

**GOVERNMENT FUNDING OF VOLUNTARY
SERVICES IN NEW ZEALAND: THE
CONTRACTING ISSUES**

A SCOPING STUDY

July 1998

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PREFACE

The Social and Civic Policy Institute commissioned this study of government contracting for the provision of social services by voluntary/community organisations, as a key part of the Institute's 1998/99 work programme. The Institute engaged McKinlay Douglas Ltd to carry out the work.

As a scoping study, this report represents the first phase of what is clearly a substantial agenda of in-depth work required, if social service delivery is to be advanced through contracting with the voluntary sector in the future, and meet the goals of achieving innovative, effective and efficient solutions to social concerns.

The project looks across the experience we have had in New Zealand with the contract model for funding services, and encompasses the interests and perspectives of central government, local government and the voluntary sector.

A substantial body of work already exists on contracting as a means for government to purchase services from the voluntary sector, covering experience in New Zealand and other countries. Three distinct features of this project are:

- The introduction of local government into the contract relationship, making it three-dimensional. The particular nature of local government's interests in contracting with voluntary organisations is explained in the report in section 2.3.
- The use of public policy analysis for considering the issues. Built into the analysis is the voluntary/community sector perspective and experience, which tends typically to be viewed **from** a public policy perspective, rather than as integral **to** it.
- Our awareness of a sense of change in mindset and understanding about "the contract" which may represent the beginnings of a sea-change in the use of contracting - or may simply promote modifications to the "model" as we have it in New Zealand, albeit important improvements for how both contractors and service providers experience it.

The project was funded in equal parts by the Lottery Grants Board, and a group of territorial local authorities. Each of the participating organisations contributed active and critical input in the form of information, experience, ideas and critiquing. Thanks are owing to the Lottery Grants Board staff in the Department of Internal Affairs for their role in getting the project off the ground; to the local authorities who brought fresh air as well as professional experience to the project and responsiveness and commitment to seeing the issues properly addressed; to the many voluntary organisations who allowed us to claim very precious time and were open and informative about their experience with contracting; and to the government departments and agencies who gave us insights into how contracting is evolving through the development of contracting practice and new approaches.

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July 1998

1.0 INTRODUCTION

This section sets out the background to the study, its purposes and approach.

- 1.1 New Zealand, like other comparable countries, has been through a transformation in government management which has seen a major shift in the relationships among central government, local government, the voluntary sector, communities and business.
- 1.2 In the public provision of services, successive governments have moved to procuring services externally rather than doing things within. The contract has become the predominant means for the government to procure services, and indeed for defining relationships across a very wide range of transactions involving the expenditure of public money. New Zealand has adopted 'government by contract' that is concerned fundamentally with:
- Reducing the size of the public sector, relying on external "markets" to supply the goods and services government needs to implement its policies; and
 - Redefining and rearranging how government works, at the same time redefining and rearranging what happens and what is possible in the relationship between government and other sectors.
- 1.3 As between central government and the voluntary sector, the transformation can be clearly seen in the shift from grant to contract as the means by which central government funds the activities of - or more particularly, purchases services from - the voluntary sector. A striking feature of the change which began in the mid 1980s has been the move, effectively, from funding the voluntary organisation, to the purchase of defined outputs which are increasingly those defined by government, alongside those carried over from historical patterns of funding voluntary work.
- 1.4 As between local government and voluntary organisations, the use of the formal contract to have services provided in the community on the Council's behalf, and consistent with the Council's strategic direction, represents a distinct move to greater formalisation of local authority community funding. As with service contracting by central government, local authority use of the contract is associated with accountability and with achieving alignment with strategic goals set in the planning process. In some local authorities this is extending to traditional council activities of consultation and policy development, by contracting community groups to carry these out.

- 1.5 Contracting is undoubtedly here to stay, in one form or another. It has many strengths as an “organising principle of management”¹, from the point of view both of the contractor/funder and the provider of the service.
- 1.6 Equally however, it seems unlikely that contracting, as practised by central government to fund voluntary sector activities and purchase services, will be the only possible way to create relationships capable of delivering fully on specified outputs, let alone achieve outcomes. Contemporary theory highlights the limitations of the contract as a relationship. The experience now in New Zealand bears this out. There is too much missing from the purchase contract relationship to make it a sufficient means to meet either government or voluntary sector objectives.
- 1.7 This paper reports on a study of the existing and emerging issues in government contracting for services from the voluntary sector, for the purpose of identifying those which should be addressed as important:
- To the future achievement of central government’s objectives for social policy;
 - To the fulfilment of local government’s role in serving the local community interest; and
 - To the future of the voluntary sector both as a provider of needed social services through government and, independently, as the source of vast range of functions the sector contributes to society.
- It will be noted that these issues are of both a governance and a management nature.
- 1.8 The report interprets practical experience as recounted to us in the many discussions we have had with local government, central government and voluntary sector people, strands in current literature, experience in public policy and public management, knowledge of local government and our understanding, as good as it could be given its rich diversity, of ‘the’ voluntary sector.
- 1.9 From these sources, we have distinguished issues that call for fuller work, as matters for policy direction and operations in central and local government, and similarly for the voluntary sector.
- 1.10 The scoping study set out to map out the direction contracting has taken, identify the issues that people in each of the three sectors would want to see more closely examined, and lay the ground for the consideration of what shape contractual relationships might take in the future, whether in terms essentially the same as present models (recognising their various guises within the overall central and local government system), or in other forms of contractual relationship such as relational contracting or joint venturing, and practical options that meet the aims of each sector.

¹ Davis et alia, 1996

- 1.11 Even in a scoping sense, the topic has proved to be wide-ranging, and to raise quite complex issues. Not least of the difficulties in pinning down the topic is the changing scene, on three fronts: the policy environment (fundamental changes are being made in central government's social policy, and many local authorities are actively working aligning policy with social objectives for their communities); the way contracting is being thought about; and an emerging sector emphasis in the thinking that is going on in the voluntary sector about future direction.
- 1.12 Four motivations lay behind the decision to undertake a scoping study at this time. All have to do with seeing contracting not as a static "given", but with a sense of movement in understanding and mindset about "the contract".
- The continuing search by central government for better ways to achieve social policy objectives, along with a recognition that by paying insufficient attention to the critical prerequisite of willing community engagement, past approaches might have run their course;
 - A mounting voluntary sector challenge to the orthodoxy of the contract "model", including some well-articulated ideas about ways it could be changed to better serve the interests of all parties (not least the clients of contracted services)²;
 - The possibilities offered in local government for building networks and capabilities within their communities as necessary conditions for social wellbeing - a goal common, in its various ways, to all three sectors but one that local government is uniquely placed to pursue;
 - Indications that at least some government departments are reviewing their contract practices, and are adopting or considering change.
- 1.13 The study is about the system of contracting. It is not a review of how contracts have worked in any particular area of central or local government.
- 1.14 In the widest context of New Zealand's future as a successful society is the importance of fostering, and certainly not jeopardising, the inherent capacity of the voluntary sector to generate innovative responses to social needs, across the spectrum from the most intractable problems of social dysfunction through to positive aspirations of wellbeing.
- 1.15 Failure to foster that capacity will almost inevitably reduce the ability of government to see its social policies fulfilled, and, relatedly, create fiscal risk through more services needing to be paid for rather than 'gifted', and more public pressure on central (and also local government) to solve social problems with more funding.

² By way of example are recommendations in the review commissioned by the New Zealand Council of Christian Social Services of the relationship between voluntary social services and the New Zealand Community Funding Agency "Towards Real Partnership", May 1998.

- 1.16 We began this study with an expectation of finding local authorities in a state of still-evolving approaches to and practices in contracting in the social services area, because of the very significant impacts of financial management reform which has not yet been fully worked through; and because the social role of local government is in the midst of debate. That proved to be the case, making developments in local government of great interest. We also found that within the agencies of central government considerable attention is being given to at least improving, if not moving beyond, the standard contract model. Capturing shifts in both sectors “mid-stream” and reflecting these in the agenda for future work reinforced the timeliness of this study.
- 1.17 None of what is in this paper argues against contracting. Most relationships anyway come down to some form of “contract”. Rather, our purpose is to explore how the now-orthodox contract ‘model’ for funding voluntary sector services contributes to the existing and emerging objectives of central government, local government and the voluntary sector.
- 1.18 More particularly, the study focuses on the conditions for effective contracting which, we conclude, is contracting that is in concept and practice oriented to achieving outcomes while delivering on outputs.
- 1.19 Further, it would be remarkable if the widespread adoption of contracting had proved by itself to be the answer to government funding relationships with the voluntary sector, without having created new and unintended problems. It seems timely to review where we have got, against some objectives about what we might now want from the contract relationship.
- 1.20 As highlighted in other New Zealand studies, the extent to which like countries have experience in common with New Zealand stands out. We have looked particularly at the UK, USA and Australia where contracting has evolved in similar ways and with similar results and issues as found in New Zealand. We note the plans for the Blair Labour Government in the UK to move from contracting in a competitive environment to a model of ‘partnership’.
- 1.21 The study, implicitly, raises the question of what other forms the relationship between government (central and local) and the voluntary sector might take. One such form is partnerships in their various manifestations. Work on partnerships is being undertaken as a separate component in the Social and Civic Policy Institute’s current work programme, with strong links to this study. The Institute later in the year will be holding a series of forums on the concept of Deliberate Partnerships as a Means of Promoting Social Development,³ which will explore such issues as:

³ Between 9 - 17 November, in Auckland, Christchurch and Wellington.

- The state of multi-sectoral dialogue and collaboration; how the different sectors relate to each other locally, regionally and nationally, illustrated by case studies;
- What are the conditions necessary for effective partnership and collaboration within sectors, across sectors; within communities and across communities (including ethnic, professional and other communities);
- Identifying the role of social capital in providing an environment for the growth of partnerships;
- What role can the state, local government, iwi, community agencies etc play in promoting partnerships and collaboration in a highly competitive environment; does contracting, devolution, corporatisation etc help or hinder this process; what is the nature of social responsibility, who has it, how do all of us exercise it;
- What would a programme to promote partnerships and collaboration look like; where does it fit in terms of social policy, economic policy, health strategies, iwi development and so on; how can we measure the benefits?

1.22 We note that there is no strict definition of “voluntary sector” and that defining it by reference to characteristics, which is our approach in this paper, is often more useful than, for example, by reference to the weighting of the “volunteer” component.

1.23 This study was commissioned by the Social and Civic Policy Institute to be carried out independently by McKinlay Douglas Ltd. The paper does not claim to represent the views of the Institute or its members although it does incorporate input from them.

2.0 A FRAMEWORK FOR THIS STUDY

This section notes the absence of a clear policy framework both for contracting itself and for contracting in a social policy context. It suggests the beginnings of such a framework, and goes on to describe the nature of the interests central government, local government and the voluntary sector each has in the contract regime.

2.1 A Policy Framework?

2.1.1 There is a strong sense, at least among the voluntary organisations and noted by some local authorities, that there is no clear central government policy framework for contracting, which everyone could understand and work within, and which would provide a platform for policy development longer term and against which to evaluate developments.

