Funding And Providing Social Services:
The Good, The Bad And The Third Way?

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Introduction

The funder/provider split in the area of social services is now a long-established reality in Aotearoa/New Zealand. It has been the subject of much debate and criticism (see, for example, Boston *et al* 1996). However, it remains the principal means by which a range of NGO service providers gains access to State funding. At the same time, with the advent of a new Labour-Alliance coalition government in 1999, the possibility arises that one of the social policy reforms the government might consider would be to amend or even to abolish the funder/provider system.

The following paper outlines the background to a small research project on the issue of funder/provider to be carried out in the Hamilton area in 2001. In it we provide the analytical basis to the project and a description of our proposed methodology. Our objective is to discover the perspectives on funder/provider from a number of Maori and Non-Maori NGOs, with the intention of being able to make a productive contribution to the debate on this system.

Funder/Provider

Since the 1980s non-governmental organisations such as charities, religious bodies, iwi and Urban Maori Authorities have come to play an increasing role in the provision of social services in fields such as public health and social welfare.

Shaw (1999:197) summarises this situation when he points out that a lot of the work once performed by the old Department of Social Welfare has been contracted out to "organisations such as Bernardos, the Open Home Foundation, and a plethora of iwi-based social service agencies". To his list of examples should be added the non-iwi based Urban Maori Authorities.

The funder/provider split has been the mechanism by which both State and non-State service bodies compete for contracts for services. It seeks to maintain a division between the central State as a funding body (and also as a policy-maker) and those agencies, both State and non-State, which provide services. The funder/provider split originated in this country in the wave of New Right-inspired restructuring of the economy, of the public sector and of society as a whole (Matheson 1997; Scott 1997) which Labour began in the 1980's and which National and the National-led coalition of 1996-1999 subsequently intensified.

The funder/provider split was meant to achieve a number of objectives consistent with New Right ideology. Separating funding from provision was meant to lessen the chances of the State-as-funder being 'captured' by interest groups that seek to divert funds to their own agendas (Bertram 1988). It was also intended to facilitate a greater participation of non-State bodies in the provision of services, thus facilitating a shift from an allegedly unhealthy one of State monopoly (or near-monopoly) to a more market, competitive model. By so doing it would also reduce the role of the State as provider, and the New Right saw reducing the role of the State as a desirable end in itself. Finally, it was also a mechanism for achieving cost controls Shaw (1999), or even cost-cutting by the State.

The means by which non-State providers were to gain access to State funding was by competing for contracts. For example, in the wake of the 1993 health sector reforms the

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health system became reliant "on a network of contracts from ministers, through RHAs, to an array of public, private and voluntary providers..." (Boston *et al* 1996:174). The contractual form that was to bind providers to the funder was also a reflection of New Right ideas of governance. The intention was to "replicate the arms-length relationship between buyers and sellers in competitive markets and to thereby mitigate 'provider-capture'..." (Schick 1996:74). The predominant form of contract would be short-term, that is for twelve months, and it would "specify, among other things, the quantity, quality and timeliness of service delivery" (Shaw 1999:191).

The Funder/Provider Split Assessed

The funder/provider split was a major assault on New Zealand's Fabian tradition of social service delivery. That is, the services were administratively centralised in Wellington and delivered by government departments that claimed legitimacy as monopoly (or near-monopoly providers) on the basis of their possession of expert knowledge via their employment of professionals in the relevant fields. The funder/provider split generated opposition from social democratic thinkers and unions opposed to privatisation for whom, "government by contract" was one more means by which government could privatise its functions (Freedland 1994).

On the other hand the funder/provider split was consistent with some of the critiques of the state funder provider model which had been made from radical perspectives (Bertram 1988). That is, like the New Right, certain elements from the political Left had criticised the Welfare State for being too bureaucratic, too monolithic, too unresponsive to the needs of Maori, women and Pacific Island people. With reference to Maori, for instance, Boston *et al* (1996:146) report that in the 1980's there was "considerable disenchantment" in the Maori community with the Department of Maori Affairs' ability to represent Maori interests and to deliver services effectively. Women made their voice known in the report of the 1988 Royal Commission on Social Policy (1988:Vol 11) with critiques of their marginalisation in policy making, and by policy makers, in such areas as health and housing. In their contribution to that report, Pacific Island people were deeply condemnatory of what they saw as "institutionalised racism" within the State and the society it constructed (1988 Vol IV).

