviour as a series of contractual relationships. They represent a development which takes neo-classical economics into improved understanding of the role of organisations. This work has provided the theoretical background for the new contractual relationships which exist between government departments and other agencies, including voluntary sector organisations over the last decade.

Central to both bodies of theory is the assumption of "contractual" rather than "economic" man. (Contract does not refer to the legal form, necessarily, but to any agreement or economic exchange.) In contractual relationships, the "principal" enters into exchanges with the "agent", who undertakes to perform various tasks on behalf of the principal in exchange for a mutually acceptable reward (Boston 1991,4). In some respects economic analysis is the analysis of the agency relationship in the view of this school:

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"A particular task is to be accomplished. It can be organised in any of several alternative ways. Explicit or implicit contract and support apparatus are associated with each" (Williamson op cit,20).

In support, Buchanan has said that "economics comes closer to being a science of contract than a science of choice" (in Williamson, *ibid*, 29).

Both theories rely upon the behavioural assumption that individuals are rational maximisers of their own utility and that in transactions they will act opportunistically to maximise their personal advantage. Opportunism is defined as self-interest-seeking with guile (Williamson 1985,30). "This includes lying, cheating, stealing and more subtle forms of opportunism such as the deliberate withholding of information" (Gorringe, 1987 126). However behaviour is also characterised by bounded rationality - intendedly rational behaviour which is limited "by people's perceptive powers and intelligence and [by] language as a means of communication" (*ibid*,126).

Much of the analysis associated with these bodies of theory examines this risk factor in human behaviour and proposes strategies to control it. As March and Simon put it (1986,220), rational individuals are predicted to calculate their self interest in deciding whether or not to join an organisation and then whether to work or shirk. Leading proponents of agency theory are Alchian (1988) and Fama and Jensen (1983).

Transaction cost analysis develops agency theory further, exploring problems of information inadequacy in the contractual situation in depth. It seeks to explain the circumstances in which, during this century, many small forms operating in a market environment have been displaced by a few giant ones operating in a hierarchical way. The importance of minimising transaction costs, in particular through vertical or horizontal integration of firms (buying up suppliers or competitors) and the resulting introduction of authority relations

into the contractual situation is explored. Early writing on these issues by Coase (1937) has been developed by Williamson (1985) in particular.

Two types of information problems have been examined in the literature on agency theory - adverse selection and moral hazard. The former arises where either the principal, or, as is more likely, the agent, holds information which is needed by the other party in order to negotiate the contract. In the post contract situation moral hazard arises where the principal has difficulty in observing the true nature of the agent's performance without rigorous monitoring, particularly where the outcomes are affected but not completely determined by the agent's action (Arrow, 1985,37).

Williamson's analysis contributes a more thorough understanding of the problems of information asymmetry. He adds the concepts of "uncertainty" (the inability for either principals or agents to foresee or control changes in their environment), "asset specificity" (or the specific skills or resources acquired by the parties to a long term contract, and "small numbers bargaining" (or the advantage gained by an agent in a bargaining environment in which few other parties have the required assets to compete at the time of contract renewal).

A "Fundamental Transformation" occurs at the point in which two parties enter a contract. It is at this point that Williamson considers that an effective bilateral monopoly between the parties may occur and the hazards of asset specificity and small numbers bargaining are most pronounced (op cit,61). Where a contract has a degree of "asset specificity" it has a higher value than an equivalent contract available elsewhere, making it costly for either the principal or the agent to exit the contract. This may occur because a site or physical assets have been invested in for the performance of the contract, making it advantageous for the agent to continue it, even on unfavourable terms. Many voluntary sector agencies, having invested in expensive and specialist plant for their service delivery are in this position. Specialist human resources or a particular brand name developed during contract performance will provide

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2. In the second part, we shall consider the case of a single particle. The results obtained in this part are of great importance for the understanding of the physical processes involved.

3. The third part of the paper is devoted to a detailed analysis of the experimental results. It is shown that the data obtained are in good agreement with the theoretical predictions.

4. Finally, in the fourth part, we shall discuss the implications of our results for the understanding of the physical processes involved. It is concluded that the results obtained are of great importance for the understanding of the physical processes involved.

advantage, on the other hand, to the agent as they are valuable commodities to the principal and will deter competition from other suppliers who do not have such advantages. In this case bargaining will occur amongst small numbers and will not offer the principal sufficient choice to obtain the best price.

It is where opportunism interacts with information inadequacy that significant costs to the principals involved in the process of contract negotiation with their agents are generated:

"Bounded rationality means that ...contracts must always be incomplete in the sense that they cannot specify in advance all possible contingencies and appropriate adaptations to them. When people transacting under an incomplete contract are faced with unforeseen contingencies, the contracting hazards generated by opportunism become particularly acute. This generates the need for institutional arrangements which reduce the hazards of opportunism and aid in the adaptation of such contracts to changing circumstances" (Gorringe op cit, 127).

The question is then asked "What are the costs of these ?". In Williamson's view the costs include the ex ante costs of drafting, negotiating, and safeguarding an agreement. The ex post costs of a contract or agreement include the costs incurred when transactions drift out of alignment with the contract, the costs of correction of these misalignments, the costs of governance structures to which disputes are referred and the costs of bonding to effect secure commitments (Williamson, op cit, 21).

The organisation may also utilise different types of legal contract devices to reflect different expectations between principal and agent. Kay (1993) provides a clear typology. The first, the spot contract refers to normal market exchanges

which are typically one-off, with limited negotiation, standard terms and at market prices. Buying a car is a good example of this type of contract. The classical contract, on the other hand, is an explicitly negotiated, mutually committing, longer term legal agreement such as a property lease or a contract for construction works. Complex disputes resolution provisions, usually through arbitration procedures, are characteristic of this type of contract. The relational contract is an implicit agreement between the parties in a long term arrangement in which it is difficult to specify the rights and duties of each. Marriage is a good example. So is a contract for employment, whose substantive provisions are implicit rather than captured in the legal document between employer and employee.

It can be seen that transaction costs identified above can be mediated through adoption of one or other of these forms of contract. Where asset specificity and uncertainty in the transaction are slight, the spot contract prevails. Where these features are pronounced, and the "fundamental transformation" is likely to produce a trading relationship of bi-lateral monopoly, Williamson contends that the transaction is likely to be placed within the firm where the authority relations deriving from the employment contract facilitate monitoring of performance and permit ready adaptations to changing circumstances and settlement of disputes. Where asset specificity is of an intermediate degree, the trading relationship is likely to be between firms in the marketplace, bound by a classical contract with arbitration provisions to mediate the costly requirements to exit.

Williamson's analysis continues into the area of organisational structure, in which he poses that in organisations where specific knowledge relevant to the decision is widespread among different agents, decision management (generation of proposals and implementation of decisions) should be separated from decision control (choice among proposals and monitoring of performance) in order to minimise the opportunism of operational staff in influencing strategic or policy choices of the organisation (Williamson op cit 283). Fama and Jensen

have extended this analysis into the operations of non-profit organisations based on the general principle that:

"separation of the management and control of decisions contributes to the survival of any organisation where the important decision managers do not bear a substantial share of the wealth effects of their decisions - that is , any organisation where there are serious agency problems in the decision process" (Fama and Jensen 1983 301).

Agency Relationships in the Public Service

The business of government can be, and has been, seen by analysts as a series of agency relationships, incurring costs which must be identified and minimised. Boston (1991, 2) has revealed that departmental officials guiding the public sector reform programme in New Zealand, particularly those in the Treasury, based much of their policy advice to Government on the new public management and the new economics of organisations. Emanating from an article by Cameron and Duignan (1984) and confirmed in Treasury briefings to the incoming governments in 1984 and 1987, the resulting changes which have had an impact upon the funding of voluntary sector organisations are a heightened interest in various forms of contracting, the disaggregation of government departments into autonomous businesses, efforts to make those businesses more responsive to their consumers, and the introduction of the new financial management system for government departments with its emphasis on output and outcome reporting and requirement for increased transparency of the effects of funding decisions (Boston, 1991,10).

Dr Peter Bushnell, in his capacity as Economic Adviser in the Treasury and Dr Graham Scott, the Secretary to the Treasury, provided a clear exposition of the relevance of agency theory and transaction cost analysis for organisational design and government management in a presentation to a conference on

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Devolution and Accountability in 1988. They noted that the clarity of business objectives for government departments; the importance of identification of a single principal in an agency relationship; the need for monitoring of agents through high quality performance information and the adoption of incentives and sanctions to meet agreed objectives are all key strategies for reducing agency costs (Bushnell and Scott, 1988,22).

These concerns have formed the basis of provisions in the State Sector Act, supported by the Public Finance Act, to ensure that explicit agreements exist between the Minister (the Principal) and Chief Executive of a Department (the Agent) for performance of agreed objectives, as monitored by regular reports, against clear standards for quantity, quality and cost. Sanctions and incentives reside in the contract of employment between the Chief Executive and the State Services Commission for performance against the agreement and, along with the implementation of the objectives, are delegated down through the organisational structure to the other staff of the department. These are designed to overcome the following problems:

"At present, the outputs of each [government] agency are inadequately specified and...poorly assessed...conflicts exist among objectives [and] there will be difficulty in evaluating the performance of chief executives in due course...We have even further to go before we can demonstrate clear links between all or most of the outputs from our agencies and outcomes that the government, and ultimately, the electors find desirable" (ibid,25)

Williamson's work has also provided insights into the desirability of contracting out of government services. Bushnell and Scott have again noted that:

"the desirable extent of vertical integration depends on the degree of uncertainty, the specificity of the assets involved and the frequency of the transactions. Unless these considerations suggest otherwise, it is

preferable to use the incentives inherent in market processes [or contracting out] for the supply of goods and services. (ibid 23.)

Their colleague Gorringer, also a Treasury employee, is more reluctant, as is Williamson himself, to contract out:

"the contracting out of government services should be confined to circumstances where asset specificity is slight and where output quality is relatively easily monitored and enforced" (Gorringer, 1987,140).

In making this decision to contract out, devolve or delegate, Bushnell and Scott state that the interest of the agents making the delegated decisions or providing the services must be shown to be clearly aligned with the intentions of Parliament;

"In particular [the decision] is likely to involve questions about the degree to which the variety of consumer preferences can be accommodated by centralised and delegated operations, the pressures for efficiency, the equity of any rationing and, especially, the degree of accountability that exists. Parliament would still expect to be held accountable to electors for its stewardship and would need to be able to hold its agents accountable in turn" (op cit 24).

In these situations the importance of a single principal is especially reinforced as there may be confusion between the agent's accountability to the principal purchasing their service and their accountability to the clients of their services. This will be found later to cause particular difficulty for voluntary sector agencies who believe themselves, appropriately, to serve multiple principles.

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The view of Bushnell and Scott is unambiguous where the government is contracting for services:

"the use of the governments authority to validate a particular transaction means that it would be abdicating its responsibilities if it did not take that prime role [of principal]" (op cit,23).