2.1.2 This suggests that contracting has continued to evolve in the absence of a government policy framework (a) for contracting itself, and (b) for contracting in a social policy context. That perhaps goes some way to explaining:

- Why the perceptions and experience of the voluntary sector with contracting are generally negative;
- Why local authorities are cautious about extending formal contracting to all arenas of community assistance and why some are working on a mix of ways to fund community activity, with, in the case of some Councils an explicit purpose of creating a strong social base characterised by co-operation, networking and self-sufficiency;
- Why contracting approaches vary among government funding agencies and why contracting has fallen short of its possibilities for government management in terms that are efficient and effective for the department/agency.

2.1.3 There is of course agency theory as a theoretical framework for contracting, based on the separate roles of principals (the funding/purchasing body) and agents (the service providers). Leaving aside the issue that many see agency theory as having an ideological slant, it is fair to say that the theory doesn't provide a complete framework, in that it doesn't deal with the (social) policy objectives government is wishing to achieve through contracting, which would "ground" contracting as a means to achieve them. Nor, it has been said, is it a "complete theory of governance"⁴, and so cannot be relied on to explain all that we might want to know about the contract relationship.

⁴ Graham Scott in Davis et alia, 1996, p 162.

- 2.1.4 The principal-agent framework has other limitations. One that is relevant to this study is that in human service delivery, agency theory may not adequately account for political processes and pressures. Also, people's experience is that in practice the framework has focused much more on the behaviour requirements of the agent (the provider) than on the principal (the government funding body). In contracting, there would seem to be more to learn about "principal" side of the relationship.
- 2.1.5 A critical distinction can be made between:
- (a) Contracting as a management tool for government, to purchase the services its wants and which it specifies. This is contracting in the sense of permitting specification and accountability; and
 - (b) Contract-based funding as a means for community development which would support what the community already does or might do, and which is driven from the community. This is contracting in the sense of enabling collective community action.
- 2.1.6 A policy framework would make this distinction which we elaborate in terms of contracting objectives and types of society in section 2.0 below.
- 2.1.7 Such a distinction could lead to the possibility of using different funding instruments, to serve the two distinct purposes of management and community development.⁵ The "tiered" structure some local authorities are adopting to permit different arrangements with the organisations they fund, according to amount of money involved, the size of the voluntary organisation and risk, in some respects accommodates these different purposes. Another example is the intention announced recently by the Associate Minister of Finance to trial a simpler contracting arrangement for smaller voluntary organisations funded by the New Zealand Community Funding Agency.
- 2.1.8 A true policy framework would necessarily begin with an outcome focus rather than the present output focus, and would be "buying", ultimately, improved capability in the community.

⁵ In relation to NZCFA funding, NZCCSS has proposed a system of two funding streams which would reflect this distinction: a purchase-of-service stream; and a grant programme. NZCCSS, 1998, p27, rec 11.

2.1.9 Other elements a policy framework might include are:

- An expression of what government wants from the contracting relationship, which should reflect the different sets of sector interests (these interests are distinguished and described in section 2.3 below);
- An explanation of how contracting contributes to the achievement of policy objectives;
- The conditions required to make contracting work, for example:
 - the role of trust (the commitment to trust, how it will be manifested);
 - an understanding of relationships within the contract and the relationships that occur around the contract (which are shown, stylised, in the diagram in paragraph 2.4.1 below. .

2.2 The Beginnings of a Framework?

2.2.1 The many strands in research and debate on contracting and the voluntary sector can be distilled down to two very fundamental questions from which begins the quest for a policy framework. These are:

- A role for contracting based on clearly distinguished objectives at the highest level;
- A recognition of the interaction between contracting and the type of society in which contracting occurs.

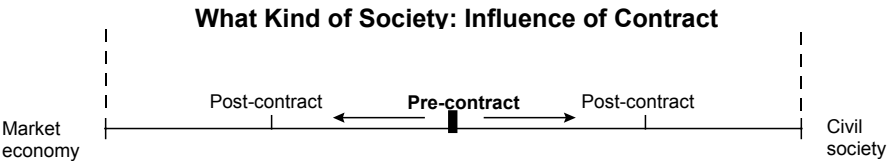
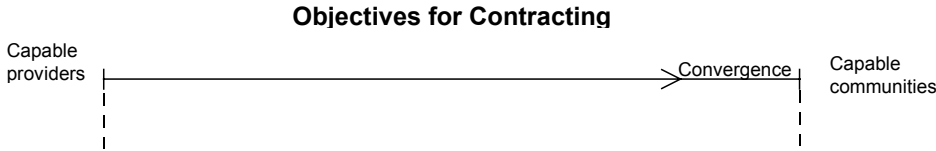
2.2.2 We put aside the notion of contracting with the voluntary sector as simply a mechanism for channelling public resources from one set of taxpayers (or ratepayers) to another. Instead, we concentrate on the more searching and relevant role for contracting with the voluntary sector, in the terms of two quite distinct, although in some ways related, strategic objectives:

- The objective of maintaining and developing **capable providers** - efficiently delivering quality services, to target client groups, at an acceptable price and agreed volume, all of which will be as specified by the government funder/purchaser; and;
- The objective of promoting **capable communities**, better able to solve problems without direct government intervention and engaging people as active citizens rather than as passive consumers.

- 2.2.3 “Capable providers” has the central government agency or the local authority in the role of purchaser of services, using the contract as a management tool. As a management tool, the individual contract does not in itself reach into community - it stops at the provider organisation. The focus on management drives in the direction of professionalisation and systems at both the contractor and provider ends. The service is an extension of government’s or council’s own service delivery, as an output.
- 2.2.4 “Capable communities” has the government or council funding social services in contractual arrangements which, in the way they are initiated, in the objectives that are set for them and in the way the contract is managed, seamlessly link the interests of the contractor, the voluntary organisation and the community the organisation serves.

It is against these two objectives - capable providers and capable communities - that current contracting arrangements can be put to their strongest test, and the need for change most rigorously scoped.

- 2.2.5 A fundamental premise of this paper is that these are not just objectives for a central government, but are objectives to which the local government and voluntary sectors can equally relate. That is not to say that each sector will interpret them in the same way, but rather that they encompass and characterise reasonably well the nature of each sector’s interests.
- 2.2.6 The idea of contracting being connected with the community being served is, in important respects, an issue of social capital as a way of thinking about the preconditions for strong voluntary associations, and of civil society as a way of thinking about the processes and structures within which voluntary effort occurs.
- 2.2.7 The following diagram shows how contracting can influence society, at the same time as it reflects society. It also shows one way to represent the “ideological” streams in debate.



2.2.8 The two parts of the diagram are consciously drawn as continuums. At any point along them, there will be a mix of objectives and influences at work. At the extremes, there may be a real conflict between objectives - capable providers and capable communities - and between the kinds of society contracting, as policy, inclines towards. In relation to contracting, and as we point to in later sections of this paper, the way in which contracting is thought about and applied can incline to either end. It will reflect the orientation of government action towards:

- Either a market economy (where the ethos for contracting points to individual choice and self-regulation, efficient contracting and a concern with pricing inputs and outputs);
- Or a civil society (where the ethos points to “generalised reciprocity”, and to government’s role in creating the policy settings in which the voluntary sector acts from citizenship, independence and volunteerism).

2.2.9 A conscious overarching government policy could provide a context for aligning contracting, wherever it was occurring within government for policy and operational purposes, with a larger, explicit purpose. Convergence of purpose may be a possibility. In terms of the current government’s strategic goals, such a policy is arguably a pre-condition for government’s management of economic and social performance.

2.2.10 The policy question that is central to all of this is the extent to which government action through current contracting does, or its future contracting might, drive in a particular direction, and what intended and unintended consequences flow from it.

2.2.11 One consequence of significance to government is the fiscal implications of its actions through contracting. Formulating the options as in the above diagram has its parallel expression in the concept of “high trust - low trust” environments associated directly with “low cost - high cost” consequences. Possible sources of fiscal risk associated with “low trust” environments include:

- The costs of communities not having control and autonomy over the local delivery of services, which may result in pressure on government to ‘spend more’ if people feel that services under government control are falling short of meeting needs (that is, people making lack of local control into a funding issue for government)⁶;
- The requirement to pay for all inputs if the willingness to volunteer diminishes, thereby increasing the direct financial costs of service provision;

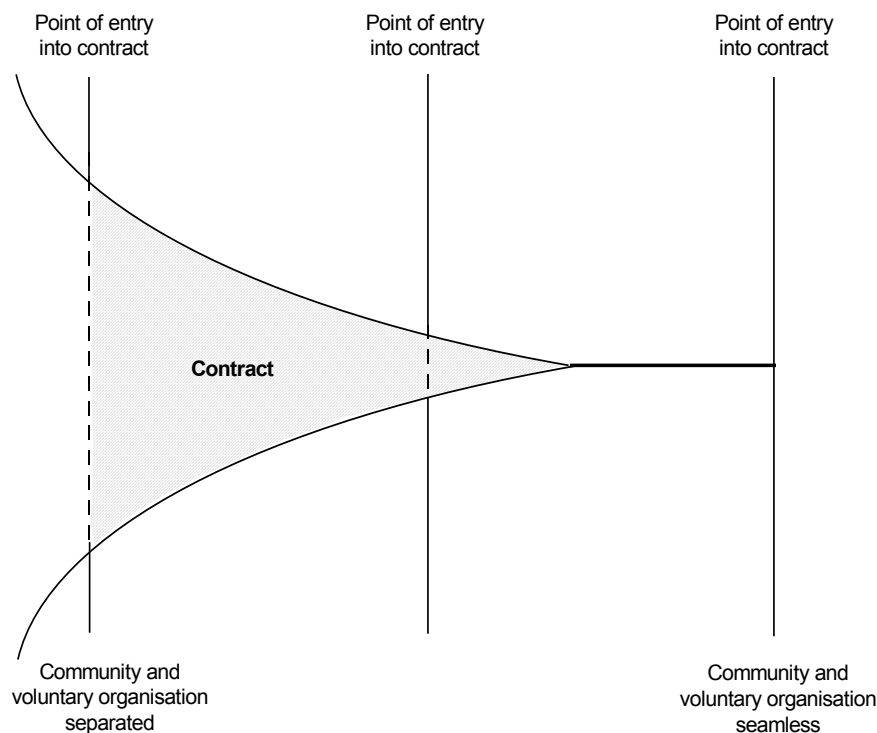
⁶ A report by McKinlay Douglas Ltd on *Public Involvement in the Health System* for the Transitional Health Authority (May 1997) discusses the links between public confidence and fiscal pressures on government and notes that “Public concern at perceived under-performance seems almost always reflected in a demand for more money, regardless of whether or not that is really the issue.” (para 6.4.1). And “If there is confidence in the system, then decisions taken within it may be received as legitimate even if unpalatable. Conversely, if there is a lack of confidence, then decision-making will take place in an environment in which public (and non-government political) response is both critical and insisting on more resources ...” (para 6.4.6)

- Costs associated with increasing levels of professionalism in voluntary organisations, when that is a result of legalistic contractual arrangements and concern about legal liability on the part of the service provider (recognising that increasing professionalism has also brought its own benefits in service efficiency and effectiveness);
- Higher transaction costs (specification and monitoring) on the contractor, certainly when compared with the old “higher trust” grant system (although again there have been positives).