The Royal Commission on Social Policy summarised those views when it acknowledged that, with reference to the provision of social services, "state provision has often been rigid and standardised, making insufficient recognition of individual, local and cultural variation in requirements" (1988:Vol 11:791). Labour Party members and union representatives involved in the debates on privatisation and the future of the State had also come to realise that change was both necessary and overdue. The welfare state was characterised as having been "marked by paternalism, bureaucracy and centralisation" (Maharey 1989:166) and it was acknowledged that one of the positive side-effects of privatisation had been that the "old, white, male-dominated state structures have been dispersed. The paternalist approach to social welfare has been badly eroded" (Harris 1989:222).

But as practised by a series of New Right regimes, the funder/provider split did not deliver what the critics of the old regime had in mind. For example, well-meaning supporters of the 'normalisation' and 'deinstitutionalisation' of the handicapped and the psychologically ill (for example, Blaszczyk 1988) were soon to see that the New Right version of 'community care' meant dumping people onto the streets, or into a marae, without adequate support services.

The contractual model did not eliminate bureaucacy, it simply changed it's role and shifted some of its requirements onto the providers.

A number of analyses have been made of the problems that the system has generated for providers (See Shaw 1999; Te Puni Kokiri 2000a, b, c, d, e.) These can be briefly summarised as follows: a take it or leave it attitude by State funders to the content of contracts; the transaction costs of applying for and monitoring short-term contract; the lack of certainty about funding; and the focus of the contracts on the provision of a narrow and inflexible set of quantitative outputs. Some Maori providers also claim that State

funders do not treat Maori providers as partners in terms of their supposed commitment to the principles of the Treaty of Waitangi (Te Puni Kokiri 2000a).

Despite these criticisms, Te Puni Kokiri still argues that: "Contracting continues to be a relevant and effective process for engaging communities and other groups in a wide range of social, cultural and developmental issues" (Te Puni Kokiri 2000a:11). The system has permitted and encouraged the growth of iwi, Maori, and Pacific Island providers, for example, who are responsive to particular spiritual and cultural needs in their client community, and not only their physical or material needs.

Possible Options for Change

Our research is therefore focussed on trying to discover whether providers wish to see the present system scrapped or simply improved upon. In considering this question, three major options appear to present themselves:

1) A return to a State (near) monopoly.
The State would once again become both the major funder and provider of services. All the problems of the funder/provider split would therefore be overcome. The current government has shown, through its ACC policy, that there are areas of social service provision that it considers are best delivered via a State body. Whether the majority of existing providers would want a return to a State monopoly, and whether it would be politically and economically feasible to reconstruct one, are amongst the problems with this option.

2) Radical devolution of provision, Ministry control of funding.
This is the scenario recently proposed by Merepeka Ruakawa-Tait (cited in Masters 2000, A5) who put forward the argument that the Child, Youth and Family Services Department be abolished and the services it carries out transferred to community agencies. This would carry the devolution of provision, and its privatisation, to its logical extreme. At the same time, the sub-contracting role of bodies like CYFS would disappear and the service providers would contract directly with the relevant policy ministry. One objective of this change might be to replace the 'take it or leave it' contracting process with one based on genuine negotiations.

But there are other, far reaching, implications in this proposal. For example, CYFS social workers, as defined by the 1971 Social Welfare Act, and the police, have the statutory monopoly on removing at risk children from their homes. The abolition of CYFS would also necessitate the redefinition of social worker, the possible redundancy of the existing CYFS social workers, and the relocation of the statutory obligations and powers granted to those workers under existing legislation.

However, there is no likelihood of this scenario eventuating under the present Government as Prime Minister Clark has firmly rejected it. Instead, she has pledged to rebuild CYFS in order to deliver " a professional child welfare service" (Cited in Masters 2000). We might expect a similar rejection should the proposal be suggested for other areas of social service provision.

3) A new partnership model.
It has been proposed that a new form of partnership be developed between funders and providers. There are variations on what this might mean. Robinson (1999), for instance, suggests that "community-based paradigms" might be developed which could involve government, business and community agencies. The intention would be to "form a new type of organisation in which all members contribute and participate" with the intention of creating "an effective mechanism with the ability to break free of rigid sectoral boundaries" and which would move from "government imposed" contracts to a "negotiated partnership arrangement" (23).

There are problems with this scenario. First, how do we define community groups? Many of the largest NGO providers such as Barnardos and the Salvation Army are national organisations, not based on specific localities. They might have branches or offices in

different cities and towns, but that is not the same as being local organisations. How do they fit into the community scenario, should we be able to overcome the second problem which is one of defining what precisely is meant by a community? If a community is a close-knit area with some kind of collective awareness, then we would suggest that this nation has lots of neighbourhoods and suburbs, but few communities. If it is used in the wider sense, as in 'gay community', then it loses its resonance as a focus for location based partnerships.