This is not to say that the government purchaser, as principal, might not direct the agent to take account of client preferences as a performance requirement of the contract, however.

In summary this period of public sector reform resulted in the widespread introduction of contractual arrangements for provision of government-funded services and in the creation of business units of government departments or crown entities specifically for the purpose of funding or purchasing services under contract. These agencies drew heavily on private sector models for business practice in their operating procedure but were particularly careful to meet new standards for accountability and cost-effectiveness in their work.

1. Introduction

2. Theoretical Framework

3. Methodology

4. Results

5. Discussion and Conclusion

6. References

7. Appendix A: Data Collection

8. Appendix B: Statistical Analysis

9. Appendix C: Interview Transcripts

10. Appendix D: Survey Results

11. Appendix E: Ethical Approval

12. Appendix F: Researcher's Statement

13. Appendix G: Acknowledgements

CHAPTER FOUR

EVALUATION OF CONTRACTING OUT

There is now an extensive literature on the problems which arise in contracting out of government services and it is illuminated by the increasing understanding of agency relationships and transaction costs (Stewart, 1993; Howden-Chapman 1992, 1994; Boston 1994a,b; Martin, 1994). Indeed a literature review and evaluation of the policy implications of contracting out of social services was commissioned by the Department of Social Welfare in 1987 from the staff of the Sociology and Social Work Department of Victoria University of Wellington (DS&DSW, 1988) prior to the introduction of increased contracting for social services by the Government in this country. It will be useful to compare the insights of commentators in this field with the reality of contracting for social services in New Zealand.

Types of contracts for service

The literature review commissioned by the Department does not draw upon the literature from the school of institutional economics in its analysis of the advantages and disadvantages of contracting out. However, it offers a useful definition and typology of purchase of service contracting (ibid, 8). This defines the spectrum of existing agreements as those which are legally binding between a government contracting agency (with responsibility for serving clients and the resources to serve them) and a contractor (with appropriate service delivery capacity) to provide care to the clients of the agency. It differentiates them into four types - those agreements providing for full or partial reimbursement of costs and those providing major or minor grants.

Reimbursement agreements may be for payments for units of service, made on a consistent and agreed basis each year (and it is contended that these types account for 85% of social services contracting expenditure in Britain (Judge 1982) or for reimbursement of a proportion of costs of provision of service to

providers to whom total responsibility for the service needs of a particular group of clients is thereby delegated. These two types and primarily the latter form are the most common arrangement for the provision of services in New Zealand.

Grants on the other hand are non-specific for quantity and quality of service but may be substantial (in order to provide services which substitute for direct provision by the state) or small, to assist with the costs of services which are essentially community development services such as advisory services or recreational provision. These formed the basis of most funding arrangements until 1990 in this country.

This dichotomy in contractual arrangements is still reflected in the Public Finance Act of 1989. In a presentation to the Symposium on the Voluntary Sector convened in 1992 by the Institute of Policy Studies, the representative from the Treasury invited to speak on the implications of the Public Finance Act stated that the Act did not make contracts for funding a requirement. Grants in aid were still permissible vehicles for funding. But as the emphasis of the Act was on achieving greater transparency for funding decisions and demonstrable value for money, they provided a weaker vehicle to achieve this by enabling service providers to retain considerable autonomy. Neither does the Act prescribe a particular type of organisational form. This is a matter for independent decision by the funded agency. The primary concern here is whether the organisation can deliver the required quantity and quality of service and meet accountability standards which are the equivalent of other recipients of government funding such as government departments themselves (Richard Morris, 1992).

Models for service contracting

The literature review presents a typology of models for the delivery of welfare systems. Firstly, the "market" model based on competitive tendering for

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services is attributed with the ability to eliminate duplication, identify programmes gaps and drive efficiencies into individual organisations, develop flexibility and responsiveness in them and lead to higher quality services. However it is found to be compromised by the difficulty in obtaining the effects of classical market conditions in social services contracting (DS&SW, op. cit., 12). Firstly there are problems in standardising units of delivery. Services more frequently need to be customised for the client with a resultant premium placed upon continuity of service. Secondly clients of social services may have a lesser degree of competence to evaluate service quality or ability to exit the service if dissatisfied. For example a person with an intellectual disability may be unlikely to challenge the quality of residential care services received for either or both of these reasons. The absence of clear cost comparisons and data on consumer preferences may prevent or deter the purchaser from exerting controls on quality or cost through competitive purchasing and the development of an effective monopoly of service provision. In this environment, reliance is placed upon implementation of stricter regulatory controls upon the service provider and the development of a long term partnership between the state and service provider.

The "clan" model is found to replace competition between providers with harmony and solidarity amongst providers, often through over-arching or umbrella organisations formed to co-ordinate the efforts of their member agencies. It is a more frequently observed model than the market model.

A further development upon this model is one in which "exchanges among service providers and between service providers and consumers are regulated by public authorities". In this model the planning and development of social services is undertaken primarily by the state on behalf of consumers, but service provision remains the responsibility of the voluntary sector providers. Their activities are constrained by careful regulation by the state.

Finally the "public model" is one in which the state assumes responsibility for planning, funding and delivering services directly.

Quasi markets and social services contracting

Recognising the rarity of the naturally-occurring market model in social services provision, the introduction of quasi markets into this arena is an attempt by public sector reformers to imitate market conditions in social service delivery and to thereby replicate the disciplines of the market in the funding and delivery of those services, thereby deriving efficiency gains for both funders and clients of services (value for money for the former and more responsive services for the latter). In these situations the state remains the primary funder of services but the services are provided by a variety of private, voluntary and public suppliers, all operating in competition with one another through the medium of competitive tendering. Funding is allocated either by the state through a bidding process, through agents acting on behalf of consumers or to consumers directly (through vouchers for service provision).

Quasi markets differ from the real thing because the organisations delivering services are not out to maximise their profits nor are they necessarily privately owned. On the demand side the consumer does not necessarily purchase services directly with cash.

Le Grand (1990,5) makes the point that quasi-market development has drawn support from both the liberal and social democratic traditions in response to widespread concerns about the ability of monolithic state departments to deliver high-quality, responsive services for those clients with greatest needs. It is claimed for the new system that when clients are:

"Confronted with the uncooperative teacher, with the insensitive consultant...they can take their business elsewhere. This not only extends the choice of users, it gives them real power; in the battle for resources

 

the uncooperative, the insensitive and the recalcitrant will lose out, while the helpful, the considerate and the flexible will flourish" (ibid 9).

In New Zealand, the advice provided by the New Zealand Planning Council (1987) referenced in Chapter Two is aligned with this view. There has therefore been widespread introduction of this model into many areas of social service provision, in particular in education and health services and there is now considerable evaluation of its effectiveness.

Advantages of contracting out

Examining the nature of voluntary sector agencies, the review notes the key characteristics of these agencies as innovation, advocacy, guardianship of voluntaristic, particularistic or sectarian values and service delivery, and asserts that voluntary sector agencies are more likely than government ones to specialise in a particular problem area or group of people and to involve consumers in policy making. They may be the sole providers of their services or have a complementary or supplementary role with the direct service provision of government. They can be established quickly, can respond rapidly and specifically to local needs.

By contrast, the reviewers contend that "the under-utilisation of many governmental services often reflects geographical inaccessibility or the absence of a cultural and psychological mesh between the service providers and users...Questions of efficiency and effectiveness...are not totally the issue...it is more important ...for groups of people...to relate to social services which they see as specifically and solely set up to meet their particular needs" (DS&SW, op cit, 25-27). It can be deduced therefore, that voluntary sector agencies will be a popular political choice for service provision by both clients and providers of services. Certainly, in an environment of public sector cost-consciousness, services can be quickly delivered to new areas of need by the voluntary sector

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without government incurring high initial fixed costs and undesired visibility of investment.

Voluntary sector agencies are willing participants in this partnership, identifying the advantages of expansion, increased security of funding, the opportunity for more individualised service to their clients and enhanced prestige from the arrangement.

The problems of accountability

The review notes significant disadvantages of purchase of service contracting, however, to balance these attractions. In addition to the problems of monopoly described in Chapter Three, chief among these are, firstly, the problems of reduced accountability for services, perhaps delivered poorly, patchily or inequitably by a voluntary sector provider. By contrast an advantage of state-delivered services is seen to be consistency and universal coverage. As voluntary sector services are delivered at arms length from government to government clients, the problems of accountability faced by government funders of these services becomes acute.

The second issue is one of cost. Unless the full cost of service delivery is met, voluntary sector agencies are expected to subsidise the cost of service which government deems desirable to provide. If the full cost is met there is little evidence that their services will always be cheaper than the costs of direct service provision. Where considerable cross-subsidisation by the voluntary sector occurs there is also a risk of loss of transparency of government action, and therefore a loss of public accountability, in the area of investment in social and welfare service delivery.

Accountability problems can of course be addressed by monitoring and evaluation of the service providers performance and by inclusion of the value of voluntary donated time and money in the national accounts. Waring (1988, 54)

 

contends that it is possible to value these unpaid services in the costs of an imputation in the national accounts. Census data and the recent development of time use surveys in this country would provide the basis for such an imputation. Monitoring and evaluation presents more of a problem. However, not only are social services notoriously difficult to capture in performance measures but the capacity of voluntary sector providers to collect sufficient information to enable monitoring is variable and costly for both purchaser and provider of service. Kramer, writing from the American experience, states that many voluntary sector agencies are

“insufficiently bureaucratised and lack suitable information and cost control systems. Smaller and newer agencies in particular have very limited managerial capabilities. These administrative deficiencies are aggravated by typically diffuse goals and methods and the inability of human service agencies regardless of auspice to produce evidence of effectiveness, helping to sustain the widespread substitution of such outputs as the number of interviews conducted for substantive outcomes in service reporting and programme evaluation” (Kramer 1985, 423-4).

Indeed it can be contended that the level of bureaucratisation of systems required to meet acceptable monitoring requirements will always be anathema to voluntary sector providers.

Where low funding levels (or static levels in a time of growing need) and poor monitoring of service performance are both present, the risk of providers acting opportunistically to maximise payments under their contracts (for instance by prolonging service if the contract provides for a per diem rate or terminating it prematurely if the payment structure is based upon a flat fee) and selecting clients accordingly is considerable. In an environment of service monopoly this may result in serious underservicing of certain types of clients.

 

Where agencies are selected for their robust monitoring systems, this may advantage larger and more sophisticated agencies, possibly excluding smaller, newer agencies. The costs to the agencies lie in a loss of their sense of independence, flexibility to respond to the needs of their communities and increasing professionalisation of their operation. It may also result in a perceived loss of ability to advocate on behalf of their client groups against government policy.

