# MARTIN JENKINS

SOCIAL SERVICE SYSTEM: THE FUNDING GAP AND HOW TO BRIDGE IT

Research funded jointly by social service providers and philanthropic organisations

August 2019

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>> EXECUTIVE SUMMARY

Headline finding

Social service providers and philanthropic organisations have a vital role in our social service system. Their contribution to promoting the wellbeing of children, young people, individuals, families and whānau, and communities in Aotearoa should be valued.

This research has found that the social service system in New Zealand is not working as well as it could be and that, as a result, providers delivering critical services to those in need are under-funded and over-reliant on the philanthropic sector.

Results indicate that currently the government funds providers for less than two-thirds of the actual cost of delivering the essential services they are contracted to provide, and that the total underfunding is estimated to be at least $630 million annually.

Some of the major drivers and immediate and long-term impacts of this underfunding have been highlighted. Recommended solutions have been proposed for implementation in partnership with government, providers and philanthropic organisations.

The study and its context

In April 2019, Social Service Providers Aotearoa (SSPA) commissioned MartinJenkins to conduct research and economic analysis to quantify the funding gap faced by social service providers (providers) and offer recommendations on how to bridge it.

This work was overseen by a seven-person Sponsor Group:

- **Brenda Pilott**, National Manager, Social Service Providers Aotearoa

- **Dr Claire Achmad**, General Manager Advocacy, Barnardos New Zealand

- **Trevor McGlinchey** (Ngāi Tahu), Executive Officer, New Zealand Council of Christian Social Services

- **Sue McCabe**, Chief Executive, Philanthropy New Zealand

- **John McCarthy**, Manager, Tindall Foundation

- **Georgie Ferrari**, Chief Executive, Wellington Community Trust

- **Shannon Pākura**, General Manager Māori Development, Barnardos New Zealand.

The context

Many New Zealanders will need to rely on some form of government-funded support at some point in their lives. These social services are often delivered by community-based providers, through contracts with the government.

Providers are fundamental to the immediate and long-term wellbeing of service users in Aotearoa. However, funding arrangements across the social service system as a whole have not kept pace with the scale and complexity of the services needed.

For New Zealanders to prosper, we need a strong social service system. The system relies heavily on the dedication and generosity of the workers

and volunteers within it, and the sustainability of this system is a key indicator of the overall wellbeing and cohesiveness of our society.

There is an opportunity for government, philanthropists and providers to think collectively about alternative contracting practices and funding arrangements that would enable the system to respond, effectively and sustainably, to the immediate and future needs of New Zealanders.

The scope

This research and analysis focuses on providers who deliver services to children, young people, individuals, families and whānau, and who are mainly funded through government contracts with the Ministry of Social Development or Oranga Tamariki, or both.

The analysis examines these providers as a cohort, and there is no sub-analysis based on specific population groups or specific types of service. The analysis is also focused on the funding gap, its implications, and future options; it does not address the quality of social services.

The methodology

The research and analysis included the following steps:

- **Defining the problem and describing the system.** The first step was defining the problem and the scope for this project. The social service system as a whole was also described, including the functions and responsibilities, incentives and drivers, and the levers each group within the system uses to influence others.

- **Engaging with stakeholders and reviewing the literature.** Stakeholders from across the social service system were engaged in order to capture a diverse range of perspectives. This included interviews, surveys and discussions with providers, the philanthropic sector, subject matter specialists, and various government officials.

- **Analysing current and future operating costs.** The next step was deep research and analysis of existing operating shortfalls. The project team looked at the services the providers are currently contracted and funded to provide, the level of demand they face, and the real and tangible costs of sustained underfunding.

- **Recommending alternative funding mechanisms.** The project team then developed balanced options for alternative funding mechanisms, based on the team's research findings and their machinery of government expertise. This included recommendations for implementation in the short, medium and longer term.

Overview of the social service system

The research describes the social service system in a **well-functioning society**. As a society, we aspire to improve people's wellbeing, and we have choices about how to achieve this. Regardless of how the system is constructed to achieve wellbeing, it must operate in such a way that the actions of all parties are understood and aligned, and contribute collectively to system goals.