2.2.12 Expressed another way, and in the words of Garth Nowland-Foreman which encapsulate the line of thought above:

“While contracting is frequently linked with themes of choice and responsiveness, its success actually depends on rigid specification of funding requirements and greater control over voluntary organisations. ... A legalistic contract approach can be useful for clarifying expectations, but risks reducing the “gift relationship” of the volunteer to a transaction ... ”⁷

2.2.13 The “capable provider” model is one that that may create a wedge between the voluntary organisation and the community.



⁷ Nowland-Foreman, 1998 (to be published)

2.3 The Interests of Central Government, Local Government and the Voluntary Sector in Contracting

2.3.1 Contracting for service provision has brought attention to value for money in service delivery and to the link to outputs, which has had benefits for both local and central government contracting agencies and the voluntary provider organisations.

2.3.2 It is obvious however that experience with contracting has been viewed very differently by the funders and purchasers of services on the one hand, and the voluntary sector organisations on the other - very much a function of the fundamentally different way each would express their high-level objectives. As between central and local government, some of the same issues and distinctions are found in both sectors, both at the policy level (how the contracting relationship with voluntary organisations relates to policy objectives) and at the operational level (how contracting works as a management tool). For local government in many respects the difference is just one of scale. But as highlighted below in paragraph **2.3.7** local government has its own set of issues some of which are to do with the impact of central government contracting activity and some that are local government-specific. Local government certainly has differences from central government in scope, focus and responsibility.

2.3.3 Not only does this mean that each sector brings its own purposes and systems to the contract process, it means also that each has its own interests in the way funding **relationships** work.

2.3.4 One common interest that can perhaps be claimed for all three sectors is a shared concern that whatever forms funding relationships take, they must enhance, not undermine, the strength of the voluntary sector in New Zealand. That this might be held in common was challenged by some commentators on our study. It seems valid, however, to put the following as propositions that bear further testing:

- That funders and purchasers need diverse, innovative, competent service providers;
- That policy makers in both central and local government need the capability to plan which comes from strong inter-sectoral linkages and shared understandings of “best practice” so that they can manage resources effectively and with a minimum of fiscal risk;
- That voluntary organisations need to have their independent goals and values affirmed, and a contracting climate which maintains voluntary input and community support.

2.3.5 Beyond that, “what drives” the way each sector sees the contracting relationship is the consequence of some quite different, albeit overlapping, sets of interests. These are summarised below. The whole context for contracting starts to take on a clearer feel when the different interests are separated out.

Central Government Interests

2.3.6 Central government’s interests in contracting with the voluntary sector are three-fold:

- As funder - the shift that has occurred since the 1980s has been generally from input-based funding consistent with the old grants approach to funding voluntary organisations, to one of contracting for outputs consistent with the principles of financial management reform and the thrust of the Public Finance Act. The objectives for funding voluntary organisations in this manner were the same as those for financial management reform generally - better fiscal control and more efficient services;
- In social policy - achieving policy objectives based on encouraging a move away from dependency to self sufficiency and of recognising and supporting the diversity of New Zealand’s communities. Government contracting that is focused on efficient, reliable provision under explicit purchase arrangements may well produce the services that are desired, and specified, by government through service planning and output specification. It is however effective contracting seen as legitimate by other parties that will lead to desired outcomes and thereby help manage social risk;
- Sitting between the government’s funder and social policy interests is fiscal risk and its management. This is covered in paragraph 2.2.11 above. An aspect to note here is the effect the contracting regime has of shifting voluntary services from the informal care system which has traditionally been their role, to the formal care system, as part of government service delivery. This is covered further in paragraph 4.2.4.

Local Government Interests

2.3.7 Because the overall place of local government in New Zealand’s contract regime has not up to now been given very much consideration, it is worth briefly outlining the basis of local government activity in the social arena. The Local Government Act is permissive as to local authority community activities, and is couched in s 598 as “Council may promote community welfare”; in s 596 as powers related to public health and well-being; in s 597 as funding medical surgeries; in s 601 as a general power to “undertake, promote and encourage” recreation and community development; and in s 605 relating to the provision of community centres. These are in a general sense broadly related to social goals. There is nothing to say that local authorities must or may not undertake social responsibilities. Local authorities frequently see themselves as having a central role in the formation of policies that

shape local communities. Council's advocacy and co-ordination roles and their role as agents for the Crown across a range of delegated functions provide scope for council action on social issues.

2.3.8 The three interests of local government in many respects mirror those of central government but with their own distinct dimensions. They are:

- How central government social service contracting impacts locally. The contracts central government agencies have with local service providers represent a significant flow of resources into the community in respect of which the local authority may have no particular role, or may be directly involved by, for example, being the contract holders. A particular aspect of this is that there is no reason a local authority's desired outcomes will be the same as central government's desired outcomes although they face in common the need to ask how services should be targeted to meet social needs;
- The "unfunded mandate" put on local government, either when central government delegates to local government responsibility for functions traditionally paid for from taxes, without a commensurate financial transfer to local authorities although they remain government policy objectives; or when central government withdraws from a particular social function, leaving a vacuum in local services which the local authority feels obliged to fill through its own community funding policies;
- The use local authorities might themselves make of service contracts with voluntary or community-based organisations, styled on the formalised contract adopted by central government, as part of the spectrum of local government activity for managing community resources and building networks within the community.

Voluntary Sector

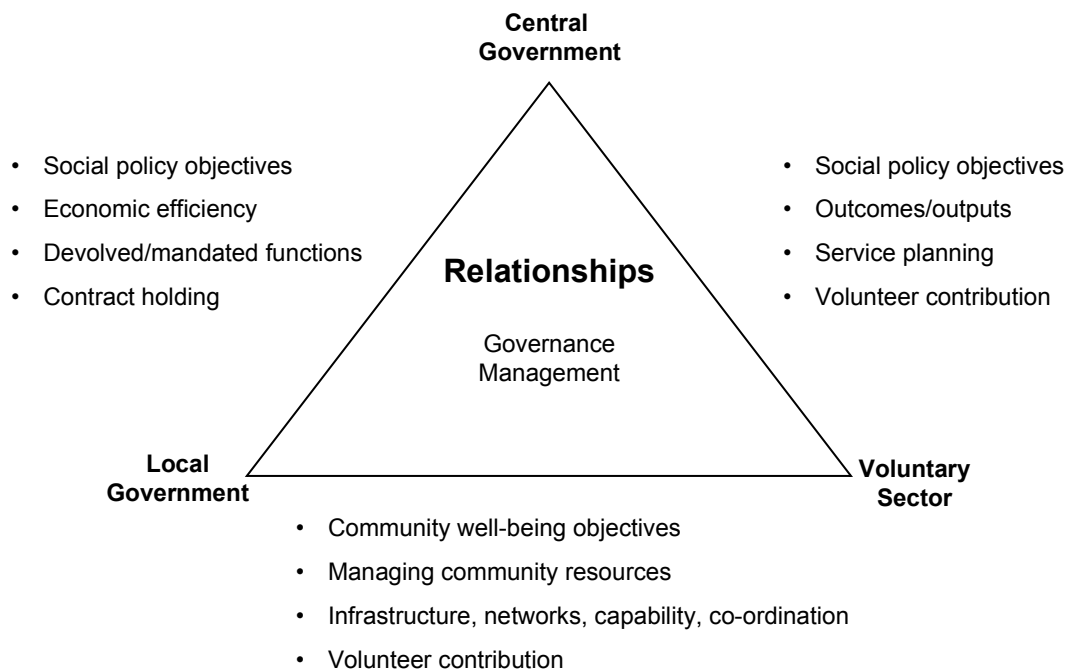
2.3.9 Among a number of very significant interests the voluntary sector as a sector has in contracting, two stand out:

- The policy framework within which contracting takes place, including assumptions about the relationship between outputs and outcomes (and the extent to which these are the same in respect of the funder and the provider); and expectations as to what is being purchased (and are these mutual or different);
- The impact of contracting with government on the other functions of individual agencies and the sector generally, and on resource streams to individual agencies and the sector more generally, including volunteer contributions which allow the organisation to "produce more service".

2.3.10 Problems with compliance and transaction costs, involvement in service planning, unequal negotiating power, short term contracts and recognition of the value of the volunteer component in service delivery have been well documented in other studies and published reports, some of which are listed in the bibliography. For the purpose of this study, we did not think it necessary to canvass those further. They do however sit closely behind the broader issues we focus on.

2.4 Drawing the Relationships

2.4.1 The diverse and inter-connecting interests of the three sectors can be drawn as follows:



2.4.2 Perhaps the most interesting insights from this representation are to be gained from reflecting on the direction of the arrows which could be drawn along each axis, for each factor shown. For example:

- While social policy is generally taken to mean the social policy frameworks, particular policies and implementation strategies of central government - as these affect the environment for local government and the voluntary sector - obviously both local government and the voluntary sector seek to and do influence these. The arrows in this case go both ways;
- In the case of outcomes and outputs between central government and the voluntary sector, the relationship is top down, while the volunteer contribution flows from the voluntary sector to government;

- Economic efficiency is a concern that central government has about local government, as emphasised in recent statements from Ministers including the Prime Minister.⁸

2.5 Issues/Risks

2.5.1 Questions the study scopes include:

- The implications of the contracting process on people's willingness to engage in voluntary activity;
- What shift is taking place towards the professional/commercial management of service delivery in the voluntary sector, and how does this affect voluntary activity;
- What are the issues that arise from the status of the funder or purchaser as a monopoly government funder/purchaser, compared with the contestable status of the provider organisation;
- What are the implications of government agencies defining the services they wish to purchase:
 - for fostering innovation in voluntary services;
 - for volunteer motivation (the desire to contribute to the community as compared with government service objectives);
- What are the accountability issues, from the funder/purchaser perspective and the provider perspective;
- How does investment in the development of organisational capacity in voluntary organisations occur;
- What role might voluntary organisations have in the planning of government services (prior to decisions on what services are to be purchased);
- Is contracting, as a means of funding voluntary services, in any way re-shaping the attitudes and responses of the donating public, philanthropic organisations and corporate sponsors/partners.

⁸

For example the speech by the Minister of Local Government to the June 1998 Local Government Conference.

3.0 THE “CONTRACT STATE” AND SOCIAL OBJECTIVES

The purpose of this section is to:

- Describe briefly the features of the “contract state”/contracting as salient to this study;
- Assess its strengths and limitations as relevant to the study.

3.1 The Current Model

General Observations

3.1.1 The language and practice is now so widely applied in all facets of public administration that it is not always now a conscious thing. It is useful to recall the salient features of the ‘contract model’ as it is utilised in this study.⁹

3.1.2 The following features are especially pertinent to contracting with the voluntary sector:

- (i) Contracting as driven by a focus on the core functions of government - it was part and parcel of reducing the public service to the functions of policy development, resource allocation, specification of services, setting standards, monitoring and evaluation. The impetus came from central agencies and was associated with the design and implementation of overall government reform rather than from the funding/purchasing agencies.
- (ii) Contracting as the primary means for funding services delivered by third parties (in our case, voluntary and community organisations) - this has meant directly focusing on the purchaser-provider relationship in the terms of a contract and along with that the specification of outputs intended to contribute to government’s desired outcomes (outcomes being the general statements which capture the impact the government wishes to have as a result of its policies and which describe and guide the direction of policy). This contrasts with the past focus on inputs which in practice meant the government funding of voluntary organisations funded the activities of **organisation**, as compared with the present funding of a specified type, quality and quantity of **outputs from service providers**.

