

**4. REPORT ON CENTRAL GOVERNMENT FUNDING AND PURCHASING OF SERVICES FROM THE VOLUNTARY WELFARE SECTOR IN CHRISTCHURCH**

RR 9791

<b>Officer responsible</b> Director of Policy	<b>Author</b> Mary Richardson
Corporate Plan Output: Policy Advice	

The purpose of this report is to inform the Committee of the *Report on Central Government Funding and Purchasing of Services from the Voluntary Welfare Sector in Christchurch* prepared by the Policy Directorate.

**INTRODUCTION**

The Community Services Committee of the Council requested information on the amount of government funding distributed each year to the voluntary welfare sector in Christchurch. Councillors also expressed concerns regarding aspects of the current funding arrangements.

The Report on Central Government Funding and Purchasing of Services from the Voluntary Welfare Sector in Christchurch identifies the allocation by each government agency to voluntary welfare sector and describes some of the current concerns surrounding funding arrangements. It also discusses some options for improving current arrangements. (A copy of the report has been separately circulated.)

The document aims to act as a starting point for dialogue on issues associated with the relationships between the voluntary sector and local and central government. A brief summary of the report is outlined below.

**GOVERNMENT FUNDING AND PURCHASING OF SERVICES**

Government funders provide funding assistance to or purchase services from voluntary welfare organisations under a number of different arrangements:

- Grants for all or part of the cost of community initiatives,
- Purchase of service for agency clients at a regional or local level (for example, programmes for offenders, bednights for young people),
- Part payment of costs of services provided by organisations, by way of contract,
- Contractual agreements with national organisations for the provision of services, and
- Provision of assistance in kind or adviser support.

The approximate funding provided to the voluntary welfare sector in Christchurch in 1997/98 was:

Department of Internal Affairs	\$953,977.00
Lottery Grants	\$3,869,913.00
Dept of Prime Minister	\$111,500.00
WINZ	\$2,146,520.00 <sup>1</sup>
Ministry of Youth Affairs	\$348,000.00
Community Corrections	\$214,661.00
Community Funding Agency	\$5,490,052.00
Prisons	<\$75,000.00
Department of Courts	<i>not available</i>
HFA	<i>not available</i>
Crown Public Health	\$75,000.00
Ministry of Education	\$164,000.00 <sup>2</sup>
	\$13,448,623.00

An estimated **\$2 million** of this would have been spent on **compliance costs** (based on the Ernst Young (1996) survey in which community groups estimated that compliance costs associated with multiple Government funding sources was on average 18% of their total costs).

An additional **\$1.6 million** would have been spent on **transaction costs** by government funders (based on funder transaction costs identified by Nowland-Foreman 1996).

### **Problems with the current funding arrangements**

There are a number of problems associated with present funding arrangements for voluntary welfare organisations, Central Government and the Council.

### **Voluntary welfare sector perspective**

Current funding arrangements are adversely affecting the sustainability and capacity of the voluntary welfare sector. Community resources that would otherwise be available to run programmes are consumed in seeking funding and complying with administrative requirements.

---

<sup>1</sup> This figure is the funding through the Community Employment Group. WINZ also contract with organisations to provide training, however it is difficult to determine the level as the agency makes no distinction between profit and not for profit organisations.

<sup>2</sup> Ministry of Education also provide funding to schools for operations grants, truancy initiatives, special education etc (see Section 3.).

In many instances the amount of funding available from a single agency is insufficient to meet the full costs of a service or activity. Voluntary organisations are therefore forced to deal with multiple funding bodies, each with their own funding, monitoring and reporting processes.<sup>3</sup> For example, a J R Mackenzie Trust survey revealed that organisations on average require five funding providers (government and non-government) to adequately meet the costs of an activity, with some organisations having as many as eight (J R MacKenzie 1998).

Increased pressures on funds and compliance costs are taxing community groups. Securing funding, negotiating contracts and meeting accountability requirements often involves complex processes and means that voluntary organisations are submerged in paper work. It would appear that compliance costs are often disproportionate to the size and risk of the programme, service or activity. A recent survey of NZCFA clients estimated that compliance costs associated with multiple Government funding sources was on average 18% of their total costs.

Each funding agency tends to have its own system for needs assessment, pricing, and selecting organisations. Funders also have varying reporting and accountability requirements, with each funder requiring slightly different statistics and data, so organisations must devise multiple recording systems. This results in a duplication of effort on the part of voluntary organisations.