The system can be described in three parts: **funders, providers and users**. The parties interact with and affect each other, and their actions are also shaped by the external environment. The system is dynamic, with changes in one part of the system causing ripple effects or impacts in other parts of the system.

For the purposes of this study, we have mapped the funding mechanisms process in which funding typically flows from central government to providers, and finally to service users. Government is involved throughout the process, but it is generally not until the procurement and contracting phase that providers or philanthropic sectors become involved.

This research began with the assumption that the social service system is not working as well as it could be and that, as a result, providers are under-funded and **over-reliant on the philanthropic sector**. In an ideal future state, funders, providers and service users would work together, as partners, to generate the best wellbeing outcomes for New Zealanders.

Recent Wellbeing Budget changes are **a step in the right direction**. While Budget 2019 provided some much-needed relief, the total level of sector-wide investment was low, and many providers continue to face uncertain and insufficient funding. Concerted efforts must be made to accelerate the pace and scale of change.

Drivers of the funding gap

This research has found there is a historical preference for **partial or contributory funding** models for devolved essential government services. This is opposed to a default, or first principle, where essential services are fully funded as if they were being delivered directly by a government agency.

New initiatives or services are also generally preferred over existing services. Government funders prefer to invest in more generous funding packages for new services, which put established services at a disadvantage. Existing service contract funding remains steady over time, meaning the real value of their contract is in decline.

There is a focus on driving **efficiency and effectiveness** across social services. The outcomes delivered by providers are not sufficiently valued. A general focus on efficiency and effectiveness drives adverse funding behaviour, meaning providers do not have the funding or the flexibility they require to best meet service users' needs.

There is limited agreement across the social service system as to what funding will achieve and **what 'good' looks like**. There is limited information-sharing and learning, and the information that is captured is seldom used systematically to guide funding decisions.

Impacts of the funding gap

The research has found that **providers are not funded for the basics**. Under the current funding arrangements, providers generally do not receive enough funding to cover basic running costs and certainly not enough to invest in their sustainability. They are taking on a high level of risk and many describe their position as financially unsustainable.

The community and provider workforce is underpaid and overworked. It is getting harder for providers to attract and retain staff, given the growing wage gap between the public and private sectors. People employed by social service providers are under-resourced and stretched, and their situation appears unsustainable.

Providers are often forced to compete against each other, leading to adverse outcomes. The competitive tendering process benefits better-resourced providers. This approach also means providers are incentivised to accept under-funded contracts, and disincentivised from collaborating with each other on joined-up service provision.

Providers are struggling to make ends meet. Providers will stretch themselves to fulfil their 'duty of care' and meet community needs, rather than turning them away. They endeavour to make ends meet through heavy reliance on additional philanthropic funding, public donations, and other funding strategies.

Ultimately, New Zealanders are not getting the support they need. Under the current social service system, providers are struggling to meet the high level of service demand, and they are forced to triage clients in need. People often wait too long for limited services that are too inflexible to meet their complex real-life needs.

Quantifying the funding gap

The funding gap across the social service system has not previously been quantified. To determine required funding levels, the research and analysis of existing data enabled the comparison of **actual provider** income and expenses against what a **financially sustainable provider** would require.

Results from this research indicate the government funds providers for **less than two thirds of the actual costs** of delivering the essential services they are contracted to provide. The total underfunding is estimated to be at least $**630 million annually**.

Providers do not receive sufficient funding for **their basic operating costs** when compared with financially sustainable providers. The disparity across overheads and reserves is estimated at 8% and 3% respectively, leading to basic operating costs being underfunded by about **$130 million annually**.

There is a growing **wage differential** between the provider and government sector, particularly between community and government social workers. The disparity between wages is estimated to be 32%, leading to an underfunding of wages by about **$300 million annually**.

Providers do not receive sufficient funding for the actual (absorbed) demand for services they provide. The disparity between funded and actual demand is conservatively estimated to be 15%, leading to an underfunding of actual (absorbed) demand by about **$200 million annually**.