⁹ Among the excellent New Zealand-oriented sources of analysis of and reflection on the use of contracting for services as a matter of public administration are Davis et alia, 1996 and Boston et alia 1991.

- (iii) Contracting as one aspect of the formal policies and processes which implemented an agency theory approach to reforming government - based on the separation of interests, roles and functions as between principals (funders) and agents (providers). A further separation is the role of regulator (in the case of regulation of the contract relationships with the voluntary sector, the funding/purchase agency is also the regulator). Relevant to contracting with voluntary organisations is that principal-agent theory rests on the fact that activities may be too costly or complex to be provided by one principal who therefore must rely on agents with the specialised knowledge and skills needed for particular tasks.
- (iv) In theory in the contract model there is a competitive, or contestable market of providers and contracts are let by competitive tendering.
- (v) Contracting as a form of governance as well as a management tool - the use of contracting shifts the location of power and changes the location of decision-making.

3.2 Strengths and Limitations as Relevant to the Study

Strengths

- 3.2.1 Anticipated advantages from the contract approach to funding voluntary social services centred around:
- The growth of a “market” of providers with greater diversity in services and greater client choice;
 - More responsive services as a result of taking away the traditional public service role of both deciding what services were required and running the part of the system that provided them. Under the traditional system it was easy for the government department to identify with service provision rather than with those for whom the service was intended;
 - Greater public accountability since the contract provided for clear statements of what was to be expected from the service;
 - Greater efficiency in the organisation of the delivery of services.
- 3.2.2 Various studies of the actual experience in New Zealand and overseas strongly suggest that these anticipated benefits were realised in part, but only in part.

3.2.3 A further benefit specific to local authorities is that the contract allows the local authority the opportunity to step back from the pressure to fund a service activity or the voluntary organisation itself, and consider whether the organisation or service genuinely fits its objectives and priorities rather than responding in an ad hoc way to community pressure or a vacuum left by government.

Limitations

3.2.4 Significant limitations on the potential of contracting have become apparent, relevant to this study. Some of these are inherent in the “model” and some are a result of how contracting has been practised. The following are sustainable generalisations. Actual experience is not surprisingly varied.

(i) *Accountability*

Effective accountability between purchaser and provider relies on monitoring and evaluation, both actually quite weak links in the chain of contract management for most government funding/purchasing agencies. Effective accountability to the public relies on some way of expressing the guarantee of reliable service and even perhaps reciprocal obligations of client and provider, which is a sophistication not yet seen in New Zealand experience. For members of the public it may well not be clear whether it is the service provider, or the government contractor (government agency or local authority) who requires the service to be provided, who is accountable. From the point of view of voluntary organisations, legal liability for service failure seems to be a growing concern.

It is also the case that the management of accountability processes by funders/purchasers has been confounded by insufficient monitoring information (often because of lack of co-ordination within and between funding agencies); and inadequate resourcing of the monitoring function.

(ii) *The Principal-Agent Approach*

Accountability is the essence of the principal-agent relationship.

The principal-agent approach itself presents a conundrum. The separation of interests, roles and functions highlights the different values of the purchaser and provider organisations. Values are not easily expressed in the terms of a contract. This matters more in contracting with the voluntary sector than in a commercial environment because the very essence of the sector is its independent ethos. It is a matter that has not been resolved. The problem has perhaps not been one of whose values prevail, but rather one of tensions in the system which have caused ongoing dissatisfaction to be felt on both sides, and often publicly and politically expressed.

(iii) *Innovation*

The contract model carries with it a culture and sets of incentives which many see as having run counter to the possibilities contracting might have held for innovation both in government (in the implementation of policy) and in service delivery. The dominant culture is one of compliance and risk avoidance.

Government may well expect that innovation will occur within the provider organisation because the organisation itself will be motivated to keep working out ways to improve service delivery. That may well be a legitimate expectation, but only if the contract process at least does not undermine innovative capacity, and at best actively recognises the importance of innovation as an integral part of the contract culture.

Paragraph 3.3.2(iii) below returns to this issue.

(iv) *Costing the Service*

In funding social services, the point of expenditure is to alter outcomes. A minimum condition to achieve this is the maintenance of the knowledge and skills which have made the voluntary sector a favoured provider in the first place. This is properly seen as a cost of providing the service. At the moment the government does not treat it as a cost of purchasing the service, leaving unanswered the question of where the cost of maintaining knowledge and skills should lie. A contractor contemplating future purchases from existing providers (ie repeat purchasing) will obviously have an interest in the ongoing capability of its individual providers, and if contemplating diversity of providers will have an interest in the capability of the provider sector.

(v) *Client Choice*

The effect of contracting on client choice (in range of services, continuity and differentiation) is a mixed picture. There has been substantial growth in the diversity of community-based responses to the opportunity to become organised as a service provider, across the spectrum of social services and notably in health. There is however in most areas a lingering combination of established providers remaining the “preferred” providers (not necessarily itself a bad thing), and continuing barriers facing small and emergent services to engaging in the government funding/purchasing system (both at the provider end in terms of track record and capability, and at the contractor end in terms of hurdles in the contract process).

3.3 What is Missing

3.3.1 A number of critical factors are missing from the contracting regime as it has evolved in New Zealand.

3.3.2 If the contract relationship is not functioning as it might according to standard considerations, the question arises as to what else needs to be considered.

(i) *An Outcome Focus*

Contracts have not been focused on achieving outcomes which might, for the voluntary organisation, be linked in turn to overarching government social policy goals of cohesion and prosperity. Voluntary organisations find it hard to see the bigger picture, and therefore where they fit in the larger scheme of things and how best to align their activities to these goals (should they wish to).

The failure of contracting (purchase) “technology” to develop as a process for forging links between outcomes and outputs is a quite fundamental one. It was in a sense what it was intended to be all about. There are valid reasons for this failure which characterises other areas of government management also. Major problems for example are defining outcomes meaningfully, and constructing an accountability regime (outcomes depend on factors outside the control of any one portfolio of government management or any departmental responsibility, government agencies are monitored on outputs). It is recognised as a significant area of “unfinished business” in government reform, and clearly an important element of ongoing consideration of government management. The Waitangi Tribunal’s report on Te Whanau o Waipareira highlights how this percolates through into contracting for social services.¹⁰

Nevertheless, it is a real issue for the involvement of voluntary organisations in the delivery of social services, for the reason that the ethos and motivation of voluntary organisations is inherently outcome-driven. At the moment at least the larger, established voluntary services are in the quandary that while their own goals are about social outcomes, they feel neither close to the government’s outcomes framework, nor clear about how they can be accountable for what they regard are the outcomes they exist to pursue.

¹⁰ The Tribunal’s just-released report has the following quote from the northern region manager for the New Zealand Community Funding Agency, p 133: “... the agency has not been required to report on outcomes, it only is required to report on outputs, and our outputs at this stage are how many programmes we bought, how many counselling hours, those things, and they are measured in our contract monitoring processes. Since the move last year to output contracting we now contract for, for example, a hundred counselling hours, and we can measure whether we got that through our reporting stats ...We set out to get x number of counselling hours because our needs assessment processes shows that’s what we needed, this is what we contracted for, these were the quality service indicators we needed to ensure that we got a quality service return and that’s what we got. It doesn’t take us to the next step which says, how did that impact on the outcome for family life or in terms of the Government’s outcomes which are at a higher level where there is no measurement mechanism yet in place for that and no requirement of any Department to report at that level as yet.”

Work that is currently going on in developing an outcome focus for science funding is bound to have application to the funding/purchase of social services.

(ii) *Relationship Contracting and Collaboration*

Sitting alongside the link between contracting and achieving substantive policy outcomes is the whole area of qualitative 'outcomes' such as cooperation and collaboration that can contribute to how well contracting works in the interest of each sector.

Relationship contracting has attracted some attention in discussion in policy circles about the further evolution of the contract model. It is however not well understood, and even if it was, it is a lot easier said than done.

It is the absence of a sense of "relationship" however that seems most likely to prevent the potential of contracting, especially in the social services, to be realised. The following very brief overview of relationship contracting serves to highlight what contracting in social services (or indeed elsewhere in government) has not evolved into in New Zealand.

The central premise of relationship contracting is that it is trust-based. It can still have a legal core, but is different from the nature of the funding/purchase contract that has become established in New Zealand in fundamental respects. Its differences are also its advantages. In very brief terms, relationship contracting rests on:

- Trust and respect between the parties;
- Commitment to common goals (outcomes);
- Risk-sharing between contractor and provider (possibly also including the risks to be borne by the policy-maker); and conversely, sharing of the gains from the relationship;
- Open communication including free information flows;
- Flexibility in the terms of the contract and in how it is managed (which would see the contract as a learning process rather than a specification process);
- Each party motivated to maintain credibility and reputation with the other, and in the case of social service contracting by government, ultimately with the client group the service is designed to serve.

The commercial sector is increasingly turning to these as principles to govern the relationship between buyer and supplier.

A major benefit of relationship contracting is that it creates an environment that implicitly and explicitly promotes co-operation and collaboration. Even if not adopted as a comprehensive approach, its characteristics, it can be argued, are pre-conditions for co-operation and collaboration. Given that the intention and rationale of contestability/competition has not really happened in contracting with the voluntary sector (and there must be a question over whether the public and voluntary sectors are equipped to work in such an environment); central and local government are placing more emphasis on collaboration.

(iii) *Innovation*

It is an issue for government as well as for the voluntary provider organisations that innovation has not featured in the reality of contracting. Present indications are that government is wanting innovative solutions in social policy and in social service delivery. This is in fact one of the overriding reasons for government to wish to contract with the voluntary sector in preference to other sectors at all.

For government, local and central, the contract itself can be an active factor in encouraging the innovative capacity of the voluntary sector. It has not been. For the contract to play this role requires a high level of inter-organisational collaboration, and the pre-condition of trust highlighted above.¹¹

(iv) *The Role of the Purchaser/Funder (the Principal)*

The consistent experience in contracting with the voluntary sector for social services is that it is the funder/purchaser who holds the balance of power. Perhaps for this reason, and perhaps because of tendencies among those in government developing policy on government management, less attention in the contracting process seems to have been paid to the role, processes and behaviour of the funder/purchaser as the principal in the contracting relationship than to the provider sector (the agents).

Moving contracting towards something more akin to relationship contracting would put quite hard disciplines on the contractor. For example, establishing a trust relationship would require the funder/purchaser, who in local and

¹¹ For a valuable discussion of the relationship between local government and voluntary sector innovation see Osborne, 1998.

central government is usually in a monopoly position, to take the first step. It would also entail overcoming management and staff issues in order to deliver on the promise of the relationship contract.

(v) *Networks and Capability*

Until recently little consideration has been given to how a contracting regime can be used to maintain and build networks and capability in the voluntary provider sector.

Provider development or capability building is now becoming much more a focus of attention in central and local government. Paragraphs 5.2.2 to 5.2.9 below covers this.

3.4 Conclusions

3.4.1 Generally, it can be said that contracting to date has not dealt with:

- Relationships;
- Innovation;
- Changed and changing environment,

which questions three very fundamental assumptions:

- | |
|---|
| <ul style="list-style-type: none">• That the service contract is always the appropriate form for funding the service and in return having desired outputs delivered;• That orthodox contracting even when it is operationally sound and reflective of best practice is unproblematic;• That problems with contracting can be “fixed” by technical or procedural improvements. |
|---|

3.5 Contracting in a Social Context

3.5.1 If these are indeed limitations in contracting for social services, the extent to which the current regime can support the achievement of social goals in terms of current policy and the changed social environment must be in doubt. This is the subject of the following section.