The literature review contends that, in order to achieve a contracting strategy which minimises these problems, careful needs assessment and identification of priorities for funded service provision is crucial. The latter, though not the former, is ultimately a political decision. Once determined, careful selection and monitoring of providers is essential. It anticipates that, over time, the process of service specification through conventional cost-oriented or performance contracting will engender increased accountability amongst providers and more sophisticated monitoring, evaluation and needs assessment by the funding agency.

Other writers not included in the review have added further valuable commentary on the special features of social services contracting where no real market exists and government cannot therefore undertake arms length transactions among numbers of buyers and sellers of standard goods. These writers assert that the transactions costs of obtaining value for money are therefore high. Kettl has provided an extremely thorough analysis of these problems with a particular focus on social services contracting. Where government is the only buyer, purchasing for gaps in the current markets from only one or two suppliers, the harder government must work to substitute other mechanisms if it is more closely replicate the benefits that market competition would otherwise provide (Kettl, 1993,16).

 

The problems of information

Information inadequacy is the most acute of the problems in government becoming a "smart buyer". On the supply side, where a market doesn't exist (for instance for specialist services for the care of people with disabilities), the product, price and quality standards must be painstakingly defined and specified for the agents. On the demand side, Kettl agrees that government contractors have the added burden of rendering the requirements of legislation, usually expressed as outcomes, into measurable and purchasable units, assessing need levels and ensuring their supply in the eye of the voting public. Where the services being contracted for are social services:

"The inherently political process tends to produce goals that are complex, varied and sometimes conflicting...public goals are the product of law...in the end [public managers] are held to a more varied, often more demanding set of standards. In a contracting relationship [these] goals must be specified far more clearly, in advance and reduced to legally enforceable language" (ibid 26).

There may be poor information available about potential providers of services and problems of processing information on the results of purchasing policies. Inevitably, the purchaser may not discover the results of adverse selection until too late. Incentives and sanctions against poor performance must operate in the environment of unclear goals and in a situation where agents do not have complete controls over outcomes. Monitoring problems are especially fraught, where concerns are taken not to impose excessively high compliance costs on the agent.

"competitive contracting is relatively rare...most...contracts tend to be negotiated, not put up for bids. Goals are hard to define and results hard to measure. Indeed social service contracting is justified far more by the pragmatic and complex demands of service delivery than the cost saving

rhetoric of the competition prescription...the desire for continuity promotes a tendency to develop long term relationships with contractors that social service managers trust. Dependence becomes mutual" (ibid 171).

In such an environment the "capture" of the regulatory function by the providers themselves may occur and the independence of the service audit function of the funder may be impaired. There may be an undue reliance upon input or process measures of performance which are difficult to relate to desired government outcomes. In the non-competitive world of social services, the design of adequate output and outcome measures must be based upon a strong mutual commitment by funder and provider to identify and maintain the integrity of key information upon which evaluation may be based.

The politics of contracting out

Kettl concludes that in such an environment, to avoid a de facto autonomy on the part of agents, investment in the skills of staff with effective needs assessment and contracting abilities is critical, as is disciplined support of the contracting relationship from politicians. It is often the case that the principal /agent relationship will be fractured where contractors create direct relationships or independent political ties with policy makers and effectively outflank their administrative overseers:

"contractors are less agents than partners, helping to shape the very design of the program, free of any significant oversight and the beneficiary of state...dependence on their performance" (ibid 176).

However, the danger of over-reacting to these risks is also identified:

"Contracting for social services can easily become a fragmented, compliance centred enterprise instead of an integrated, citizen-focused

service. In the process of defining goals and measuring contract compliance the citizen can ultimately be lost" (ibid,207).

Salamon drawing on empirical observation by a number of researchers in the area of public management, has provided a valuable analysis of the development of "third party government", through contracting out of services. Salamon sees the strategy as characteristic of governments which seek to reduce direct service provision while continuing to respond to service need. He identifies five paradoxes associated with common tools of government action as a framework for further analysis. Although he draws on the experience of the United States in his framework, it has increasing relevance for our own experience, perhaps because New Zealand shares with that country the designation of "reluctant welfare state" in Esping Anderson's typology referred to above (Salamon 1981).

His work is also useful because it presents a strongly political analysis to balance the economist's individualised perspective of human motivation and behaviour. In brief Salamon identifies the conflict inherent between the political preference for indirect service delivery on the one hand and the problems associated with ensuring that indirect service delivery meets government requirements. He suggests that resort to automatic tools of government action (such as universal entitlements), which are easier to manage, fairer and less costly, will be compromised by the sacrificing of target efficiency and by the leakage of programme benefits. Similarly in choosing between the tools of cash and in-kind benefits, there is less political support for the former amongst potential suppliers of in-kind services to government but cash programmes are easier to manage and more attractive to consumers. (The desirability of cash programmes may depend on the type of service, applying more readily to programmes for food provision, for instance, than residential care). Linked to this hypothesis, the less visible the form of assistance, the less management control over its benefits, but the more popular it is to its beneficiaries. Finally, the advantages of performance standards over design regulations arise from ease

of administration but incur political opposition and resistance from administrators as a result of the subjective nature and difficulty of establishing appropriate performance criteria, especially for social and welfare services.

These paradoxes are set out in the context of

"not simply the contracting out of well defined functions...[but] the sharing of a far more basic governmental function; the exercise of discretion over the spending of Federal funds and the use of Federal authority. They thus continually place Federal officials in the uncomfortable position of being held responsible for programs they do not really control...this is all the more troublesome because [providers] are especially touchy about the exercise of Federal oversight, creating pressures to restrict accountability to narrow technical questions of fiscal control and administrative procedure and side-step more value-laden issues of program results" (ibid,260).

These problems are exacerbated where the co-ordination of multiple providers of government programmes who may be contracted individually to jointly address complex social needs (ibid 263) is necessary.

Turning to the evaluation of quasi markets, Le Grand (1990) warns that although they are designed to give clients greater choice, clients will not experience increased choice if there is only a single provider of service in their area and may even lose choice where service providers "cream off" the clients who most enhance their profit or performance margin, as described above.

With regard to value for money, Le Grand identifies, as do other commentators, the potential for greater costs to arise in setting up the infrastructure for these markets to operate efficiently. This includes the cost of devising, monitoring and enforcing contracts, the costs of advertising or capital investments incurred by competing institutions seeking to increase their market share, and the

possibility of creating an inflationary effect in the labour costs of service providers as the effect of a monopoly purchaser of labour is lost.

Howden-Chapman (1992), commenting on the proposals to create a quasi market in health care in New Zealand, suggested that significant problems of opportunism and bounded rationality can be anticipated. These include opportunism arising out of contracting for volume of work completed and proposed systems for cross-boundary referrals; information asymmetry in monitoring the work of medical specialists; the need for high levels of trust, confidentiality and continuity in the management of certain medical conditions and the need for flexibility of response to external conditions including new technology.

Reviewing the impact of the reforms after a year of operation and acknowledging the advantages of role specialisation in the purchaser-provider split model, Howden-Chapman notes the high level of transaction costs for both purchasers and providers and considers that these problems may render vertical integration more efficient than the proposed purchaser-provider split (Howden-Chapman 1994). It is important to note that she identifies some aspects of the health service which do lend themselves to contracting out. Laboratory testing, and some circumscribed primary care services which were at the time successfully contracted with iwi (such as cervical screening and diabetes testing programmes) were examples of these (Howden-Chapman 1992, 7). This reinforces the importance of identifying which criteria are used to determine whether vertical integration or contracting out is more cost-effective.

Finally, while there is an extensive literature on the strengths and weakness of agency theory and transaction cost analysis from an academic perspective (Perrow, 1986; Gorringer, 1987; Boston, 1991), Hood (1990, 12) writing from the public administration view point has provided a summary of the key risks arising from the interaction of these theories and the new public management. These are grouped into three areas - waste, malversation and catastrophe. They

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identify, among many others, the key risks for the public sector inherent in overdependence upon counterproductive technological innovation to solve information problems; repeated and costly restructuring which has been frequently observed; the weakening or absence of constitutional and professional protections against the private interests which assume new and powerful roles in government action and, finally, the dangers which deregulation, cost-cutting and misinformation may bring to the safety of public enterprises.

Thus it can be seen that an extensive body of theory and practical experience of contracting for social services was available to the Department of Social Welfare before it embarked upon the introduction of contracting for services and the restructuring of the Department into business units, one of which had the dedicated role of contracting for social and welfare services. It will be useful to set out the process and rationale for reform in the Department of Social Welfare before turning to an evaluation of the impact of this process upon the voluntary sector.

CHAPTER FIVE

THE RESTRUCTURING OF THE DEPARTMENT OF SOCIAL WELFARE

The Department of Social Welfare was one of the last of the core departments to be restructured although it was influenced by the reform process in a number of ways prior to that time. The following analysis will build the links between the theoretical approaches set out above and the process of restructuring of the Department, including the development of the structure and functions of the new Community Funding Agency. It will demonstrate the usefulness of the new economics of institutions, with significant qualifications, to the process of contracting for voluntary sector organisations and will illuminate the considerable differences between this contracting regime and that of the true quasi market in contracting for health services.

It will be observed that key aspects of the new public management approach were prominent features of the restructuring. Thus separation of the service delivery, support and policy functions of the Department, the emphasis on significant improvements in consumer focus and the search for efficiencies and cost reduction were the drivers behind the changes. Flowing from these, the transformation from input controls to output accountability; the devolution of management control as close as possible to the point of delivery; the institution of clear lines of accountability based on information-rich systems for reporting and monitoring of performance; increased contracting out of services and a strong focus on strategic and business planning were present in the restructuring.

For voluntary sector providers, the restructuring introduced more explicit government control of the nature and quality of funded services (including an attempt to control delivery of certain services such as advocacy or Foodbanks by not funding them) but importantly without actually disturbing governance arrangements in the voluntary sector. The restructuring sought to address

concerns identified by the new Community Funding Agency about adverse selection and moral hazard in the contracting process and the compliance costs relating to these problems, significant problems with asset specificity in some areas of service provision; the introduction of a model of accountability for service providers based upon the Public Finance Act output reporting requirements; the development of stronger incentives and sanctions for quality and quantity of performance by service providers; and the need to assert the pre-eminence of government as Principal. Experimentation with selective and competitive tendering to create a quasi market have all been features of the first years of operation. The insights offered by Kettl and Salamon are found to be illuminating in some of the challenges faced by the new Agency.

The documentation produced during the restructuring also shows the influence of the larger social and economic factors outlined in Chapter Two - the decreasing role of the state in direct service provision, the impact of the deregulation of the economy on the social and welfare service needs of New Zealand communities and the impact of popular movements for social change on the operation of the new Agency and its customers, voluntary sector social and welfare service providers.

The two processes of restructuring and the introduction of contracting for social services, which occurred in parallel, will be examined separately.