We also doubt that many private sector firms would be willing to participate in such partnerships. The majority of large firms are members of the Business Roundtable and unlikely starters in such a project. Finally, the question of how and to what extent monies are transferred by the State to non-State providers would still remain to be resolved. If it is not to be on a contractual basis then what will be the basis?

4) An improved contractual model.
Reconsidering what critics have outlined as being the principal faults of the existing system, there are a number of ways in which it might potentially be improved. For instance:

a)   Good faith contracting.

Through the Employment Relations Act, the government has introduced the concept of good faith bargaining into the contractual relationship between employers and unions. Good faith is a principle that can apply to a range of contractual relations. In the case of Germany, for instance, Reifner reminds us that:

> "According to the German Supreme Court...every long-lasting contractual contractual relationship today is especially governed by the principle of bona fide {Authors' note: Good faith in English} which requires both parties to respect the purpose of the other side and to refrain from all actions that may harm the contractant and even not to seek the maximum profit when there is a visible dependence on the other party" (1993:185).

A first start, then, might be to institute good faith bargaining as a prerequisite in contract formation, and with the same requirements as now apply in industrial law. Namely, that genuine bargaining takes part and that both parties are committed to resolving differences between them if possible.

b)   Longer term contracting.

The above reference uses the phrase 'long-lasting'. Contractual arrangements do not have to be long term to be long-lasting, an annual contract rolled over for several years becomes a long-lasting relationship, for example. However, to help resolve some of the problems that derive from short-term contracts, moving to longer-term contracts, of two or three years say, should be seen as an option. The intention would be to build a closer relationship between the funder and the provider and to facilitate the provider's ability to carry out planning and strategic decision-making.

c)   More flexibility in the contracts.

Moving away from specifying narrowly defined outputs in the contracts, perhaps to more broadly defined 'outcomes' would be part of this change. It is recognised that there would still have to be purchasing criteria which were such that the State met its responsibility to manage the taxpayer's money efficiently. operational in terms of cost controlment by the State. Flexibility should also involve a readiness by funders to work with providers to remedy deficits and to provide resources to help overcome areas of weakness.

What is being advocated in the reformed funder/provider model is a move away from arms-length contracting to a more hands-on, relational, model of contracting, such as the one that has been said to apply to Japanese firms and their sub-contractors (Saiko, 1992). This model is also about building trust between the parties (Lorenz, 1993) and can thus be seen as a variant on the partnership option. As Boston *et al.* (1996, p180) have noted, the contracting process between funders and providers can be seen as a relational one

involving "trust and long-term mutual benefit" not only to the contracting partners but also to their clients or customers.

A reformed funder/provider system would have the potential to help the nation create a flexible and responsive system of service delivery as part of our development as a diverse and pluralistic society. Relying neither on a State monopoly of funding and providing, nor on a New Right model of contractualism, it could deliver a "Third Way" of service funding and provision that was specific to our society.

Brief Outline of the Research Project

Our small research project is meant as a contribution to the above debate on how best to fund and provide social services. We want to seek the views on these issues of a number of non-State providers in the Hamilton area. Because of our limited financial resources, we will focus on no more than a dozen providers. We have identified six Maori and six non-Maori (including one Pacific Islander based) providers that are willing to participate in the research project. They were selected following informal discussion with persons active in the social services field. Our project has been given ethical approval by the Waikato University's Faculty of Arts and Social Sciences Ethics Committee.

We are currently at the stage of preparing a questionnaire to be used in interviews with our participants. This will be refined in consultation with representatives of provider organisations. The final version of it will be sent to the providers in advance of the interview. Following the writing up of the interviews, arrangements will be made, if needed, for re-interviewing on specific items. We will divide the interviewing process between us according to factors such as availability and appropriateness.

We cannot predict what results we will obtain, but a number of possible areas of interest might arise. Firstly, it might be that there is a particularly Hamilton, or provincial-city provider, perspective. There might be differences between. as well as similarities among, the Maori and the non-Maori providers. Whether or not non-iwi based Maori providers see the Treaty of Waitangi as source of concern is another matter that could prove of interest. Or, it might be that the research throws up issues and questions that prove to be totally unexpected. Hopefully, too, the project will point the way to further areas of research that can be carried out in the Waikato area, or at a national level. We shall see.

Conclusion

If there is one thing on which there is a consensus in the area of funding and providing social services, it is that the existing system is riddled with faults and difficulties. Some people would jettison the existing funder/provider system, others would seek to replace it by a partnership model, and others would wish to reform it. It is our intention to make use of a small-scale research project to seek the views of non-State providers located in this area. We are very enthusiastic about this small project, if only because we are aware of the commitment and effort that those providers put into their work and are keen to discover what their views are.

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