4.0 THE CURRENT SOCIAL POLICY ENVIRONMENT AND CONTRACTING

This section explores the linkages between factors in the current social policy environment and experience with contracting in social services, related to the policy concerns of the three sectors.

4.1 Introduction

4.1.1 A high-level view of contracting reveals three distinct policy themes:

- The Government's interest in how it gets the effects it wants from social policy, which inevitably means some form of mutual engagement with the local government and voluntary sectors on policy objectives, funding and service delivery while also requiring government to focus expenditure on services closely aligned with its social priorities;
- Local government's role, as an occasional purchaser and through advocacy and co-ordination, in building local social infrastructure for achieving community well-being goals;
- The voluntary sector's importance relative to central and local government, as a sector carrying out essential social services, and its distinctiveness from private (business) organisations and government agents in service delivery.

4.1.2 These need to be seen against important features of the current social policy environment: the issues are increasingly complex and it is less easy to see the solutions; policies over the past decade have transformed the roles of the state, business and communities and re-drawn the boundaries; and the demand for social services is considered, at least by government, to risk exceeding the capacity of economic growth.

4.1.3 What can be made of directions affecting approaches to and the use of contracting for services from the voluntary sector in government policy settings, local government's role and interest in social policy and where the voluntary sector's interest and contributions lie?

4.2 Central Government Policy Concerns

4.2.1 The consistent theme in statements from the present Government about the direction of social policy indicate:

- A concentration of expenditure on essential, targeted services;
- An emphasis on efficient service delivery, through central government and local government;
- An increasing emphasis being given to co-ordination through cross-sector and inter-agency initiatives.

There is also the possibility of further devolution.

4.2.2 These imply quite significant policy shifts and by their very nature require further shifts to be made in relationships at the central and local level, and for resourcing the resulting policies and services.

4.2.3 The appeal of government contracting with voluntary organisations lies not just in the potential for efficiency gains (which many voluntary organisations have welcomed for their own reasons) but also in the potential of contracting to support what underpins policy goals such as fairness and quality of services. This role for contracting will only work under the right contracting conditions, a matter to which this paper returns in Section 7.0.

4.2.4 Sometimes overlooked as an aspect of government policies over recent years is the huge policy shift associated with the move of many voluntary sector services from the informal care system (following the direction their own norms would dictate) to the formal care system (for which government is responsible and where government priorities and regulations determine the direction of services). This is closely connected with the separation of assessment of need and commissioning of care from its provision.¹²

4.2.5 A further issue in government policy is whether provision by voluntary organisations contributes anything unique to government's policies in the social services area. This comes down to the question of why the government might want to contract with the voluntary sector in preference to other parties or in preference to direct government provision. Summarising the key reasons from other studies on the voluntary sector and from the views of government departments and voluntary sector organisations, these include:

- The capacity to deliver as a community response;

¹² A special volume of the Third Sector Review, *Contracting for Care*, contains an up-to-date view of this whole area.

- The distinctiveness of voluntary organisations in terms of ethos;
- Specific advantages to government such as the possibility of lower costs (the volunteer and fundraising component has meant the organisation can produce “more” service for a given cost) and flexibility in initiating new programmes and modifying existing ones.

4.2.6 A good example of the first of these is the public health “health promotions” model which is explicitly about resourcing community-based organisations to tackle public health issues such as Aids.

4.2.7 The second two points rely on government maintaining a policy for contracting that maintains the willingness of people to engage voluntarily in social services.

4.3 Local Government Roles and Interests

4.3.1 In one sense local government faces the same issues as central government in setting policy objectives and developing funding arrangements with the sectors that can provide the associated services. In another sense, government outcomes may not be at all the same as local council outcomes. One striking example of that is central government’s emphasis on targeting and prioritising resources on socio-economic need equating with a geographical focus. There is no reason to think a local authority would have a similar outcome in mind in its social policies. It is not the reason local government exists.

4.3.2 The qualitatively different policy interest of local government lies in the nature of local outcomes. While central government’s focus is shifting from maintaining sectors, regions and institutions towards individuals and households, local government cannot change in the same way. Its concern with both social and economic outcomes is by nature quite holistic and does mean taking a somewhat proactive stance on local intervention. Concern with the delivery of health services is one example.

4.3.3 At the same time, the impacts of central government policies and funding decisions at the level of local authority responsibility are profound and will require local authorities to make quite specific responses - such as in rural areas, a requirement to maintain a volunteer base and support voluntary organisations because of policies that have weakened community capacity in the rural sector. (Examples are victim support and women’s refuge.)

4.3.4 Local government as a sector is taking an observably stronger hand in setting its own directions. The whole question of the role and functions of local government is under debate, with quite fundamental shifts likely to occur as a result of reforms to local authority decision-making and the considerations that are being brought to bear on the funding and provision of local authority activities. Many in local government also expect to see local government seeking an increasing role in social policy with a view to greater influence on central government policy settings and ideally a dialogue with

central government on what these should be. Two important factors in the changing environment in which local authorities are required to manage are:

- The new accountability and reporting requirements introduced in the 1996 Local Government Amendment Act No 3, reflecting the same principles as found in central government financial management reform. These require more rigorous consideration of the economic benefits and costs of local authorities' spending decisions to underpin political judgement - as funders themselves, local authorities must be more specifically output focused. In the social arena, it is not yet clear how best individual local authorities might meet the various requirements of the No 3 Act, nor has a rationale emerged for developing social responses and funding these.
- The shifts that are occurring in the relationship local authorities have to their communities and their growing involvement in a planning co-ordination and advocacy role in the wider social environment. This is part of a changing governance role for local authorities in their communities as they shift from a primarily physical service orientation towards an overall quality of life concern for their communities. In respect of the project, the question is one of what are the best means of managing relationships amongst the three sectors, to suit the particular objectives of the individual authority.

4.3.5 In developing approaches, as purchasers, for creating partnerships within the community, the two points in the paragraph above are unlikely to mean direct funding by local authorities of core social services, but may well mean an interest in partnerships with central government at the community level, as for example already seen with the Strengthening Families strategy. Local authorities are increasingly emphasising that their actions must have to do with their own effectiveness in achieving their objectives.

4.4 Voluntary Sector Experiences with Policy

4.4.1 To date much of the commentary on contracting is anecdotal or based on the experience of individual agencies. A greater understanding is required of how contracting impacts on the voluntary sector as a sector, impacts on sub-sectors such as health, education, recreation, employment related organisations, impacts on large and small organisations, impacts on local, regional and national organisations, impacts on Maori organisations, Pakeha organisations and on other ethnic organisations.

4.4.2 There are also questions regarding the assumptions made by the funder as to the relationship between outputs (as defined in the contract) and outcomes and assumptions made by the voluntary agency as to the relationship of outputs and outcomes. Are the assumptions valid, are they the same in respect of the funder and the provider, are there conflicts which arise out of these assumptions which impact on the contracting relationship. This in turn relates to mutual or conflicting expectations

as to what the funder is purchasing and at what price, and what the provider is producing and at what cost.

- 4.4.3 Where there is agreement between the funder and provider as to the desired outcomes, are there alternative funding arrangements which might be more appropriate? This is also an issue for local authorities wishing to engage voluntary sector agencies in areas of service delivery.
- 4.4.4 Beyond the contract and the associated service delivery, voluntary sector organisations carry out a vast range of functions, and receive funds and resources from sources other than contracts with Government. Judgements about the merits or otherwise of contracting need to be explored relative to the impact of contracting with Government on the other functions of the individual agencies and the sector generally and on resource streams to individual agencies and the sector more generally, including volunteer contributions. Garth Nowland-Foreman's metaphors of the "bearhug" of government funding¹³ and "dissecting the goose that lays the golden egg"¹⁴ capture the issues neatly. In the latter article he also highlights the net drain on a voluntary organisation's internally generated resources of the "contribution" (part-funding) model of funding found in key areas of government in New Zealand.
- 4.4.5 An underlying issue for voluntary organisations at the policy and delivery levels is where the boundaries between central and local government settle. The discussion above on central and local government indicates some of the shifts going on. It is already a problem that taking contracts with the two levels of government may involve distinctly different policy influences and objectives.

4.5 Concluding Remarks

- 4.5.1 The more interesting possibilities for contracting in the future for policy objectives are where new sorts of relationships are emerging, or at least could, such as in:
- Current cross-sector and inter-agency initiatives, including the prospect of joint purchasing by government agencies from multiple providers;
 - The move by some local authorities towards devolved funding through community intermediaries; and

¹³ Nowland-Foreman, 1997.

¹⁴ Nowland-Foreman, 1998 (to be published)

- Central government's own further devolution if this occurs.

4.5.2 In both these areas the question arises of whether central government and local government have the culture and structures to do these well, and on a sustained basis.

4.5.3 Another policy strand is that contracting in New Zealand has been seen as being primarily about specification, not privatisation. (Studies of contracting and the welfare state overseas have emphasised privatisation as a feature of community-based service contracting.¹⁵) This may be a red herring for this study, or it may perhaps be strategically quite important to central and local government in the development of options for service delivery.

¹⁵ Eg, Smith and Lipsky, 1993

5.0 EMERGING DEVELOPMENTS IN CONTRACTING

This section brings together a picture of new developments within the existing contract “model” and indications of possible shifts in approach in each of the three sectors.

5.1 Introduction

- 5.1.1 The timing of this study coincides with what appears to be a changing face for contracting in the social service arena, as described by the funding/purchasing agencies. It is not possible, yet, to read too much into signs of change. Some of the changes we heard about are still concepts, some are actively under discussion and some are in the process of application.
- 5.1.2 Some voluntary organisations have seen signs of, or experienced, new approaches at the contractor end. With others, experience with contracting remains too consistently problematic for them to feel any change is happening.
- 5.1.3 It is certainly fair to say that there is an interesting new language (where there is not yet a lot of action) among central government policy departments and funding agencies. In some areas work is actually going on. It is important that these be captured in this study so that they are properly assessed and acknowledged in project work flowing from the study (as set out in Section 7.0 below).
- 5.1.4 For local authorities the use of formal contracts is relatively young, and across the range from small to large they are putting considerable resources into establishing policies and improving procedures. One of the larger ones in our study is experimenting with quite radically different approaches.

5.2 Local Government and Central Government

- 5.2.1 The following two developments are common to both local and central government.

Provider Development/Building Capability¹⁶

- 5.2.2 The issue of provider development has arisen in many of our discussions for the project. Among the departments we met with, the Ministry of Education, Department for Courts and the Health Funding Authority had taken provider development on board. Summarising, these comprise:

¹⁶ We note that provider development to meet the needs of the contracting agency is quite different from the concept of building community capability which is properly driven from communities rather than from the funder/purchaser.