Recommended solutions

Solutions in the immediate future

Resetting the principles of the social service system:

1   That government acknowledge the critical role and importance of the provider and philanthropic sectors in ensuring the wellbeing of New Zealanders, and work in partnership to develop **underlying principles** as a basis for change across the social services system.

2   That government establish, as an underlying principle, that all essential services that would otherwise be delivered by government agencies should be funded at a minimum of **30% 'overhead costs'** and **5% 'reserve costs'** as a proportion of total income.

3   That government establish, as an underlying principle, that the **wage disparity** should be closed between government agencies and those providers delivering essential services that would otherwise be delivered by government.

4   That government establish, as an underlying principle, that where providers' contracts are for essential services that would otherwise be delivered by government, the contracts should cover the **additional demand** for those services that is currently being absorbed by providers.

5   That government establish, as an underlying principle, that there is no expectation that additional **income generated by providers** should be directed towards funding essential contracted services.

Stabilising and meeting the basic needs of providers:

6   That government acknowledge that providers are funded for **less than two thirds of the actual costs** required for delivering essential services, and that this is estimated to be a total underfunding of **at least $630 million** annually.

7   That the Ministry of Social Development, Oranga Tamariki and the Treasury work with other relevant government agencies and with provider representatives to prepare a budget bid ahead of Budget 2020 to address the underfunding of **annual overheads** and **reserves** across providers, estimated at about **$130 million**.

8   That the Ministry of Social Development, Oranga Tamariki and the Treasury work with other relevant government agencies and with provider representatives to prepare a budget bid ahead of Budget 2020 to address the underfunding of **annual wages** across providers, estimated at about **$300 million**.

9   That the Ministry of Social Development, Oranga Tamariki and the Treasury work with other relevant government agencies and with provider representatives to prepare a budget bid ahead of Budget 2020 to address the underfunding of **demand** across providers, estimated at about **$200 million**.

10   That the Ministry of Social Development, Oranga Tamariki, and the Treasury undertake further analysis of **historical underfunding** to identify any specific trends, including disparities between service type and the population demographics being served.

11   That the Ministry of Social Development, Oranga Tamariki and the Treasury work with other relevant government agencies and with provider representatives to further investigate the drivers of the **additional demand** for services that providers are absorbing.

Ensuring appropriate funding principles and mechanisms:

12   That the Ministry of Social Development and Oranga Tamariki establish a **consistent policy** across government agencies that all essential

services that would otherwise be delivered directly by government are funded at rates of 30% 'overheads' and 5% 'reserve costs' as proportions of providers' total income.

13   That the Ministry of Social Development and Oranga Tamariki establish consistent policy and funding mechanisms across its contracting processes to ensure that contract prices for all essential services that would otherwise be delivered by government are adjusted annually, in line with an appropriate **index**.

14   That the Treasury establish new policy mechanisms across government, through the Budget process, to ensure that **future investments** in any one part of the social service system do not adversely affect other parts of the system.

15   That the Treasury establish new funding mechanisms across government, through the Budget process, to appropriately acknowledge and fund **cost pressures** faced by providers, particularly pressures resulting from additional demand or the changing needs of service users.

Solutions in the medium term

Wellbeing outcomes for the social service system:

16   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the social service provider and philanthropic sectors to design and develop a **wellbeing outcome strategy** across the social service system that guides performance expectations.

17   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to design and develop a consistent **performance framework** to measure and monitor tangible progress and generate insights that can lead to improved wellbeing.

18   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to develop mechanisms and infrastructure for collecting **meaningful information** to inform the social service system's performance.

19   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to develop mechanisms for actively sharing and disseminating **lessons and insights** derived from the analysis of administrative, performance and evaluative information.

20   That the Ministry of Social Development and Oranga Tamariki establish standardised policy and compliance mechanisms that deliberately aim to reduce to a reasonable level the **monitoring and compliance burden** placed on providers, including where providers are delivering social services on behalf of multiple government agencies.

Appropriate relationship principles and mechanisms:

21   That the State Services Commission investigate the feasibility of a new **Joint Venture** model arrangement where government, providers and philanthropic agencies can collaborate and collectively participate in funding, resourcing and delivery discussions.