The First Steps

Major changes in the funding relationship between the Department of Social Welfare and voluntary sector providers predated the formal restructuring of the Department. From 1982 the Department had a Head Office-based Community Services Unit funding approximately fifteen programmes including services for people with intellectual disability, family services programmes and subsidies for homes for the elderly run by religious and welfare organisations. In addition the Community Development Unit assisted social work services to respond to new

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and changing community needs and expectations and funded innovative community development programmes including the Community Organisations Grants Scheme and Tuhonohono, providing family services to Maori. With the election of the Labour Government in 1984 considerable additional funding was made available to these units and a number of new programmes were being introduced. (CLO, 1994 a 9: 1-19)

Circular memoranda detailed the responsibility of staff for community development, including the promulgation of liaison, co-operation and co-ordination amongst organisations engaged in social welfare activities (DSW 1986 a). Guidance on Funding Assistance Programmes for Voluntary Organisations and Community Groups (DSW 1986 b) sought to ensure provision of a range of social welfare programmes through community groups so that locally appropriate options were available. An Application-based process required the organisations to give information on the need for the service, the nature of the proposed service to meet the need, the organisational structure of the service provider, financial information and proposals for review and evaluation of the service in support of their bid for funding.

The burgeoning diversity and complexity of funding programmes in the Department led to a structural review and saw the establishment, in April 1988 in each local office, of community services teams with responsibility for community development and service development with local voluntary sector organisations and some responsibility for funding decisions. The published Handbook for Community Services (DSW 1990 c,7) described the role of the community service worker as being to ensure that communities have culturally appropriate welfare services that are cost effective, well co-ordinated and where possible locally accountable. The goal of equity of resource allocation to meet priority needs, in order ultimately to reduce dependence on social welfare services by strengthening community support services is explicitly stated in the Handbook. Staff were required to liaise with services, assist them in their co-ordination and development, monitor needs for service and participate in policy

development to meet these needs, and to administer funding programmes. They were encouraged to be members of voluntary sector organisations.

The advent of the Children Young Persons and Their Families Act in 1989 required the approval of voluntary sector organisations to deliver services under the Act and the establishment of community based services for children and young people. This, in addition to the responsibility to register homes for people with disabilities under the Disabled Persons Community Welfare Act 1975, gave staff of the Department a burgeoning regulatory responsibility.

The community services structure consisted of small teams located at each of the 33 district sites (with policy and administrative support and three major grant-making programmes located at Head Office) and attached to the social services division in each of the directorates. In small offices, community services staff shared social work responsibilities with their social services colleagues. In all the service had 147.8 staff, 137.6 of whom were located in districts (DSW 1991g).

By 1991, published documentation, training guidelines and Circular memoranda, which built upon the guidance contained in the commissioned literature review (DS&SW 1988) show comprehensive guidance on social services contracting for staff of the Department and voluntary sector agencies.

Building upon these incremental changes, the design for the final restructuring of the Department was completed as a speculative piece of work by a team of eleven staff on a senior management training course in March 1991. Presented to the retiring Director General of the Department, Mr John Grant, the proposal was then enthusiastically adopted by his successor, Mr Andy Kirkland.

The rationale for the restructuring was clearly captured in the documentation:

"...the Department as it is currently structured is becoming difficult to manage as a single business, it is struggling to meet the Government's requirements for delivery of welfare services, its Vote has been subject to drift and blow-out over the past decade, the organisation is subject to increasing stress, managers at all levels are overstretched and accountability lines for delivery of outputs are at best muddled" (DSW 1991a).

The solution, to create three separate business units within the overall enterprise, but not entirely disaggregated as had occurred in other Departments, would provide:

"clear management focus on the application of resources to closely related outputs...clear lines of accountability for delivery of outputs and...an opportunity for development of an organisational structure and cultures which are most effective for the individual businesses" (ibid).

In the cost benefit review which was included in the paper, further benefits were identified in the freedom of managers to focus on more manageable goals, clearer business goals and clearer standards for the production of outputs, the freedom to vary service delivery structures according to need and to size the businesses more accurately, thereby reducing overheads, to locate them closer to their client base, in cheaper accommodation, with flatter structures and improved administrative control of non departmental funding (ibid,9).

The New Department

In the new structure, the New Zealand Income Support Service (NZISS) provides income support to 850,000 New Zealanders, the New Zealand Children and Young Persons Service (NZCYPS) works with families to protect children, manage young offenders and provide care and security for children in need, and the New Zealand Community Funding Agency (NZCFA) allocates funding to community based social and welfare services for services to families in need of support, community welfare and people with disabilities. The units are serviced by three small support businesses, the corporate office, Tritec the computer operations service and the Social Policy Agency (SPA), providing policy advice to government.

Significantly, the separation of NZCYPS from NZCFA was justified on the grounds that "other social service outputs and sub outputs [than the statutory function of the care and protection of children and young people] could increasingly be met indirectly by funding providers of services. This would afford an opportunity to develop a separation between direct and indirect service delivery, the Government role focusing on the latter, by providing funding for the former in the non-Government sector." (ibid,3) However, the role of community development was explicitly excluded for the new Community Funding Agency as "no longer a legitimate activity of the department [as the] general functions of the department as set out in s4 of the old Department of Social Welfare Act 1971 (which included '[encouraging] co-operation and co-ordination amongst...[agencies]...engaged in social welfare activities') have not been replicated in current legislation" (DSW 1991c,4).

The New Zealand Community Funding Agency

The development of the proposal to establish the Community Funding Agency underwent several stages. Initially, a structure very similar to that of the current Regional Health Authorities was proposed. In early August 1991 the Project

Team convened to implement the proposal for the Funding Agency was advised that the ideal structure was that of a General Manager and national processing office for the receipt and assessment of applications, letting of contracts, payment and monitoring of contracts. A central staff of seven people including a lawyer and accountant was envisaged. The additional process of approval of agencies under regulations set down by the Disabled Persons Community Welfare Act and the Children, Young Persons and Their Families Act was to be centrally directed by a staff of two with the assistance of regional agents. The staff were to have "skills and experience in systems, accounts, hard-nosed evaluation while sensitive and caring" (DSW 1991b,2) The concept was for "centralised, standardised systems, minimal discretion" (DSW 1991c,2).

This proposed model was later partially amended whereby the Outreach staff sent from Head Office to approve and register agencies under the above Acts would also have responsibility to negotiate some local contracts and to assess service needs. The option of regionally based outreach workers was not recommended because of

"insufficient business of the agency to warrant maintaining full time regional staff, isolation, heavy travel demands, the danger of creating unrealistic expectations and the advantages of the consistency and cost efficiency of a central office" (DSW 1991 f).

At that time the mission of the Agency was defined somewhat baldly "to achieve Government's stated outcomes by administering Crown funding to voluntary sector service providers and administering approvals and registration regulations" (ibid,1). By September the business of the Agency was:

"To openly and fairly allocate and deliver funding and support to community organisations in accordance with the policies of Government so that New Zealanders have access to a range of appropriate services and that there is a choice of providers" (DSW 1991e,1).

To complement this more collaborative picture of the mission of the new Funding Agency, the staffing structure was revised to include eight "outposts" with mobile staff for all front-line service delivery and a central team for policy and procedural advice, allocation of budgets, support services, audit appeals, public relations and those contracts held with national organisations. The estimated appropriation for non-departmental outputs for Fiscal 1992 was \$172,409,000, including the proposed transfer of community housing programme funding and the budget for the Commissioner for Children.

By early 1992, a General Manager, Ann Clark, had been appointed for the new Agency. This brought further changes and the Agency's mission was finally confirmed as being:

"To allocate and deliver funding and service to community organisations in accordance with the policies of Government effectively and efficiently so that New Zealanders have access to a range of appropriate services and that there is a choice of providers" (DSW 1992 a).

In its guide to staff at the commencement of its first year of operations, the Agency provided the context for its first round of community consultation on service need:

"Community based providers have come under increasing pressure. The demands of public sector reform has increased the accountability of those groups in receipt of funds and required the alignment of their service provision with departmental outputs. Containment of public sector service delivery had often increased the work demands of community based organisations providing social services. Economic restructuring has also generated more demand for social services in communities and amongst populations that had made few demands in the past. Recent attention on the rights of Maori to develop their own organisational structure and social services delivery have increased the

number of organisations providing social services. This together with the general trend towards localised service provision has resulted in a proliferation of service provider groups competing for funding resources. It is in the context of increased competition for resources that a strategic services planning process can make a positive contribution to effective and equitable resource allocation" (DSW, 1992b,2).

The Contracting Process

The Department of Social Welfare started issuing some of its grant funding under contract in 1990. In launching this new development, the Guide approved by the Social Services Commission in August 1989 and issued by the Department the following year (DSW 1990 a) stated that the new approach sought to address problems of uncertainty about funding for providers, capture of funding by some types of providers and lack of clarity of mutually agreed objectives between the Department and providers which should be based on proven needs and consumers input. The innovation sought to develop a fairer more open and culturally appropriate means of reaching funding agreements, which would encourage greater co-operation and flexibility in the development and provision of social services (ibid,4). A range of contractual arrangements was available to staff depending on the materiality of the funding and whether it was full funding for a programme or partial funding. For instance, where only partial contribution to costs was provided, guidance indicated that a "letter of grant" should be issued. This is a document which merely noted the decision to provide funding and the purpose for the funding, and did not bind the organisation to a large number of contractual terms.

It should also be noted that the Principles and Guidelines for the new process of contracting were developed by a Review Team which included a representative of iwi and a member from each of the three umbrella agencies for voluntary sector social and welfare service providers as well as six Departmental staff. The document and training materials reflected the strongly partnership-oriented foundation of the new approach.

Training provided to support this new initiative (DSW 1990 b) endeavoured to ensure that staff were fully competent to represent and undertake the department's requirements for contracting for funding though not to draft or issue contracts. Instead their role was to brief legal officers of the Department to do so following the conclusion of discussions with the providers.

The skills to be assimilated during the training were those of needs assessment, consultation, specification of programme outcome, agency selection, negotiation, ability to design goals, objectives, standards, action plans, target populations, measurement criteria, monitoring strategies, funding level and evaluation methods for the service under contract and ability to negotiate a variety of agreements on contractual relations including accounting, arbitration, subcontracting and termination conditions.

With regard to the selection of providers, staff were advised that Treasury required provision of departmental outputs in the most cost effective and efficient manner as possible and that where competitive tendering would achieve this without threatening service quality, this approach should be followed. This contradicts the published guide (perhaps to minimise adverse reaction from voluntary sector providers to such a strategy) which states that a "tendering" system based on price alone would not be used (DSW 1990a 14) and encourages co-operation between competing providers groups in making applications for funding.