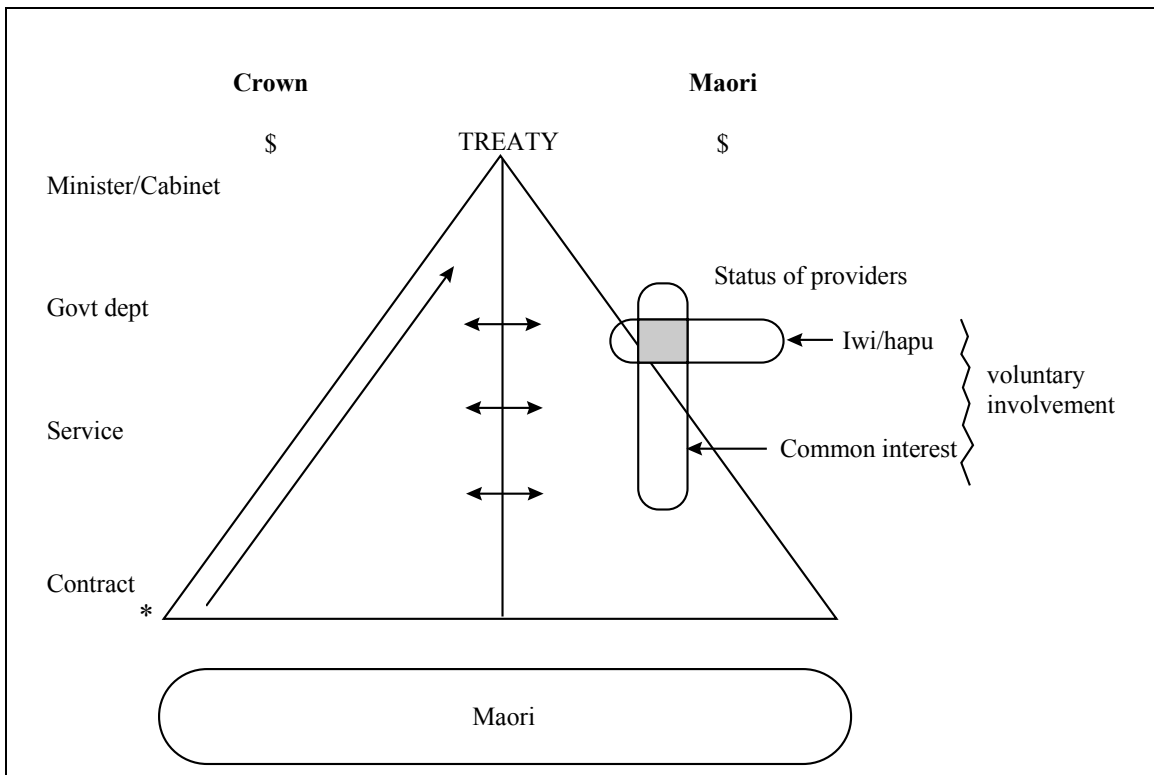
- 5.2.3 Ministry of Education - development funding is done, usually for organisations with a track record but also for organisations with limited experience in education services. A degree of targeting development funding resources to priority areas is practised, as in the resourcing of local programmes to enhance them. Further consideration is being given to developing the Ministry's rationale and approach.
- 5.2.4 Courts - in the new area of domestic violence services required under the Domestic Protection Act the department regards provider development needs as fundamental. The emphasis will vary across provider categories, the department's own need being for a mix of services from established national providers to small local providers and including iwi social service groups.
- 5.2.5 Health Funding Authority - areas in which the HFA has an explicit provider development role to support the contract are Maori development, de-institutionalisation, trusts for rural providers and integrated care.
- 5.2.6 Te Puni Kokiri - as a policy department, TPK is very aware of the provider capacity issue.
- 5.2.7 In a not dissimilar vein to provider development as it is emerging in central government, some local authorities are quite explicitly directing resources towards building capability among community service organisations. Just one example is Hutt City which runs free training programmes on aspects of organisational and service management, as the alternative to direct funding of services.
- 5.2.8 An "institutional" issue which arises from this is how the resourcing of provider capacity impacts on (possibly conflicts with) the relationship between the two different roles of the funder/purchaser:
- the purchaser's monitoring and accountability role over the provider
 - the role the purchaser might choose to play in the development of the 'supply side of the market', perhaps actively engaged in shaping the provider market such as by filling gaps and overcoming imperfections in service delivery/responses.
- 5.2.9 This is less of an issue, or perhaps not an issue at all, where the funding/purchasing agency bases its contract pricing on the full value of the service, the price then reflecting the costs of maintaining and developing the provider organisation and its service.

Treaty of Waitangi Issues

- 5.2.10 In so far as contracting was intended to offer partnership between community organisations and government, and a greater focus on clients, it ought to have been compatible with Treaty obligations. Under the different relationships the Crown has

with Maori, the way in which services are provided and funded is threaded through all three of the Treaty articles. So, as suggested by Te Puni Kokiri, is the Maori voluntary contribution to social services. An emerging issue in policy is how the Crown might be advised to recognise the different ways Maori groups will organise themselves for service delivery, under funding arrangements with government.

5.2.11 The following diagram is re-produced from a discussion with TPK to illustrate where the contract for service sits in the Treaty relationship. The standard contract is shown as the lowest level of engagement between Crown and Maori, and is where most funding activity is currently concentrated. In areas such as health where forms of partnership are being implemented, the relationship moves closer towards the apex. Movement is occurring across the divide between government and Maori providers. Maori providers themselves are evolving as either iwi/hapu-based or based around a common interest (for example, the urban Maori authorities), with an intersection between the two.



5.2.12 These developments make for a complex set of issues for government, with implications for local government as well.

5.3 Departmental and Funding Agency Developments: Some Examples

- 5.3.1 *Relationship contracting* - Last year's report of the Steering Committee on Implementing the Coalition Agreement on Health¹⁷ recognised the importance of three elements in the framework for health initiatives under what is now the HFA, which are also elements of relationship contracting as described in paragraph 3.3.2(ii) above. These were: a long term focus; collaborative and co-operative relationships including contracts between funder and providers "based on aligned objectives and good relationships"; and an outcome focus. Restructuring has inhibited implementation of this more strategic approach to health funding but the intended direction appears to be as in the report.
- 5.3.2 Relationship management is emphasised in the setting up of service contracting by the Department for Courts for domestic violence programmes.
- 5.3.3 *New streams in contracting* - The New Zealand Community Funding Authority is looking at a number of new streams in contracting which reflect two factors: the fact that experience with contracting has reached a degree of maturity allowing the 'model' to move on; and the adoption of inter-agency approaches to social policy issues, notably in policies focused on families. As an example of the former, contracting is beginning to reach into the high-risk areas of core social service responsibilities of government, which puts considerable demands on contract specification and procedure. It is intended that future service planning will begin with a focus on outcomes. Under inter-agency initiatives for strengthening families, forms of purchasing such as joint purchasing that allow seamless delivery to clients have been used. Policies are now putting the emphasis on working back from the client, rather than top down, which is expected to involve providers as well as the funder.
- 5.3.4 *Contracting out the contract* - The policy of the Ministry of Health is to contract as close as possible to the delivery of the service. Does this raise the possibility of involving contracting intermediaries? At least one local authority is moving in this direction with its community funding.
- 5.3.5 *Collaboration* - With the emphasis at both a policy and an operational level on collaboration among government agencies and with the local and voluntary sectors it is becoming more important that the government agencies work out ways to balance their requirements with those of the organisations and sectors they want to work with. One implication of this that is beginning to be acknowledged in some places is the need to recognise the factors on which the provider contribution to the department's (or inter-departmental) initiative may depend, for example, the importance of the wider networks within which other organisations operate, the complexities for them in representing the diverse needs and expectations of their own constituencies and their access to planning and policy-making.

¹⁷

Steering Group to Oversee Health and Disability Changes, Report to the Minister of Health, 30 May 1997, page 7.

- 5.3.6 *Best practice developments, compliance costs and viability* - A number of contracting departments and agencies are looking into and/or implementing best practice approaches to contracting and have shared ideas. These are extremely worthwhile developments in contracting procedure, seemingly aimed at achieving more consistency and streamlining. Of themselves they will not shift the 'model' into the sphere of more strategic and relationship contracting which among other significant shifts requires a very different culture and understanding of the nature and possibilities of contracting.
- 5.3.7 Consistent with best practice are the efforts being made to reduce compliance costs on the voluntary organisation in the contract (and presumably also for the contractor). The recent announcement by the Associate Minister of Social Welfare that a simpler form of funding agreement would be introduced for smaller organisations is an example.
- 5.3.8 The viability of voluntary/community organisations has been of concern to Ministers. Designing contracting arrangements with voluntary organisations that maximise, or at least do not jeopardise, voluntary effort, while maintaining effective accountability for public funds, presents challenges to the way contracting is currently done throughout government. The same issue is arising in local government.

5.4 Local Government

- 5.4.1 Developments in local government community funding are adding another whole dimension to the contracting relationship between central government and voluntary organisations. One striking development is the clear move towards the use of more formal processes for allocating Council funding to community activity. This includes formal contracting, but it is interesting to note that many Councils have worked out a "tiered" system for funding which builds in more flexibility than models typically used by central government agencies, with different levels of specification and accountability depending on the amount of money involved and the objective. Happening at the same time is a growing recognition that contracting *per se* does not create the sort of relationship most local authorities are seeking to have with community organisations, in order to fulfil the council's role in developing the local social infrastructure.
- 5.4.2 Looking at the experience of the local authorities participating in the project, four quite particular factors have come through regarding the environment in which contracting is now occurring. These are:
- (a) The continuing weight of historical factors when Councils are considering what and how to fund community activity/community organisations, and the decisions they then take;
 - (b) The concern that local authorities are increasingly finding themselves "doing the work of government", or at least under pressure to take on more. This can

be a result of proactive devolution by Government, or a decision by a government department to cease a function (for legitimate reasons from a central government point of view) which leaves a vacuum in the community such that the local authority carries the consequences. This may fall back on to the relationship between the local authority and its voluntary sector if:

- the workload of a voluntary organisation increases as a result of the government decision;
- there is no commensurate funding from central government; and
- the service is one that is sufficiently important in the local community that the authority feels it must step in to help resource the voluntary service.

These factors are as much as anything an issue in distinguishing between services that are national in character and should be provided nationally, and local services. Voluntary organisations which help consumers are a case in point, with the withdrawal of the Ministry of Consumer Affairs' consumer telephone information service;

- (c) Councils and local voluntary organisations wanting more out of the relationship than just the service delivery/contract relationship. Common ground between them for a more active relationship is the shared concern and responsibility for promoting community wellbeing which for many local authorities is a strong emphasis in the development of policies. The growing emphasis on the advocacy and coordination roles of local government creates a quite specific context for the two sectors to work out together their respective roles in social service provision and create forms of partnership that reflect mutual benefit and comparative advantage. This is essentially governance vs service delivery;
- (d) Compliance costs associated with contracting, and the importance of accountability - the same issue that arises in central government contracting. The main issue is achieving robust accountability while avoiding unnecessary information-gathering and processing. Local authorities have found that some voluntary organisations have developed internal systems to take the contracting requirements in their stride while others struggle.