22   That the Ministry of Social Development and Oranga Tamariki establish mechanisms to work in partnership with representatives of the provider and philanthropic sectors to develop **terms of relationship**, including accountabilities and responsibilities within the social service system that are unique to New Zealand.

23   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to develop mechanisms for collectively understanding and identifying wellbeing needs across the population, in order to inform **policy on possible solutions**.

24   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to develop mechanisms for **quantifying the actual level of demand** and **quantifying funding requirements** for new and existing services.

25   That government work in partnership with representatives of the provider and philanthropic sectors to develop mechanisms for **co-designing and effectively pricing** either new services, or evolved versions of existing services, as a response to agreed problem definitions and possible solutions.

Building the capability and capacity of the sector:

26   That the Ministry of Social Development and Oranga Tamariki continue to work in partnership with representatives of the provider sector, through the Workforce Working Group, to design and develop a **workforce strategy** for the social service system, including for attracting and retaining social service workers.

27   That the Ministry of Social Development and Oranga Tamariki continue to work in partnership with representatives of the provider sector, through the Workforce Working Group, to design and develop

mechanisms for **managing workforce disparity** and investing in capacity where additional demand for services is heavy.

28   That the Ministry of Social Development, Oranga Tamariki and the Treasury investigate providing sufficient remuneration for provider **governance boards** and risk committees, so providers have access to specialist expertise to support risk management and oversight.

29   That the Ministry of Social Development, Oranga Tamariki and the Treasury investigate providing sufficient funding for **representative bodies** of the provider and philanthropic sectors to enable those sectors to participate effectively in discussions about the social service system.

30   That the Ministry of Social Development, Oranga Tamariki and the Treasury investigate establishing sufficient capability and capacity to enable the government, provider and philanthropic sectors to monitor the **performance** of the social service system. This may include **functions** that enable the identification of needs, funding and pricing, investment in services, contracting, monitoring and evaluation.

Solutions in the longer term

Collaborative funding principles and mechanisms:

31   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to re-design and develop **alternative contracting and funding mechanisms** that reflect their revised roles and responsibilities across the social service system.

32   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to investigate the feasibility of establishing **collaborative funding mechanisms**, as opposed to partial or contributory funding mechanisms, where joint investment is agreed.

33   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sector to investigate how to fund and **scale up innovative initiatives** that have proven effective in pilot studies.

34   That the Ministry of Business, Innovation and Employment work in partnership with representatives of the provider and philanthropic sectors to design greater **fairness and transparency** across existing contracting and procurement decisions, in an effort to reduce providers' tendering costs.

35   That the Ministry of Business, Innovation and Employment work with representatives of the provider and philanthropic sectors to design and develop mechanisms for encouraging collaborative tender responses and partnerships between providers, in an effort to encourage **complementary** service delivery.

Invest in prevention and early intervention:

36   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to investigate the feasibility of fundamentally shifting to an investment strategy across the social service system based on identifying and supporting population **wellbeing needs**.

37   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to investigate the feasibility of taking a **human-centred approach to social investment**, by systematically identifying and valuing the positive outcomes of **investing in wellbeing**.

38   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to investigate the feasibility of establishing strategies to increase investment in **prevention and early intervention**, while maintaining the delivery of intensive essential services.

39   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to investigate the feasibility of establishing a tiered approach to **collaborative funding** mechanisms, where collaborative funding is allocated towards prevention and early intervention initiatives.

THE SOCIAL SERVICE SYSTEM

The social service system in a well-functioning society

As a society, we aspire to improve people's wellbeing and we have choices about how to achieve this. Regardless of how the social services system is constructed to achieve this, it must operate in such a way that the actions of all parties are understood and aligned, and contribute collectively to system goals.

As a society, we aspire to improve New Zealanders' wellbeing

Wellbeing is inherently important to all of us – to the extent that the government's 2019 Budget was referred to as "The Wellbeing Budget". Yet 'wellbeing' means different things to different people, and it is a concept that is difficult to measure and track.