Although a formal system of approval applied only to those organisations operating under the provisions of the Disabled Persons Community Welfare Act or the Children Young Persons and Their Families Act, the process of contracting required a provider to satisfy non-negotiable criteria set by the Department relating to their completion of needs assessment for the service to be offered, the cultural appropriateness and client-focused nature of the service and an extensive set of good employer standards for paid staff (volunteers were not mentioned in the departmental guide) which replicated many of those provided under the State Sector Act and included assurances that adequate pay, access to Trade Unions, provision of adequate training and supervision, entitlement to salary adjustments and employee privacy and welfare provisions were in place. Providers who failed to meet these standards could have their application for funding declined. (DSW,1990b). In explanation, the public guide stated that:

"It is considered that this obligation [to be a good employer] should be taken into account by service providers funded by the Department. When contracting out social services therefore, the department needs to provide adequate funding and guidance to ensure service providers are able to meet this obligation. The Department should not consider contracting more cost effective than direct delivery of services because of lower standards of pay and working conditions in the non-government sector. This is an issue which particularly affects the status of women in the workforce as the majority of caregivers are women." (DSW 1990a,15)

Contracts could also include provision for resources to be provided in kind by the Department such as cars, accommodation or access to training programmes.

The process of monitoring was also considered to be a partnership between the Department and the providers. Training material stresses that the provider should be actively involved in the process to "ensure ownership of any problems

which may occur [and] reduce the "Big Brother" perception which may be directed at the Department" (DSW 1990 b). In particular trainees were advised that the aim of monitoring was flexibility involving a degree of risk-taking, not to "catch out", "interrogate" or "confirm a prophecy of doom" but rather to assist, support, provide opportunity for review/growth and facilitate the eventual success of the programme" (ibid.). The training materials include detailed advice on avoidance of conflict and positive approaches to resolution of disagreement and conflict.

The need to avoid high cost of compliance was also clearly identified. Evaluation only of services receiving "considerable" amounts of money was required (ibid). "Considerable" was not defined. The process of monitoring was recognised as a "political" one which could be "threatening and disruptive" in which care should be taken to "involve the service/agency in the evaluation process, minimise disruption and anxieties" (ibid).

Contracting practice continued to gain momentum and the Circular Memorandum issued in September 1991 (DSW 1991) confirmed that all funding must be issued under contract, identifying a hierarchy of simple to detailed contracts and the funding programmes for which each type was appropriate. At this point staff were able to prepare much of the contract documentation from models provided with the Circular guidance, with oversight from legal advisers in the Department.

The distinction between service purchase contracts and grants in aid to assist in the provision of a service was clearly laid out by the Circular, which also confirmed the evolution of the Department's role away from community development to a focus on the "key activities of planning, service development, approvals, funding and information provision within specified output areas" (ibid,1)

 

It is interesting to review the notes of a seminar held with representatives of the voluntary sector in June of that year to review issues relating to contracting. The notes report the debate over the changing nature of the relationship implied between the parties in the contract and report attempts to assert the concept of partnership rather than "money for services". They list concerns such as the multiplicity of government agencies involved in funding a particular provider of social and welfare services and the inconsistency of approach taken by different departments; the lack of skills of staff in negotiation and the need for compliance costs to be proportional to the size of the agency and the level of funding. Sector representatives clearly believed that the "State is withdrawing from the provision of social services" and recognised that the choices about allocation of funding had to be consistent with a politically approved social policy agenda (NZCOSS 1991). An additional concern was that the increasing specificity of the contract focused the organisation on providing outputs rather than seeking outcomes and reduced the flexibility of the organisation to respond to needs in different and less measurable ways.

Some of these concerns were to be resolved through the new methods introduced by the Community Funding Agency and may have been influential in the design of the Agency. The enhanced negotiation skills developed by Community Funding Agency staff, more careful control of compliance costs and more consistent principles and practices for allocation of funding are examples. Other concerns, however, reflect the inexorable move to a principal/agent relationship and the narrowing of focus by each government funder (resulting from increased specification of outputs) which has generated some of the co-ordination problems for multiply-funded providers which persist today.

Contracting in the New Agency

With the advent of the New Zealand Community Funding Agency, substantial changes occurred in the contracting process. NZCFA now has 137 staff of which 83 are Outreach Workers working in and with their communities. The

General Manager in her evidence to the Waitangi Tribunal delivered in February this year stated that, in contemplating the appropriate design for the Agency's work she was concerned to give the staff

“responsibility for a specific geographical area and all the functions that NZCFA were to carry out...considerable delegated authority...technology to generate contracts on the spot [and] access to mobile communications” (CLO 1994 a,2:3)

The Agency identifies and prioritises needs for social and welfare services and accredits or approves all providers of social and welfare services prior to contracting with them for delivery of services. The Agency had a budget for the purchase of Non Departmental Outputs of \$92.8 million in the fiscal year 1994/5. This budget is utilised to make a contribution to the costs of some 1300 providers of services. On average the contribution represents 25 % of the budget of the service provider but the range is 5% to 100%.

The budget is allocated to teams on the basis of submissions or Services Plans from those teams about social and welfare service needs in their community, developed in consultation with service providers and other informants about social and welfare service need, including consumers of those services. Commenting on previous problems of equity of access to funding, the General Manager has identified

“the strong relationship between volume of funding and the strength of the former DSW community services team, which bore no relationship to the needs of the community. The other issue... was the ability and ease with which national groups, predominantly Pakeha groups, could make their case to Government and get special treatment” (ibid,2:11)

In the new Agency, Services Plans are evaluated against an index of social and welfare services needs which provides a rating of need for all communities in New Zealand. The index is developed on the basis of census data which is correlated with social and welfare services need - that is the incidence of unemployment, dependence on income support, single parenthood, Maori and Pacific Island population and housing need - and a factor for degree of isolation from services. As such the index can only act as a starting point, indicating areas of likely concentration of generalised need for services. Its importance is to demonstrate this need relative to other areas and thereby to determine the share of the overall budget appropriate for each area. The detailed assessment of need for particular services in a particular area is achieved by the more comprehensive Team-based Services Plan development. The process of allocation seeks to balance both national and local indicators of need for each community and take into account available opportunities for purchase of service provision.

All funding is provided under contract and only to providers who are approved against standards set by the Agency. Decisions to fund a particular provider are made collectively by an Area Team of the Agency and in response to a proposal for service delivery provided, on invitation by the Agency, by the organisation. There is no competitive tendering process for funding. Again the General Manager stated that it was

“clear to me that a “pure” contracting model would lose the volunteer contribution that New Zealand social and welfare services rely on. I rejected therefore the notion of tightly specifying the services to be delivered and then running competitive tenders for that work” (ibid,2:4)

The contract is a standard document in plain English, three pages in length, generally for a year in duration with no promise of renewal (NZCFA 1994 b). It is issued by the Outreach Worker, who has authority to sign a contract for up to

\$100,000, higher amounts being approved by more senior staff. The contract negotiations include specification of the outputs to be provided in each service type under the contract, the quantity and quality standards to which they are to be provided, the reporting requirements for performance and the schedule of payments due, which are contingent upon the organisation retaining its approval from the Agency to operate and performance of the other contract conditions. The amount of funding bears no relationship to the full cost of service but the quantity of outputs specified in the contract identifies the full amount of service provision of that particular type by the organisation, and the organisation is required under the contract to deliver that full amount of service.

The approval process is undertaken with each organisation annually and is a comprehensive review of the organisational structure and the propriety and appropriateness of its processes for service delivery. There are several levels of standards covering different types of services, the most detailed being those for services having residential care of a client and the least being those for one-off holiday programmes.

Government Expectations for Social Services Contracting

The new Agency had to conform to machinery of government requirements in its design and development of relationships with the voluntary sector, and in particular those laid down in the State Sector Act 1986 and the Public Finance Act as amended in 1992. Its General Manager is bound through her Performance Agreement to fulfil the requirements of the Purchase Agreement between the Minister of Social Welfare and the Director General of the Department of Social Welfare relevant to the Agency. This Agreement specifies the Outcomes - or the desired results of Ministerial interventions - for which the Department is responsible. In the case of the Agency these are to ensure that the government funding of social and welfare services provided by the voluntary sector is used effectively and that the voluntary sector services funded by Government are accessible and appropriate to the needs of their client groups.

(DSW 1994, 910) The Agreement specifies the functions of the Agency as contracting, approvals, services planning and the expenditure of funds from Non Departmental Output Classes to agreed quality and quantity standards.

Services purchased under Non-Departmental Classes of Outputs are determined by Government and the current structure of the Output Class is designed in response to requirements set out by the Treasury in 1993 (Treasury 1993/7) to improve the congruence of outputs with the services they purchase and the performance attributes of these services. In the advice of Audit New Zealand to the Agency in 1994 the need to "continue implementing the output contracting concept including a better definition of the output to be delivered by community organisations and performance measures to hold them accountable for delivery" (Audit New Zealand 1994,7) was confirmed.

In summary, the General Manager has stated that she is not

"directly accountable to the community but to the taxpayer through government. I do accept though that there is reciprocity in NZCFA's relationship with the community" (CLO 1994 a 2:3)

On a more general level the systems described above need to be set in the context of government expectations for contracting with voluntary sector organisations. An explicit presentation of these exists in the States Services Commission resource kit on contracting for social services published in 1993 for the use of government departments and providers. The kit confirms the reasons for the expansion of contracting for publicly funded services - primarily that the separation of policy or regulatory functions from operational ones necessitates increased contracting for service delivery; there are clear advantages in efficiency and effectiveness to be gained from contractual processes which create the need to specify outputs, to manage risks and obtain contestability of service delivery; and the increasing delegation of authority to public sector managers to obtain service delivery through contracting out. (SSC, 1992,2).

The kit sets out government's expectations for contracting for social services, distinguishing the customary arrangements for funding not for profit and voluntary sector agencies ("through annual grants with a very general understanding...of the purpose for the funding and the results expected") from formal contracting and stating that the former customary arrangements are no longer appropriate in terms of the accountabilities required within the reformed state sector. (ibid, 2).

The authors clear that the theoretical advantages of contracting - full description of the service to be provided, a number of willing and able providers and free and open competition between providers to make offers to the purchaser - "either do not exist, are in an inappropriate form or are as yet not well developed" where contracting for social services (ibid,7).

In particular they acknowledge conflicts between public sector rules regulating expenditure of public funds and best contracting practice; difficulties in specifying service delivery requirements especially where these include intangible elements such as cultural sensitivity; and a lack of real choice in service provider, especially in situations of low demand.

In addition they acknowledge that compliance with public sector budgeting and appropriation processes both prevent the development of close long term working relationships between purchaser and provider which would be most desirable and impose risks, costs of compliance and undue procedural requirements for the provider (for instance to undertake consultation) which would not exist in a commercial environment.

Finally, the document acknowledges the variation within the non-profit organisations delivering social services in terms of their ability to develop sophisticated management and accounting systems to support a contracting relationship. A degree of support and sharing of resources between purchaser and provider and the development of a close working relationship between the

representatives of purchasing organisations and providers is suggested as a way of assisting in the adjustment to the new regime.