5.4.3 At the practical level of contracting itself, many local authorities are looking to channel their funding towards services related to the Council's strategic plan, while also ensuring that their policies and systems are such as to promote voluntary community activity and build community networks and skills. Examples of this include:

- More use of formal contracting which entails having clear objectives and outputs, but taking steps to keep the process as simple as possible and appropriate for the organisation being funded;
- A focus on encouraging community ownership and independence, involving different degrees of self-management by community organisations;
- The development of policy documents dealing with community assistance and funding policies and procedures, which typically emphasise the relationship between the Council and the community sector and organisations within it;
- The separation of two different motivations for funding: the letting of contracts to providers to deliver services the Council wants; and community funding where the Council looks for the fit of existing services into its "bigger picture";
- Occasionally, joint ventures based on an agreed objective and leveraging the joint capabilities of Council and the venture partner, for example in tackling unemployment.

5.4.4 Local authorities are very aware of the "fall-out" from much of the experience voluntary organisations have had with contracting with central government. They see contracting as here to stay but many are actively working on avoiding the problems the voluntary sector has associated with central government.

5.5 Some Additional Issues on the Agendas for Local and Central Government

5.5.1 The following are issues we have identified in local and central government papers and in conversation with officials:

- Partnership, or partnering, approaches are much talked about. Achieving them in reality is easier said than done. The conditions for effective partnerships are quite complex and require a conducive community environment, levels of mutual understanding by each of the parties about each of the other organisations in the partnership, a variety of styles of funding and variable accountability arrangements. Partnerships are also difficult to achieve in a competitive environment since they rely on networks and collaboration;
- Outcome-output links. The absence of an outcome focus in government contracting is commented upon in paragraph 3.3.2(i) above. A number of voluntary organisations have said it would be helpful to them to be clearer about these. Some find departmental outcomes are too thinly expressed for

them to see where their activities fit in the larger scheme of things. It is easier to make the links at the local authority level, although there is room to make outcomes more explicit, to facilitate the link for the voluntary organisations. In either case, the hard part is establishing performance indicators which satisfactorily express outcomes, for clients and for the community;

- Also in relation to outcomes and as has been mentioned already, at a broad level central government and local government may each be contributing to different sets of outcomes through their contracting regimes, which may be compatible and complementary, or may pull in different directions. This is potentially quite an important consideration pertaining to the central-local government relationship;
- What importance should be placed on maintaining the distinctiveness of the voluntary sector? Some aspects of contracting seem to be blurring the characteristics which differentiate voluntary organisations from commercial businesses and/or State provision. The risks come from two ends: voluntary organisations becoming more “like business”; and funding bodies specifying the services they want, as a purchaser. This might, taken further, reinforce the thought some government agencies have expressed that it might be less important for them to distinguish voluntary sector providers from other non-government providers than to pursue the best quality service at the most acceptable price;
- A further issue under some consideration is the appropriateness of using commercial type contracts in a not-for-profit environment. Related to this is the issue of not-for-profits competing with for-profit and public sector agencies for contracts. Is there a level playing field, or is a level playing field desirable? We have just noted the possibility of a move within the government funding sector towards a theoretically neutral stance on the question of the nature of the provider organisation. This would have significant implications for the culture and style of contracting adopted by government;
- Funding “with strings attached” does risk the provider becoming an extension of the central government agency’s or the local authority’s own service delivery. To what extent is this legitimate? It is already an accepted part of central government management, and the practice is growing in local government to tie community funding, including funding under contract, to strategic objectives.

5.6 The Voluntary Sector

- 5.6.1 An issue of increasing importance to many voluntary organisations is that of how they establish and maintain their own priorities under the sometimes primary influence of the government contract. Some providers have adapted or are adapting their services to more of a business model geared to providing the services government wants to purchase in line with government priorities, and are seeking to expand their activity through contracts.
- 5.6.2 Of particular note are early signs that some of the well established voluntary organisations are independently reviewing the “fit” between the contract and their own priorities, in terms of the cost of providing the service under the contract and their responsiveness to constituency groups and clients. Garth Nowland-Foreman has observed in other countries the move by some voluntary organisations to “grow small”, motivated by the desire to re-focus on the things that really matter to them. Withdrawing from services they realised were “peripheral” to their real reason for being gave them “ ... more discretion over their resources to spend them where they believed they have their greatest impact.”¹⁸
- 5.6.3 In New Zealand some major voluntary sector providers are reviewing or have reviewed their contracts for the extent to which the contract is consistent with the mission, goals, vision and strategic direction of the organisation. If the result is that the organisation is better able to use its resources in different ways than that may be what they do.
- 5.6.4 In its recent review of the relationship between voluntary social services and the New Zealand Community Funding Agency, the Council of Christian Social Services reported a series of recommendations that along with technical/procedural changes cover a number of key components of relationship contracting, including recognition in the contract of the voluntary organisation’s philosophy and value-base and of the organisation’s wider stakeholder accountabilities, multi-year contracts, a collaborative ethos on the part of the contractor and ways of ensuring training, research and development.

5.7 Community Trusts

- 5.7.1 This study has not so far mentioned the role of Community Trusts in the contracting environment. The two trusts spoken to for this study regard their community funding contributions as donations, so they sit outside the conventions of contracting as such.
- 5.7.2 It is important however to be aware not only of the very considerable discretionary funds the Trusts put into local communities - certainly outstripping the funds available from a number of local authorities for community activity - but also the interesting approaches and practices at least some Community Trusts are adopting.

¹⁸ In *Dialogue*, the newsletter of the New Zealand Federation of Voluntary Welfare Organisations, No. 99, June 1998

- 5.7.3 Acknowledging the difficulties community organisations face when fundraising alongside what is often by nature stressful core business, some Community Trusts try to work alongside the organisations, and are prepared to support organisations in building a track record so they become better placed to attract funding from other sources.
- 5.7.4 The two trusts we spoke to were adopting high-trust, low-compliance arrangements with the groups they fund. Their closeness to the community and their networks into the community form a powerful basis for good relationships. This seems to form the basis of donor accountability as well. Relationships are crucially important.
- 5.7.5 They have allowed themselves more freedom than central government has to take risks, to pick up a good idea and to see how it goes.
- 5.7.6 Trusts are, however, fully aware of the difficulties many community organisations face, particularly in response to a perceived reduction in central government funding. Like local communities themselves, the Community Trusts are facing increasing pressure to pick up the funding “void” left by central government.

6.0 CONCLUSIONS ABOUT CONTRACTING

- 6.1 Section 2.0 of this paper lays out a way of looking at the nature of the interests the central government, local government and voluntary sectors have in contracting. In paragraph 2.3.5 it is suggested that alongside overlapping sets of interests, “the whole context for contracting starts to take on a clearer feel when the different interests are separated out.” From that proposition, the paper draws out the way each sector is responding to experience, and to the changing environment.
- 6.2 Useful generalisations can be made about contracting experience between government and voluntary organisations in New Zealand. Some of these (not all) apply equally to service funding/purchasing by both central and local government.
- (i) It would seem that seldom in the social services does contracting operate according to pure market principles. The attraction of the contract and its principles remains strong, but the role of contracts between the public sector and the voluntary sector cannot be judged by criteria drawn from the commercial arena. They have to be considered against criteria grounded in processes of government and in the nature of the voluntary (or in a wider sense, the not-for-profit) sector.¹⁹ There are all sorts of reasons contestability and competition do not happen, and reasons each of the three sectors, independently, may not wish it to.
 - (ii) Relationships cannot be conducted through a series of standard contracts. But contracting can be relationship-based, achievable to some extent by incorporating into existing contracting approaches elements of relational contracting as described in paragraph 3.3.2(ii) above. Ultimately relationship contracting requires a shift in culture and mindset, towards trust and flexibility.
 - (iii) If contracting simply continues to grow by extending it across a wider range of government activity (as indications suggest it will), with improvements concentrated on the ability to specify and monitor, attention does need to be given to what factors might frustrate the achievement of broad policy goals. Some development in specifying outcomes, which is much more demanding on contract design and monitoring, will be important.

¹⁹ See Stewart, 1993

- (iv) An outcome focus is equally important as contracting moves from the purchasing of well-defined functions and services to harder social issues such as mental health and youth sex offending. Contracting at this higher risk level involves the sharing of responsibility for interventions/programmes for core functions of government, the outcomes of which government agencies may not be able to control.
- (v) Before an outcomes approach can be considered, decision-makers in central and local government need to separate out the different motivations for using contracting:
- Contracting as a market mechanism to purchase specified services efficiently;
 - Contracting as a means for delivering social services with the aim of improving social conditions.
- (vi) None of these points argues against the use of contracts, but they do argue for:
- An understanding of the limits to the use of orthodox contracts, and of what cannot be achieved by and expressed in the contract;
 - Seeing the contract as having a range of possibilities beyond the purchase contract to relationship contracting.
- (vii) The complexities in social policy today raise the question of how far governments can intervene without it in fact becoming counter-productive in outcome terms. As in economic affairs, governments face limits on their capacity for effective intervention, most often because not enough can be known about what works and doesn't and there is not enough flexibility in government systems to respond when a particular approach doesn't work. This is where relationship contracting has much potential. By fostering a culture of mutual engagement between the funders/purchasers and the providers of social services, it overcomes boundary constraints on working out who does what best.
- (viii) Contracting with the voluntary sector potentially enables values to be realised and purposes pursued that are beyond the capacity of government (local and central) to achieve. But it has to be contracting conducted under conditions that specifically reflect this potential.

- (ix) The points made above are predominantly to do with the “principal” side of the “principal-agent” relationship. This study emphasises the need for the public sector to examine the contribution it brings to the contract from its side of that relationship. The voluntary sector has so far been a “taker” of the requirements and conditions of the contract ‘model’. There is clearly scope for it to insist that government agencies look at meeting the principal role in its full sense.

6.3 If contracting as it has evolved has not fulfilled expectations held of it - innovation, contestability and choice and diversity - what can be done instead? The following section identifies areas of work that might be undertaken to take the framework for contracting, in a social policy context, forward.

7.0 FUTURE POSSIBILITIES AND PRACTICAL ISSUES

7.1 A View Across the Sectors

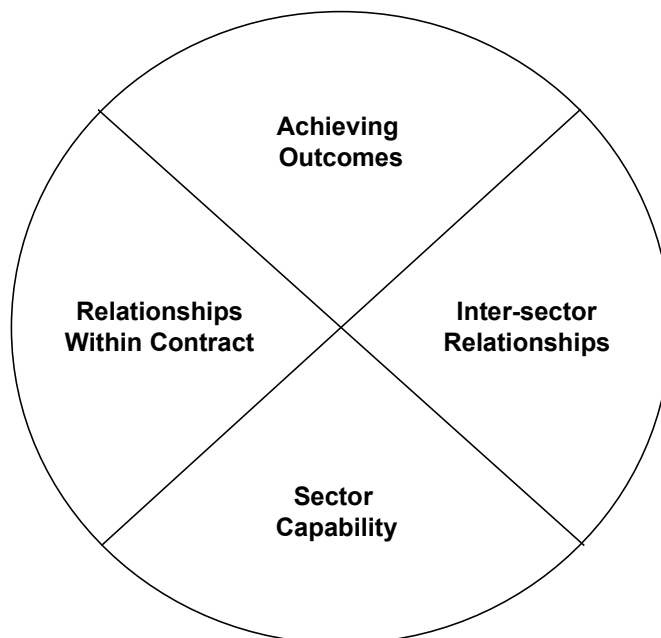
- 7.1.1 This scoping study has brought attention to changes in the contracting environment; and to a range of developments in the approaches to contracting on the part of central and local government as well as to the beginnings of a fresh look at the value of contract funding by voluntary organisations. There is insufficient evidence as yet to permit any conclusions about how far these may go in addressing the more problematic aspects of the standard contract model in New Zealand.
- 7.1.2 What is clear is that the orthodox contracting model on its own is not able to meet the needs of the voluntary sector nor we believe of the funders themselves. This conclusion will hold for the orthodox model even if it is supported by the widespread adoption throughout central and local government of a “best practice” approach.
- 7.1.3 One of the greatest attractions of contracting, for both the contracting agent and the service organisation, is the possibility of circumventing the constraints of direct public provision and government control. Hence the potential role of contracting in creating flexibility, opportunity and diversity. To do that requires a very well-functioning contract system.
- 7.1.4 A question for all three sectors is, why is it that the way contracting is organised, and its associated procedures, seem to make it difficult to achieve contracts that function well for all parties? Is it a matter of the proper functioning of the contract relationship? Or is it a matter of what is brought to the relationship (mindset, policy, rationale)? How far are problems founded in structural issues such as the boundaries created by the separation of policy/funder/provider? Or are the key factors matters of culture and skill?