One increasingly common way of defining wellbeing is through the four capitals described in the Treasury's Living Standards Framework.[1] This framework draws on the OECD's Better Life Index,[2] specifying that a society that promotes wellbeing will be rich in four capitals – human, social, natural, and financial/physical.

Treasury also has an emerging Māori wellbeing framework, "He Ara Waiora/A Pathway Towards Wellbeing". This framework includes kaitiakitanga (intergenerational wellbeing and sustainability), whanaungatanga (connectedness), ōhanga/whairawa (prosperity), and manaakitanga (care and reciprocity).[3]

When the social service provider sector is functioning well, it helps to increase the amount of social capital available by strengthening ties between families and communities, and building whanaungatanga, or connectedness. The provider sector also serves as a forum through which people can volunteer their time, skills and energy. In other words, it enables people to exhibit manaakitanga, or care and reciprocity for others.

The current context in New Zealand

The current socio-economic context in New Zealand influences people's level of wellbeing, the needs they have, and the needs providers strive to meet. It is outside this report's scope to provide an in-depth description of

the current socio-economic context, however, it is worth drawing attention to a few macro trends.

Inequality is a pervasive issue in New Zealand. In the 1980s and 1990s, rates of income and wealth inequality increased faster in New Zealand than in the rest of the OECD,[4] and the gap between the 'haves and have-nots' has continued to widen. For instance, from 2015 to 2018 the richest 20% of New Zealanders saw their net worth increase by nearly $400,000, while the net worth of the poorest 40% remained static.[5]

Rising house prices contribute to inequality and to related problems such as homelessness and food insecurity. Data from Statistics New Zealand shows that while household income levels increased by 41% on average between 2008 and 2018, housing costs outstripped this, increasing by 43%.[6] Housing cost pressures are felt most intensively by renters – recent data indicates that just over 21% of renters spend at least 40% of their income on housing.[7]

New Zealand has relatively high rates of child poverty, manifesting in various ways, including poorer health and educational outcomes and food insecurity.[8] Taking housing costs into account, roughly one in four children live in relative poverty.[9] In 2017 UNICEF ranked New Zealand 34th out of 41 developed countries for our effectiveness at promoting child wellbeing. Child abuse and family violence rates are also shockingly high in New Zealand, as is our youth suicide rate.

Social outcomes and indicators tend to be poorer for Māori, and also for Pasifika populations, recent migrants and our rural communities.

These are the kind of complex, interdependent issues that providers are seeking to address through their day-to-day work.

Any society has choices about how to improve wellbeing

Society has choices about how best to promote wellbeing – including how to provide and fund social support, and where to focus our collective efforts.

In New Zealand today, many essential social services are funded through taxation and delivered either by the government or by community providers. At the macro level, decisions about how to allocate funds are made by elected representatives, on their constituents' behalf. Government departments then make more detailed decisions about allocating funding within those parameters.

In addition to government-funded core services, the public can donate to charities and social service providers, with individual citizens or groups

choosing who to donate to and how much to give. Members of the public can also give their time, resources and skills for the benefit of others. This kind of informal gifting occurs regularly between family, whānau and community members.

Society can decide to prioritise effort and spending in specific areas, such as early intervention for particular issues, or crisis services. The rationale for investment in early intervention is growing stronger over time, due to research such as the world-leading Dunedin Longitudinal Study. This study highlighted the importance of the first three years of life, and improved data analytics, which enables the government to more accurately identify people who would benefit from additional social support.

For people to prosper, the different parts of the system must work together

We have seen that no single party is responsible for delivering wellbeing – it is a collective, social responsibility. Likewise, it is up to each society to determine the most appropriate way to fund and provide social support to citizens in order to improve their wellbeing. This is essentially a question of ideology, and different countries will come to different conclusions at different times. Roles and responsibilities also shift and evolve as circumstances change.

Gosta Esping-Andersen has a useful framework for analysing how different countries seek to improve their citizens' welfare. Countries such as the United States of America have low taxes and limited government services and, in this environment, rates of charitable giving tend to go up. Countries such as Spain tend to rely on social support via the family unit, rather than the government or providers, and rates of charitable giving tend to be low. Countries with a social democratic model, such as Norway, have significant government provision of services, funded through high taxation. There, donation rates tend to be low.