The document effectively captures many of the salient issues to be considered in contracting for social services and, if it gains wide currency in government departments undertaking the funding of non-profit social service organisations, will create an improved climate of understanding between purchaser and provider. Prepared after the launch of the Community Funding Agency and in consultation with the staff of that Agency, the document has drawn on this experience and the model of funding provided by the Agency in its advice.

CHAPTER SIX

RESPONSES TO THE RESTRUCTURING

It is nearly three years since the restructuring of the Department of Social Welfare and the introduction of new planning, funding and regulatory methodologies for voluntary sector social and welfare services. Responses to the changes have been expressed by the voluntary sector, through regular commentary in the publications of umbrella agencies such as Signpost, (NZCOSS/NZCCSS 1994), through individual feedback given by organisations directly to the Community Funding Agency (New Zealand Federation of Voluntary Welfare Organisations 1994; MG NZ 1994, NZCCS Dunedin 1994) and through small surveys of the views of organisations on the new contracting methodology. These responses have also frequently been advised directly to the media (Daily Post 1994) and to Ministers.

A further useful source of information on the impact of the restructuring is contained in evidence given by witnesses in a claim made to the Waitangi Tribunal by Te Whanau O Waipareira, a pan-Maori social service agency operating in West Auckland, against the New Zealand Community Funding Agency in 1994. The claim is based upon the concern of Te Whanau that the level of funding provided by the Agency to Te Whanau was discriminatory and inadequate to enable Te Whanau to perform its functions under the Treaty of Waitangi. Putting aside the central claim for a moment, the evidence of witnesses for the Crown and Te Whanau has included reference to many of the features of the restructuring which are identified as concerns below (CLO 1994a,b,c).

Finally, Audit New Zealand has monitored the structure and systems of the Agency on behalf of Government from its inception. The responses of the voluntary sector are considered first.

Responses to the changes differ amongst those commentators who are at different stages in the continuum of organisational maturity or with different funding base and service orientation. This diversity characterises the sector (Koopman Boyden 1992; NZFVWO 1993; Malcolm, 1991; Saville Smith 1994; Smith and Lipsky, 1993). However, there are key themes which recur in the assessment of the changes to date.

There is consistent endorsement of the success of the role of the community-based outreach worker as a more accessible, mobile and supportive representative of the Community Funding Agency than officers of the department in its previous structure. Evidence to the Tribunal notes that there are now four layers of hierarchy between these staff and the General Manager of the Agency by comparison with seventeen in the previous structure (CLO 1994c,90) It also notes that the new role is no longer a social work occupational class and contends that it is a "straight business one, not a social work relationship or a partnership one" (ibid,81) Frequent questions about the workload of Agency staff are raised as a result of difficulties in contacting them, however. (NZFVWO 1993)

The simplicity of the contract document itself, which minimises the need for legal advice to be purchased by voluntary sector groups, and the value of the process of approval both for quality control and public validation of standards of quality within an organisation are acknowledged.

There has been some appreciation of the value of increased contestability in the sector and the move from political to technical control of the process of funding (MGNZ, 1994) which reduces the ability of larger groups or those with more effective lobbying resources to monopolise resources. This is counteracted frequently however by the frustration expressed by those providers whose previously ready access to funding is reduced. There has also been an acknowledgement, again in evidence to the Tribunal, that funding flows more rapidly to groups under the new structure. "Under... pre-CFA processes it was

 

not often before halfway through the year that all that [funding] was finalised” (CLO 1994 c 86)

However, much of the commentary has reflected the concerns of voluntary sector agencies at the nature and extent of their changing relationship with government.

Firstly, the move from grant funding to contracting for services, and the resultant specification of services to be delivered, has been interpreted as an intrusion into the independence of the organisation to identify and deliver the services which its community needs (Robinson 1994 b, 4) and a dilution of the responsiveness of the sector to community needs. Thus voluntary sector organisations perceive contracts for service to render them “agents of the state” rather than independent innovators.

Related to this issue is the concern that a new focus on short term service delivery objectives is generated by the new processes, at the cost of longer term planning of community development initiatives and other valued roles of voluntary sector of organisations.

Secondly it is contended that the tighter definition and increased clarification of government departmental boundaries for funding responsibilities has left gaps in the identification of needs and the planning of services, especially at the interface of health, welfare and disability services.(ibid 5)

Related to this concern is the view that the services planning undertaken by the Community Funding Agency each year is insufficiently broad based or genuinely consultative to ensure the provision of funding to meet the needs of the community. In evidence given to the Waitangi Tribunal witnesses for Te Whanau sought dual or even primary accountability at the community level for funding decisions. “It is extremely important that communities, and particularly Maori, have the opportunity themselves to define the priorities in a planning

process in which they are involved...[and]the ultimate determination of where that limited fund is going to go" (CLO 1994 b 116).

Thirdly, the explicit exclusion of funding for community development or advocacy activities by voluntary sector organisations and the reduction in the number and powers of consultative fora in which voluntary sector organisations had a direct advisory role with government departments has been seen as a rejection of earlier commitments to a partnership between the state and the voluntary sector in the provision of social and welfare services. It is also seen as a source of tension between the organisation and its community as expectations by the community of this developmental role by their local agencies in response to their community needs is not being seen to be fulfilled.

Fourthly, the new processes for contracting and monitoring of services and approval of agencies have been assessed as expensive in compliance costs for both the organisations and the Community Funding Agency. However, evidence given to the Tribunal noted the paucity of evaluation of outcomes of funding decisions and that the Agency "is unable to demonstrate net social benefit to the community...in respect of its purchasing arrangements" (CLO 1994 b,10)

It is anticipated that a growing professionalisation and amalgamation of organisations will need to occur in order to respond most efficiently to these new requirements and that this will be achieved at the cost of organisational responsiveness and variety.

Fifthly, uncertainty of funding availability across financial years and interruptions of funding stream, combined with low levels of funding, are difficult for an agency with few reserves to sustain. Funding levels which are set independently of the actual cost of the service but which are conditional upon delivery of the maximum capacity of service are said to have heightened the inequities in the relationship between funder and provider and sharpened the

focus on an exploitative reliance of government upon fragile voluntary sector service provision.

An additional source of frustration is the variability in level of funding for different service types and the ability of some large scale providers to achieve full funding of some services.

Sixthly, opposition has been voiced to the shift of funding from traditional to new (and in particular Maori and Pacific Island) providers and from urban to rural areas. Both directions have occurred in response to improved systems for identification of patterns of social and welfare service need nationally and more effective targeting of resources on priority groups and areas.

In evidence to the Waitangi Tribunal, witnesses for Te Whanau have also noted that though the shift from a focus on inputs costs (more staff, a car, an office) is beneficial (ibid,98), the focus on outputs is still too narrow and deters providers from the development of holistic programmes for social services. "Quality, holistic and responsive services cannot be achieved if the very narrow focus of the Community Funding Agency is maintained" (CLO 1994b,7).

Finally, frustration has been expressed at the rapid pace of change in planning, contracting, monitoring and regulatory processes during the first three years of the Community Funding Agency and the costs in training and reorganisation of information systems which these have incurred amongst organisations.

At a more fundamental level and unrelated to the process of contracting itself, there has been widespread opposition expressed to the increasing reliance of the state on voluntary sector activity and charitable donations of labour and finance rather than direct service provision and to the impact of government policies such as welfare benefit reductions on the workload of voluntary sector agencies.

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Responses of Government

Audit New Zealand has provided an annual assessment of the restructured funding arrangements have from the first year of operation of the new Agency and have been positive in terms of value to Government for invested resources. Also called as witnesses to the Waitangi Tribunal, evidence was presented by the Office as follows:

“We are conscious that the business of the Agency is essentially as a rationer of government monies to the community...Those funded will expect it as their due, those from whom funding is withdrawn will consider themselves aggrieved...in our opinion the processes being developed are highly innovative and will prove very effective in ensuring that the government secures from community organisations the optimum level of service for the funding available” (CLO 1994 a, 5:3)

Government ministers have been equally positive that the Agency has developed innovative solutions to problems of accountability and value for money for the funding provided. In a speech to the New Zealand Federation of Voluntary Welfare Organisations Annual General Meeting on 21 September 1994, Hon Peter Gresham, the Minister of Social Welfare, asserted that:

“The benefits to Government of this local focus on planning and contracting for services are so significant that the benefits usually outweigh any costs that might be incurred” (Gresham, 1994,4).

International Experience

International experience indicates that developments in this country are following a predictable pattern. It will be useful to consider briefly the issues

which have been raised about similar funding regimes overseas, which have been subject to more extensive evaluation.

Smith and Lipsky (1993) in a comprehensive study of contracting relationships between the state and voluntary sector agencies in the United States describe a history of expansion of government investment in voluntary sector provision of social and welfare services, accompanied by a rigorous contractual and regulatory regime which, in their view effectively rendered large traditional voluntary sector organisations "agents of the state" and reduced their capacity to play a separate, independent role in their communities. In their view the states have developed new organisations in direct response to government funding rather than community-based need; engendered an over-reliance on state funding and therefore a vulnerability to changing political commitment to levels of investment; generated a tendency for amalgamation of organisations; heightened the levels of professionalism in service delivery and organisational management required in order to comply with the processes and quality standards which accompanied funding; replaced volunteers in service delivery roles with paid staff; directed organisational accountability away from community-generated standards to government-set ones; shifted power away from governing boards to directors of organisations; increased administrative costs; resulted in the redefinition of organisational mission; increased the targeting of their services; demonstrated increasing convergence with norms and practices of government organisations; limited the advocacy role of organisations but generated increased political activism by the organisation in support of their new mission.

These processes are more noticeable, and generate more tension, in the newer agencies, whose origins are rooted in self-help, peer support and political action, than in the older agencies who, through the process of organisational maturation, had already established professional structures and standards.

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“In the process of responding to the demands of contracting, non-profit organisations often re-orient themselves from governance by the people who represent their founding orientations (which are often narrow) to being run by representatives of the broader community - businesses, professional occupations, city council and [government]” (ibid,96).

However the obverse of this situation is the increasing reliance of government upon particular organisations for some types of social and welfare service. While this may impose a relationship of mutual dependence, and may be mediated through umbrella agencies formed to represent their members interests in this relationship, it is government which dominates the relationship.

In their analysis of contracting in human services Smith and Lipsky identify several non-market features of the relationship. Far from an open market place in which buyers and sellers freely enter into spot contracts, governments must nurture non-profits, non-profits lobby governments to affect demand and contract continuity is expected. Smith and Lipsky conclude that the motivation for the expansion of contracting with voluntary sector providers (that services will be cheaper; provide greater flexibility; and will disguise growth in government funding for social services) is ultimately delusionary but that other gains from the relationship displace these concerns. These gains include the more business-like orientation of voluntary sector organisations, a better balance between responsiveness and fairness where a service must be targeted and internalisation and development of quality assurance systems.