Despite the emphasis on reporting and accountability there is little evidence that government-inspired measurement of outcomes/outputs of community organisations has contributed to greater effectiveness, transparency or accountability.

The increasing demand for the donation dollar, along with the increasing demand for social services caused by increasing poverty, is also putting pressure on voluntary organisations.

The recent emphasis has been on the sector's ability to deliver services, rather than its capacity to encourage participation, provide opportunities for learning and skill enhancement, engage communities in identifying and addressing local needs, provide a voice for the disadvantaged, and facilitate participatory democracy. In some instances this has resulted in the style and role of voluntary organisations changing from community organisations into service delivery agencies.

There has been an increasing occurrence of initiatives being determined by Government and a decrease in importance of voluntary sector initiatives. This, together with the increased compliance costs, means that the control of voluntary organisations is moving to government funders.

---

<sup>3</sup>This may be due to a policy of providing only partial funding, a policy to fund on a case (certain clients only) basis rather than service basis or limited available funds. In any event, organisations have to seek further funding and may find that other funders have different criteria and accountability requirements. Current funding arrangements can work reasonably well where there is a good match between an output that a Government agency needs to provide and the service provided by the voluntary welfare agency. It is less suitable where organisations wish to provide a service that does not fit precisely within an agency's output class or spans several output classes.

## **Central government perspective**

The sustainability and capability of the voluntary welfare sector is of concern to central government; however, there is a mismatch in central government's expectations of the voluntary welfare sector and the support it provides.

While voluntary organisations primarily form to address community objectives, their existence is often essential to government agencies. The implementation of many government policies in the social sector depends on the availability of a voluntary sector willing and able to:

- deliver services efficiently on behalf of Government;
- provide "local solutions to local problems"
- provide opportunities for participation and hence build the social capital which provides a platform for economic and social wealth
- respond appropriately to locally identified needs in order to avoid the need for more costly interventions at a later stage (Blakeley 1999).

Recently Ministers and funding agencies have expressed a desire to improve the effectiveness of government funding and purchasing practices to maximise organisations' ability to deliver services and strengthen families.<sup>4</sup>

Central government has recognised the need to minimise transaction costs for Government and compliance costs for community organisations, while maintaining appropriate levels of accountability.<sup>5</sup>

## **The Council's Perspective**

The Council has recognised that current funding and purchasing arrangements pose problems for Government and the voluntary welfare sector. Councillors have identified that resources which would otherwise be available for distribution are consumed in complying with policies and processes and administering grants and contracts.

Councillors have also expressed concerns that the current fragmentation of service delivery is reducing efficiency and leading to duplication of services and funding. Some queried whether organisations could receive funds for the same activity from different funders. The report found there is no evidence that this occurs to any significant extent.

---

<sup>4</sup> A concern about these initiatives is that they may actually increase funders demands for compliance rather than reducing compliance costs. When government agencies are linked into a monopsony (monopoly purchasing) they will have more power to place excess demands and restrictions on voluntary organisations.

<sup>5</sup> Transaction costs include all the costs on funders associated with administering and distributing grants and contracts, for example publicity, documentation, tendering procedures, assessment processes, policy development, decision making processes, administration of payments, database systems, monitoring and auditing arrangements, impact assessment etc.

## CONCLUSION

The Council's Community Development and Social Well-being Policy articulates the Council's commitment to "promoting a healthy social, cultural and economic community, and self-help, self-determination and progressive social change through the empowerment of its residents". Central to this policy is a strong and resilient voluntary sector.

The Council therefore has a key role in supporting the voluntary sector, including advocating for appropriate funding arrangements. In the course of gathering the material for the report some practical ways to improve current arrangements became apparent. These include:

- engaging of the voluntary sector in policy processes
- investing in the development of the voluntary sector
- providing a range of funding options including increasing multi-year contracts
- reducing unnecessary compliance costs
- recognising and supporting diversity in the sector
- maintaining a mix of service provision rather than excessive devolution to or contracting with the voluntary sector

The report also identified that further work is required in this area to identify ways the Council can support the sustainability and development of the voluntary welfare sector.

**Recommendation:** That the Committee:

1. Receive the report.
2. Consider this report at the June seminar meeting alongside views from voluntary sector representatives.

**Chairman's**

**Recommendation:** That the above recommendation be adopted.