7.2 Future Possibilities

- 7.2.1 The conclusions about contracting in Section 6.0 point to where contracting might be taken in the future, rather than dwelling on what has prevailed in the past. A range of issues and possibilities stand out from the themes this paper lays out, of:
- An improved understanding of the difference between the prevailing contracting orthodoxy, and the possibilities for “new orthodoxies” based on relationship contracting;
 - The direction of government policy in an evolving policy environment;
 - The signs of some potentially significant new developments in the approach to contracting by some government funding agencies, alongside evolving

practice among local authorities and the perspective the voluntary sector is bringing as its contribution to where contracting needs to improve.

7.2.2 Areas of further work can be classified as follows:



7.2.3 Some general observations can be made about work that might be done under this classification:

- (i) There are broader issues for government management than the ones that would be dealt with by importing “best practice” into the contract system we have now, if we are to go beyond improving management performance, and create a system that supports and advances broad social goals, with perhaps social cohesion as the most immediate. Contracting in the latter sense would underscore the community-based responsiveness which is characteristic of the voluntary sector.
- (ii) Such a system would be focused on promoting provider and community autonomy and capacity. It would in the first instance have more to do with the governance relationship than the funding relationship.²⁰ It would demand an outcome focus both as the basis of funder/purchaser and provider accountability, and as a mindset. It would involve less regulatory intervention through the contract.

²⁰ For a discussion on this line of thought, see Anna Yeatman in Davis et alia, 1997, and comment by Graham Scott on p 162.

- (iii) Such a system would be reliant on co-ordination among the social service functions of government, and may be implicitly linked to restructuring departments into larger groupings as floated by the present Prime Minister, permitting genuine cross-portfolio contracting activity.
- (iv) A significant culture change is needed, whether for future developments based on improving existing systems or for fundamentally different approaches.
- (v) The process of social services policy development is going to be critical to the relationship beyond the contract - policy formulation should be better able to engage the voluntary sector, in ways appropriate to the sector.
- (vi) Much that has come out of the social capital/civil society debate has to do with maintaining government's legitimacy. One implication of this for contracting is that care should be taken in the design and implementation of a contract system not to undermine wider public confidence in working to and with government.
- (vii) Continuing reliance on voluntary services implies a willingness to have regard for the capacity and values of the voluntary sector, and measures to preserve the special character of the sector - at any level of change.

7.3 Practical Issues for Future work

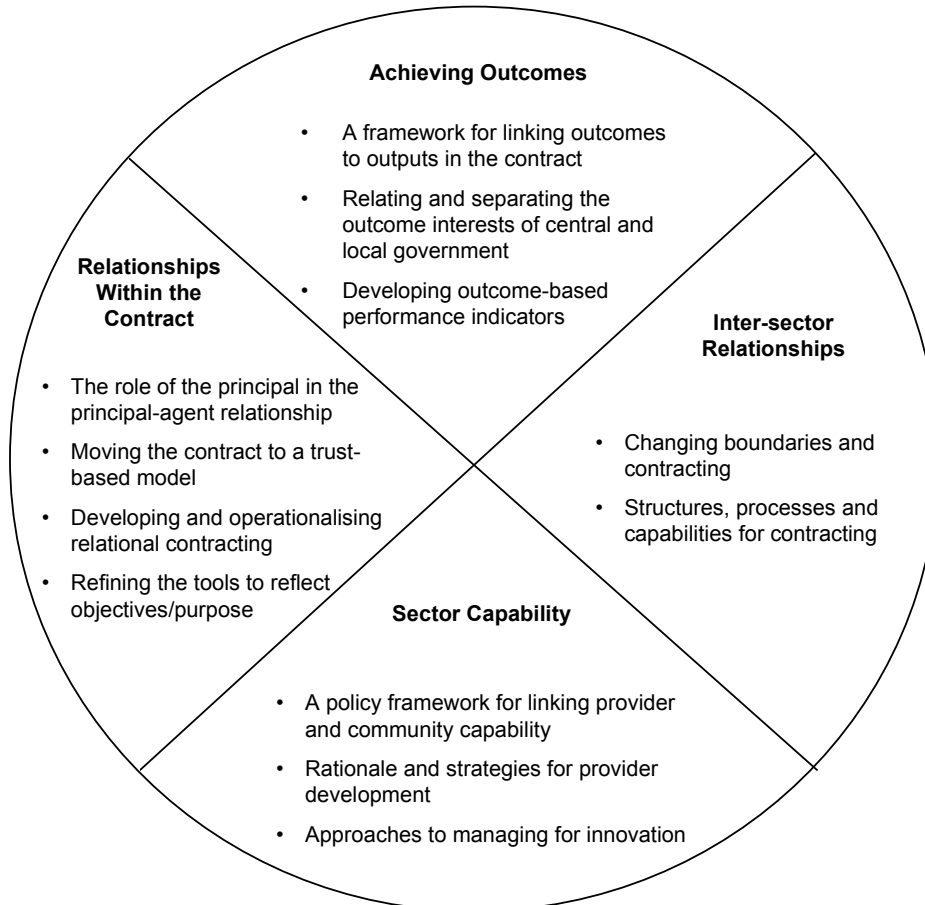
7.3.1 While it is obvious that the experience has been viewed very differently by the government funders and purchasers of services on the one hand, and the voluntary sector organisations on the other, there is a strong field of work to be done that directly focuses on the issues which all the parties have a real interest in seeing addressed.

7.3.2 The suggested work falls into two categories:

- (i) Existing contracting policies and systems:
 - (a) the scope to improve design and procedures in a coherent, co-ordinated way, building on developments already occurring;
 - (b) consolidating the contract model and completing its design to incorporate aspects of relationship contracting.
- (ii) Contracting as a model for the achievement of broad social goals:
 - (a) the scope to harmonise voluntary sector contracting with the broad policy interests of government and community, recognising successful public policy as a function of capable, independent voluntary organisations;

- (b) orienting the contract model to something that explicitly reflects the inventiveness of the sector and its role in involving citizens in social services.

7.3.3 This study provides a platform for such work. Using the classification above, the important areas of work we have identified are as follows:



7.3.4 In essence, all of these possible projects come down to establishing the conditions under which contracting is most likely to work in the future as an effective tool of public policy, informed by the common and different perspectives of the three sectors.

7.3.5 A next step is to refine the topics set out under each of the four identified areas. By way of example, some aspects to build into a programme of work include:

- (i) In respect of outcomes, distinguishing between outcomes that relate to social objectives, and outcomes that relate to contracting as a system. In the latter category, outcomes might, for example, concern levels of volunteer participation.

- (ii) What is it possible to achieve within the individual contract as compared with stepping outside it, for example developing networks and capability under “sector capability”?
- (iii) How could the contract be designed so that voluntary organisations are positioned to deliver desired outcomes?
- (iv) For local government, how far can contracting be a way to manage the boundary between it and central government because of the attention the contract process draws to the purposes of the service requiring funding?
- (v) Might contracting be further devolved out to local authorities given their advantages over central government such as knowing the community groups “on the street”, and less exclusive reliance on formal processes.
- (vi) How does the purchaser/funder acquire the learning that comes from direct provision? Ways to strengthen monitoring and feedback need to be investigated, to capitalise on the organisational growth and improvement possible through evaluation and feedback.
- (vii) What is required to bring about more balance and reciprocity in the principal-agent relationship?
- (viii) Consideration is needed of the dual aspects in the relationship of (a) strengthening the ties between government and voluntary agencies, and (b) actively recognising the innovative capacity of the voluntary sector. Both are features of present government policies. The distinctiveness of the voluntary sector is however a reason their interests and government’s are not always compatible.
- (ix) What issues are raised for the ‘arms-length’ relationship between contracting agency and service provider by relationship contracting and by more involvement by the contracting agency in developing provider capacity?

7.3.6 A number of streams of existing work relate to the topics we have identified and can be drawn on in various ways. They include other voluntary sector -related projects in the Department of Internal Affairs’ work programme, the Social and Civic Policy Institute’s work programme and work going on in departments on their own contracting approaches. Also of direct relevance is the attention being given by central agencies to developing the outcome-output link. Of particular interest is the Ministry of Research, Science and Technology’s work on developing an outcome focus for science funding which has some application to the funding/purchase of social services.

7.4 Conclusion

- 7.4.1 This study concludes that it is timely to consider, from experience, the contract model in terms of its strengths and limitations, assessed against what expectations we can hold for the contracting approach in the future.

- 7.4.2 Contracting also needs to be considered in comparison with other possible means for government funding of voluntary services with a view to the nature of relationships established between government and the voluntary social sector. The contract is not the only option. While our brief has been to scope issues in contracting, there is clearly another agenda of issues that lie beyond it.

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RECEIVED FROM
(with main contact person)**

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Age Concern	Claire Austin
Barnados	Ian Calder
Bason Botanical Gardens Trust	Keith Burt
Citizens Advice Bureaus (Auckland)	Val Holland, Clive Little
Community House, Wanganui	Jan Dunphy
Disabled Persons Assembly	Dave Henderson
IHC	Jan Dowland
National Association of ESOL Home Tutor Schemes	Judi Altinkaya
National Collective of Independent Women's Refuges	Edith McNeill
NZ Aids Foundation	Kevin Hague
NZ Alzheimers Society	Jan Harrison
NZ Federation of Voluntary Welfare Organisations	Tina Reid
NZCCS	Kevin Allan
NZCCSS	Bonnie Robinson
NZPARS (Christchurch)	David Harding
Relationship Services	Elizabeth Kerr
Te Puni Kokiri	Michelle Hippolite, Kahukore Baker
Te Runanga O Nga Maata Waka	Norm Dewes
Volunteer Centre (Wellington)	Darren Quirke
Waitakere Council of Social Services	Dorothy McGray
Wanganui Surf Lifeguards	Paul Gilmour
YWCA	Mary McGiven

Central Government Departments and Agencies

Department for Courts	Libby Carr, Marti Eller
Department of Internal Affairs	Diana Suggate
Department of Prime Minister & Cabinet	Jo Kennelly
Health Funding Authority	Julian Inch
Hillary Commission	Kereyn Smith
Ministry of Education	Ray Hollis
NZ Community Funding Agency	Wendy Reid

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