Kettl confirms that in the social services arena is “less a competitive market than a negotiated network. Neither side...wants competition. For the contractors dependent on government contracts for a large part of their income, competition is a threat to be avoided...for the ...government, competition and the potential for changing contractors threatens the consistency of the programs... The desire for continuity promotes a tendency to develop long term relationships with

contractors that social service managers know and trust. Dependence becomes mutual". (Kettl, 1993, 172)

Bernstein (1991) has surveyed seventeen social and welfare service providers in the New York Metropolitan area, who receive funding under contract to values ranging from 9% to 99% of their total budgets. Managers of these services assess contracting and, in particular compliance auditing as a game which they play with the government funding organisation in a continual attempt to preserve the autonomy and integrity of their programmes. The "game" is documented to include deliberate misrepresentation of reports for the funder, avoidance of regulatory standards, the use of threat of withdrawal of services in the sure knowledge that the funder cannot accommodate such a threat, and chronic frustration with the lack of skill or understanding by staff of the funder about the social welfare services being provided. While the survey does not incorporate the experiences of funder agencies, if its findings are added to those reports of funder discomfort set out in the work of Kettl and Smith and Lipsky reported above, these reviews indicate a contracting relationship which has reached a level of considerable dysfunction.

In Australia an Industry Commission Review of Charitable Organisations (IC, 1994) has completed its draft report and made a number of recommendations for moving towards a structure with some similarities to that of New Zealand for funding such organisations. Specifically, the Draft Report recommends improved consistency of funding strategies across states, a move to output based funding and selective tendering which may include selection of for-profit agencies. A single funding management board contracting on behalf of several departments of state is considered, as is a recommendation that charities themselves introduce similar co-ordination mechanisms or networks for their interface with government.

Suggested improvements in the tax status of charities and fund-raising legislation are intended to increase the non-government sources of funding for

charities. A system of quality management is proposed to replace programme regulation and inspection and would make accreditation under an approved quality standard a condition of funding. A review of the role of peak or umbrella organisations to specify the outputs which states wished to buy from them and to ensure an appropriate separation between their service delivery role and that of advocacy or social policy advice is proposed.

In the United Kingdom, dramatic change has occurred in the funding and provision of social and welfare services following the publication of the Griffith Report of 1988 and the subsequent White paper, *Caring For People* (HMSO 1989). This was followed by an Efficiency Scrutiny of Government Funding of the Voluntary Sector (Home Office 1990) which, like the Australian review, found the need for increased clarity of government objectives in their funding decisions, a higher level of accountability for efficiency and effectiveness from voluntary organisations, a focus on outputs of programmes rather than procedural specification, improved performance by funders against benchmark standards for processing applications and longer term funding arrangements wherever possible.

From April 1993, a quasi market in social services care has been created through establishing local authority social service departments as purchasers of care on behalf of their clients (replacing their previous service provision role) and planners, regulators and assessors of service provision. Maximum use of voluntary sector and private care services is encouraged. Social work staff are care managers for individual clients and purchase a package of service for them from a range of potential providers who operate in a competitive market for personal social services. The departments also operate a consumer complaints service. Funding for voluntary sector organisations is under contract (though advocacy, development, campaigning and educational services are more likely to be funded through grants-in-aid).

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Only preliminary evaluation of the strategy is available. It is already clear, however, that on the key indices for success of quasi markets - cost efficiency, responsiveness and improved consumer choice - reviews are mixed. While some increased flexibility has been introduced into the system to obtain efficiencies in purchasing of services, the potential for this has proven to be limited and the reorganisation and the operation of the quasi market may add to rather than contain costs as hoped (Hills 1993, 75). Consumer choice may have been reduced rather than enhanced by the requirement to access services in all cases through the social services departments, rather than on the basis of the previous personal entitlement to subsidy for the costs of care. The work of Le Grand referred to above has documented much of the early evaluation of this form of social service funding.

It will be clear that the four countries are at very different stages of development of a purchase of service strategy for social and welfare services. The United States has the longest track record in this field, followed by New Zealand and then the United Kingdom as recent entrants. Australia is poised at the starting gate. Each country has built its system upon quite different foundations for voluntary sector activity and levels of direct service provision and transfer payments to individuals and of funding to provider organisations. Yet the dilemma of accountability for funding, quality of service provision, and adequacy of service choice continues to confront each country in similar ways.

Analysis and Conclusions

The changing relationship between the state and the voluntary sector in New Zealand can be explained at its most fundamental level by the pressure, over the last decade, for both fiscal and ideological reasons, to demonstrate improved accountability and effectiveness for the funding and provision of social services. In this respect New Zealand is no different from the other countries under study. Increasing pressure on government resources, the growing volume and complexity of social and welfare services need, the sound of hitherto quiet

consumer voices, such as that of people with disabilities or, in this country, of iwi, and a level of political opposition to centralised services have encouraged western governments both to seek that provision from voluntary sector providers, and to do so through increasingly explicit contracts for service.

In New Zealand, as elsewhere, the development of this funding strategy coincided with the reformation of the public sector and was influenced and encouraged by the policy advice and political will which drove that reform. This section explores the links between the theoretical analysis and the operational reality of contracting for social and welfare services in New Zealand.

The influence of the central tenets of the new public management is very apparent in the formation of the Community Funding Agency, with its highly specialist function of planning, contracting and approval of social and welfare services. It is clearly separated from the policy making and other service delivery arms of the Department of Social Welfare and has an explicit commitment to a planned approach to the identification of service need and service development. The introduction of contracting for outputs at an early point in its history and its replacement of social work staff with professional contracting staff are consistent with the new managerialist approach to government business. There are considerable risks in the separation of policy and operational roles within the Department of Social Welfare, primarily arising from the increased barriers to communication which help to ensure a seamless process of policy development, implementation and review. However, these can be managed. The restructuring has resulted in the development of a well-resourced and focused unit which has a greater ability to accomplish strategic development of voluntary sector social and welfare services than would have been possible under the previous administration.

Although not consciously explored by the Department of Social Welfare at the time of the Agency's formation, the risks identified in writings from the economics of institutions have illuminated many of the early problems

encountered by the Agency in seeking to improve both accountability and effectiveness of funding decisions.

In embarking upon a discussion of the relevance of the economics of institutions for the Agency, it is the view of the writer that it is not necessary to accept the behavioural assumptions of this body of economic theory in order to accept that there is usefulness in the paradigm. Agency theory and transaction cost analysis generate a rigorous analysis of the process of exchange which may be usefully applied to areas of public policy such as social and welfare service provision fraught with problems of information inadequacy and contending interests. The theory can be utilised for any purpose without necessarily importing assumptions of human self interest. These seem especially misplaced when faced with the altruism of voluntary sector activity.

The first of the risks explored by agency theory - opportunism - may for instance be taken as a metaphor for the well-documented conflict of interest between the voluntary sector provider's loyalty to its constitution and its clients and its responsibilities to the government contractor which may be seen to lie at the heart of the accountability problem in contracting for social services. In taking up a contract for services with a government funder there is no doubt that the organisation is expected to sacrifice some of its independence of action and freedom to serve its own clients, and is providing services, in effect, to government clients on behalf of government, according to government standards. This is clearly reflected in the documented voluntary sector concerns about the changing relationship. Where an organisation seeks to minimise that sacrifice, it may do so through absorption of its government service requirements into its own, quite differently focused, service plans. Output contracting is designed to prevent this through making the requirements of government specific and measurable units of service and through monitoring of these outputs to ensure compliance.

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It is also a reasonable assumption that, in the time consuming and stressful routine of fundraising faced by most voluntary sector organisations to meet their input costs, opportunities to obtain funding may be seized with little thought to how best those funds may be applied to high priority social needs. The process of services planning and output specification undertaken by the Agency reduces this risk by establishing priority needs and tying funding to the meeting of those needs.

It should be noted that output contracting does not ensure that desired outcomes of social and welfare services are being monitored or met. This challenge is linked to the second major risk, bounded rationality, which is endemic in the world of social service delivery. Neither perceptive powers nor language can adequately describe the complex interactions which create or resolve social problems. Drawing on the disciplines of agency theory helps to subject these obtuse issues to layers of specification and analysis which may bring them closer to definition and clear description of the expectations of the funder and the undertakings of the provider. Certainly the Agency is better placed to manage an outcomes-based evaluation of social and welfare service need and provision, over time, than was offered by the previous administration. But again, voluntary sector criticism that evaluation of outcomes is at an embryonic stage is justified.

Information inadequacy may generate a substantial risk for government funders contracting with small new providers of service where the quality and quantity of service provision is hypothetical. Clients may be poorly served or denied access to service if the assumptions made about the service capacity of new organisations are wrong. This risk of adverse selection of providers and the moral hazards of evaluation of performance in the post contract situation underpins the extensive regulatory structure introduced by the Community Funding Agency. It is of course especially difficult to ascribe results in a social or welfare service solely to the service provided, since so many other variables may affect outcomes of social or welfare problems. The approval of all

providers, annually and pre-contract and the repeated monitoring of performance during the term of the contract reflect appreciation of these risks and is a significant improvement upon earlier systems for quality assurance of voluntary sector service provision.

The risk of uncertainty, powerfully expressed by the sector, is exacerbated because the process of contracting for social services in New Zealand must occur in an environment of political and economic uncertainty, against an annual budget cycle and relatively short parliamentary term. No funding agency, much less provider, can be certain that funding levels or policies will remain unchanged from year to year or that service capacity will be sustained. Indeed it would be safer to assume that there will be change, based on the evidence of the last five years in particular, and in this regard the sector is right to draw attention to the costs of this environment of change.

Safeguarding, bonding and dispute resolution costs have arisen as a result of these circumstances. These include negotiation of higher levels of funding for high priority services, longer term commitment of funding for certain core services, pay-back provisions in the contract for failure to deliver services and the introduction of suspensory loan agreements for some capital funding contracts in which pay back is only required if services cease before an agreed period of time. In these ways the Agency has been able to reduce some of the major uncertainties for itself and for its providers.

Against this risk, the risk of asset specificity is pronounced given the relatively small number of providers available for contracting, many of whom have accumulated significant assets during their history of voluntary activity. Those "assets" may include the clients themselves who have formed a strong relationship with a particular provider and upon whom it is unreasonable to impose change. They may include the more conventional assets of hundreds of properties throughout the country or specialist training resources (such as for Guide Dogs for people with a visual impairment). Under these circumstances

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the prospect of genuinely competitive tendering for service provision has been rightly identified by the Agency to be minimal. A clear case of bi-lateral monopoly exists. The Agency has needed to find other ways to bring about efficiencies and consumer responsiveness in such organisations, such as through the commissioning of independent research into their cost structures as a basis of funding negotiation, the development of alternative providers of service to offer increased client choice and the requirement for such organisations to introduce customer satisfaction quality surveys as a condition of funding. The Agency is assisted in achieving these efficiencies because it is able to co-ordinate its activities and derive essential management information on a national basis.