New Zealand has something of a hybrid approach, with moderate taxes allocated towards government-funded services and delivered by providers. Philanthropic grants and donation rates are relatively high, compared to social democratic nations where social services are fully funded.[10]

No matter how the social service system is designed, there must be collective agreement about who is responsible for what. Wellbeing is everyone's business, and when the system's parts work in a unified way, it is much less likely that vulnerable people will fall through the cracks. It is also much more likely that wellbeing can be maximised.

The system is complex, with many parties performing various functions. The parties interact with and affect each other, their actions also shaped by the external environment. The system is dynamic, with changes in one part causing ripple effects or impacts in other parts of the system.

Those who fund services

Social services can be funded by the government, the philanthropic sector and the public.

While providers can also finance their own activities (drawing on reserves and trust funds, using income generated via assets and social enterprises, and by using Treaty of Waitangi settlement funds in the case of iwi providers) this section focuses on funders **external** to the provider.

Funders are motivated by a desire to improve public wellbeing, but they also seek some sort of return on their investment. Yet each type of funder has their own drivers and levels of accountability, and different expectations as to the kind of return they want on their investment.

The government includes the parliament of the day, with its objectives, and the ministries or agencies that serve as delivery arms, such as Oranga Tamariki and the Ministry of Social Development. The government is a primary funder of social services. The government also includes local government, or those who are elected to local leadership positions as councillors or mayors.

The government funds social services to ensure people can access the support they need, and to generate positive social outcomes. The government is also seeking a return on investment – an investment in social services should help improve people's wellbeing and reduce their vulnerability, which, in turn, reduces the government's long-term liabilities to provide more acute social support. The government is accountable to the public, and the public expects it to fund services that demonstrate value.

Philanthropy can be defined as "the act of giving financial resources to a cause that is intended to improve general human well-being, and where the giver expects no direct reciprocation".[11] As defined for this study, the philanthropy sector includes publicly owned trusts and private foundations,

corporate funders, and individuals who make significant donations or bequests.

Philanthropic funders are diverse in their structure and size, and in the processes they use to distribute funding. They have widely different focus areas, including particular locations, subject areas or population groups. Some respond to applications for money, while others may seek out community organisations to support. Some seek to fund innovative solutions for complex, large-scale problems – particularly in areas not funded by the public or private sectors.

Philanthropic funding can often be thought of as the 'risk capital' of the social service sector. Many of these funders have a greater appetite for funding as-yet-unproven interventions, and they can take these risks perhaps because they are not using taxpayer funds.

Philanthropic funding benefits the wider sector when an intervention proves to be effective. This is because it benefits the recipient, lessons can be shared with government agencies, and initiatives may be considered for a wider roll-out. Many philanthropic organisations are therefore shouldering the risks of innovation, and sharing the rewards. The potential benefit of philanthropic funding is diluted when it is redirected away from innovation towards topping up government-funding for essential services.

Philanthropic agents do not expect a monetary return on their investment, but they do expect positive social outcomes. This sector is only required to meet the wishes of its own internal Directors, and the legal and fiduciary obligations contained in relevant legislation. It has no obligation to co-fund services contracted by government.

The public also funds social services via taxation on income and assets, and via voluntary donations. Taxpayers are motivated to see their tax funds spent on issues and causes that matter to them, and they expect their taxes to be sufficient to fund core government services. Taxpayers are only accountable for paying their taxes.

If the public chooses to make charitable donations, they are motivated to contribute to organisations they feel an affinity with. They typically want to see a return on their investment, which means they want their funding to be 'visible' in frontline service delivery, rather than 'invisible' and used to support organisational overheads. Donors are not accountable to any other party.

Those who deliver services

Social services can be delivered by the government, by providers (including hapū and iwi) and by for-profit businesses. This research and analysis in this section focused primarily on government providers and community-based providers.

Government service providers includes all social services delivered by a government agency, such as the Ministry of Social Development, Oranga Tamariki and Housing New Zealand. Some services are universal (for instance, schooling provided by the Ministry of Education), while other services are more closely targeted at vulnerable populations.