For all the above reasons, the Agency determined that the quasi-market model was inappropriate for a service sector dominated by voluntary sector provision. The question remains whether, in Williamson's analysis, transaction costs would be minimised through vertical integration, and the state return to the provision of services directly. For those few services which are fully funded by the Agency with similar cost structures to state services and limited history of voluntary sector provision, there is a strong argument for this. Placement services for people with disability, currently provided by a fully funded national agency created by the Department of Social Welfare for the purpose, is an example of this. So too are the new Family Service Centres, established for the delivery of an integrated health, education and welfare service to parents of pre-school children. Although drawing on significant voluntary sector resource in their set up and governance functions, the Centres are fully funded and are a high priority for government. They therefore lend themselves to a model of direct but decentralised service delivery which retains a high level of community-based input into their governance.

For those services with a long history of charitable status, such as the large disability organisations, or those which arose out of strong popular movements such as Womens Refuge services, this would be politically unacceptable for the

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reasons adduced by Salamon (1981) and Taylor-Goodby (1986), namely the opposition to expansion of centralised state services from taxpayers and to the loss of community control of services on the part of clients. In effect, the contracts with such agencies have become long term relational ones in which a mutual dependence is clear and in which strong disincentives, including political ones, exist for either funder or provider to dramatically renegotiate the terms.

These examples reinforce the character of pluralism of the New Zealand social environment and its many small isolated rural communities identified in the work of the New Zealand Planning Council (1979), and further indicate the benefits of a dual service delivery structure based on a flexible voluntary sector network and a highly responsive and decentralised direct service delivery structure, over the model of a centralised state-run service. There is evidence that the fears of the voluntary sector that their quality of responsiveness will be sacrificed for state-determined programmes is misplaced. In her evidence to the Waitangi Tribunal the General Manager of the Agency stated:

“Providers are not required to fit their programmes into the DSW view of what constitutes a programme. We believe that this approach enables us to be responsive to the extraordinarily imaginative programmes that many agencies have established...” (CL0 1994 a 2:14)

To offset the risks inherent in long term relational contracts, however, the Agency has frequently re-stated the authority of the Government, as the single principal, to determine funding priorities and to be held accountable for those decisions through the political process. This contrasts with the expectations of partnership expressed by the sector itself. Although extensive consultation on social and welfare service need is undertaken in each local community by the Agency and the results, in terms of service need and resource requirements, are reported to Government, the calls of the voluntary sector for partnership in such decision-making are unlikely to be endorsed in the short term.

 

Salamon's insights into the political imperatives of contracting for services illuminate another characteristic of the new style of contracting. In this respect his work highlights the fundamental inadequacy of the individualised perspective of the new economics of institutions. In its concentration on individual human motivation the work fails to consider the collective or political action which manifestly influences the business of government. For instance, the tendency of some, particularly large established agencies to resort to political influence over funding decisions was a chronic problem for government departments until the Agency sought validation for a consistent process of funding allocation based on objective indicators of need. This has resulted in the shift of funding away from organisations with greater degrees of political influence. It has also resulted in a movement of funding away from population centres which were characterised less by high levels of social and welfare need than proximity to political representation to those areas previously under-resourced but with greater need, and has generated the need for considerable service development in those newly funded areas.

Services for Maori and in rural areas have been the main beneficiaries of these shifts in funding. The New Zealand experience has not been driven solely by the twin forces behind the new public sector management and by political expediency. The desire to respond to the call of Maori seeking self determination has been a strong motivating theme in the restructuring. Maori constitute a disproportionate percentage of the clients of the Department of Social Welfare. The role of the Agency in assessing resource requirements for Maori and making significant shifts in funding allocation from predominantly Pakeha providers, designing appropriate regulatory frameworks for service provision by iwi to their own people and finally in transferring funding and other resources under contract, was anticipated from the outset of the restructuring. This role was seen to be facilitated by the Agency's separation from other service delivery functions of the Department such as those of the Children and Young Persons Service, given the potential conflict of interest which might have arisen between competing state and voluntary sector service providers. It

should be noted that this development, while it can be confused with the current ideological imperative to return responsibility to the family, is not primarily motivated by this but rather motivated by disenchantment with the appropriateness of pakeha services to Maori and desire to uphold responsibilities under the Treaty of Waitangi and in particular the guarantee of tino rangitiratanga or iwi control of iwi matters.

It must be acknowledged that these many developments to improve accountability are at an early stage. They have created costs for voluntary sector agencies. The technology of contracting for social and welfare services is in its infancy and will continue to bring perhaps costly change to organisations as it evolves. Funding levels still contribute only a small portion of the costs of the organisations while requiring delivery of total service capacity to set quality standards. Outputs are still process-oriented, with little link to measurable outcomes of social well-being. A clear refusal to fund services advocating policy change has deprived the sector of a valued source of support for its independent function of social comment. New levels of management and service standards are requiring the recruitment of more professional paid staff and may drive organisational staffing costs up in the voluntary sector. Gaps of co-ordination between government departments are exacerbated by the increasing clarity of purchase agreements between ministers and departments, causing problems for voluntary organisations who need to manage the interface between these departments on behalf of their clients with multiple needs. These same gaps make it more difficult for them to offer the holistic services which they believe are most effective in meeting the needs of many clients.

Despite annual increases in the funding resources available to the Agency, the effect of the shifts in funding which have been achieved, and the increasing demands for service placed upon voluntary sector agencies following the reduction in benefit payments to many of their clients in 1991 have left many agencies struggling and reluctant participants in the new environment. It is important to differentiate the methodological and the policy issues which

underpin this frustration, but it is enhanced by three years of rapid change and uncertainty for the agencies at a time when their energies are directed to the needs of those who retain their primary loyalty - their clients.

Unlike the problems reported in the United States or Britain, however, the Community Funding Agency has built some features into its operation which mitigate the impact of these changes.

Firstly, there is a significant investment by the Agency in encouraging communities to assist in the definition of their own needs for social and welfare services which distinguishes it from the previous funding procedures. The opportunity is given to providers and clients of services each year, through surveys, community-based fora, hui and individual visits to services conducted by community-based staff, and the provision of information by other government departments, to advise government on local social and welfare service needs, including the need to support innovative local services.

Ultimately, government funding of services will be based on this information, as validated by other measures of social and welfare service need. Organisations contracted for services according to a plan which is highly reflective of the priorities of their community are less likely to feel that they are "agents of the state". The decisions which are made as a result of this process are published annually and communities are invited to assess the effectiveness of those decisions. This is an important opportunity to obtain information to reduce the risks of adverse selection and moral hazard. Communities are usually keen observers of the services in their midst and the congruence between their claims for effectiveness and the reality of their service delivery.

Secondly, the structure of the Community Funding Agency, which permits most transactions to occur in the field between outreach worker and organisation, has the effect of maximising communication flows between these parties (despite frequent concerns about adequacy of staffing numbers in the Agency) and minimising compliance costs in many cases. Staff develop a high level of

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familiarity with the service providers on their patch (although the actual decision to fund must be made at a team level to reduce the risk of favouritism). The development of service descriptions and quantity and quality measures for each contract was undertaken jointly between staff and providers as part of the contract negotiations in the year of their introduction to ensure an appropriate match between services and the monitoring data required to evaluate them.

Thirdly, the use of a hierarchy of regulatory and contractual standards reflects the materiality of contracts. For instance contracts for less than \$20,000, which constitute 25% of all contracts negotiated by the Agency, are subject to annual monitoring only whereas contracts over \$100,000 require quarterly monitoring. Funding for one-off holiday schemes provided with the consent of parents are subject to a smaller and less intrusive set of quality requirements than are residential schemes for the long term care of people. Contracts with well-established organisations providing for essential core service needs which are not expected to abate (and usually with a high degree of asset specificity) are increasingly subject to three-year rather than single year agreements.

Finally, for those organisations which deliver services in response to a statutory requirement, such as for the care and protection of children, or which have been established to replace a publicly provided service such as long term care for people with disabilities, funding is increasingly determined by a process of benchmarking of actual unit costs to deliver the service and the full cost (taking account of available voluntary donations of goods and labour) is paid. Thus the charge of load shedding from the state to the voluntary sector becomes less valid.

Further development of the funding strategy is necessary to answer the charges that the focus of services planning is short term and prone to inadequate co-ordination with other funders of services. Initiatives taken by the Agency in seeking to share information and improve co-ordination with other funders of services including government departments, local authorities, the Lottery Board

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and philanthropic trusts are dependent on the co-operation of these other participants. Progress in improved co-ordination would have significant benefits both in the reduction of compliance costs and in the development of more client-focussed programmes. The introduction of a more long term strategic approach to services planning at the community level would be an appropriate response to concerns about the need for longer term planning and community development.

It is also clear that where an increasing reliance is placed upon voluntary sector organisations in preference to the state for the delivery of social and welfare services, the capacity of each community to sustain its share of the costs of these services must be reflected in funding decisions. While it is an appropriate public policy position to seek to maximise voluntary donations of labour and other resources offered by the community for social and welfare service provision, the availability of these donations does not necessarily match location of need. It is this recognition which motivated governments to take over from patchy voluntary sector provision earlier this century. In order to avoid a return to these inequities of access, redistribution through higher levels of funding to communities with high service needs but low capacity to donate will be required. The Community Funding Agency is developing an indicator of capacity to donate for this purpose.

These are methodological issues, however. At the base of voluntary sector concerns is the fundamental ideological issue of whether the state should shift from its reluctant role in welfare provision to that of comprehensive provision, within which the voluntary sector may have quite different role. That is a matter for determination by the political process.

A stage has been reached in which review of the efficacy of the public sector reforms may well result in further changes. The State Services Commission has signalled the need to review the features of separation of policy and operational function and the output purchasing regime in particular, to examine the degree

of protection of the public investment and interest in the non-core State sector agencies and the balance of collective and sectoral interests in the new Public Service. Importantly the review will evaluate whether the reforms have assisted the Public Service and Ministers to deal effectively with hard, long term social policy problems (SSC, 1994, 12). The conclusions of this review may result in further adjustments to the relationship between government and voluntary sector organisations in the funding and provision of social and welfare services.

It is clear, however, that in three major areas the changed relationship between government and the voluntary sector has strengthened the delivery of social and welfare services in this country. Firstly, the introduction of a systematic approach to assessment of need and planning of equitable allocation of funding has improved the capacity of the voluntary sector to target its activities upon the greatest needs in each community.

Secondly, the output contracting strategy has provided the basis for more effective evaluation of which forms of social service activity procure positive social outcomes for clients and communities.

Thirdly, the introduction of accreditation for voluntary sector services has given new assurances for clients and providers of services about levels of performance against agreed standards of quality.

These innovations have begun to provide a firm foundation for the voluntary sector, including iwi, to take on increasing responsibility for social service delivery, whether in an environment of reluctant provision of resources for social and welfare services by the state or of comprehensive provision of services for all its citizens.

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