Government providers are responsible for delivering services to the eligible population in a cost-effective and efficient manner, and for contributing to the government's broader objectives through their services.

Social service providers as defined in this research includes all non-governmental organisations that deliver social services to children, young people, individuals, families and whānau, and receive most of their funding from the Ministry of Social Development or Oranga Tamariki. These providers are responsible for delivering a certain level of service to their target population, and for providing compliance reports for government contracts to ensure their funds are being spent as intended.

Providers support people from diverse demographic groups with a diverse array of needs, and the services provided are broad in scope.

For instance, social workers may provide:

- counselling and mentoring services
- support to engage in schooling or paid work
- training and support for parents

- services to prevent family violence or help victims of trauma

- services to build financial capability and resilience

- services to support young offenders and prevent crime

- services to promote mental health and prevent suicide.

These providers support some of New Zealand's most vulnerable communities and households. They have branches within the community, and their committed staff often build strong, trusting relationships with service users in ways government providers are often unable to.

Many of the services are targeted at earlier intervention to stop further harm from occurring. This type of service delivery reduces the long-term costs of government services. For instance, funding community-based parent support services should reduce the need for children to be uplifted by Oranga Tamariki. Funding services for at-risk youth should help prevent young people becoming involved with the justice and mental health systems.

Ultimately, these providers generate positive social outcomes that matter to every single New Zealander.

THE IMPORTANCE OF THE NOT-FOR-PROFIT SECTOR

Social service providers play a vital role in our economy and society. However, it is difficult to identify robust descriptive statistics about the size and scale of the social provider sector. The following figures therefore focus on the not-for-profit (NFP) sector as a whole.

The size of the sector

The total NFP sector in New Zealand is made up of around 115,000 organisations. Roughly 60% are small unincorporated organisations, 20% are incorporated societies, and 15% are charitable trusts.[13]

This sector is a significant employer, engaging around 4.4% of the country's total workforce, and contributing 2.8% of national GDP, or 5.3% including volunteers.[14] This is comparable to the construction industry.

The annual income of the charity sector is $20 billion, equivalent to one-third of the annual pre-tax profits of the corporate sector ($60 billion), and just over one-quarter of annual government spend (roughly $75 billion).[15]

The value added by this sector

The NFP sector generates a return on investment: "Voluntary groups return between $3 and $5 worth of services for every $1 they receive in funding."[16]

This value is generated both by staff and volunteers. In 2013 more than 1.2 million New Zealanders were performing some sort of voluntary work, with a value-add of approximately $3.5 billion.[17]

In 2014 volunteers donated 11 million hours to social services and community development charities. This equates to $151.2 million if priced at minimum wage, or $308.3 million using average hourly earnings.[18]

The provider sector is the largest employer of registered social workers, with 28% of the workforce employed by these organisations. District Health Boards employ 23% of registered social workers, followed by Oranga Tamariki, which employs 20%.[19]

Private business refers to any organisation or individual selling goods or services for profit. Private businesses will typically enter the social service

provider market when it might make a sustainable return on investment. For instance, in the United Kingdom and Australia an increasing number of for-profit organisations are tendering for government contracts to provide rest home care, private prisons, and employment placement services. In New Zealand we are also seeing the rise of social enterprises, which are "purpose-driven organisations that trade to deliver positive social, cultural and environmental impact".[20] In the social service sector, these organisations may be independent purpose-driven businesses, or the trading arm of a community organisation.

Private businesses are responsible for generating a profit for stakeholders, and in many cases they also must adhere to professional codes of ethics.

Those who receive and use services

Every person in New Zealand will receive social services at some point in their life, and there is a spectrum of service-user need. At one end, there are universal social services available for everyone to access. At the other end, there are service users with more complex, interdependent needs who require more intensive care and support.

As noted earlier, the 'service user' population in this research includes children, young people, individuals, families and whānau who receive support from providers primarily funded by the Ministry of Social Development and Oranga Tamariki. This social support helps to improve people's quality of life and future prospects.

Service users may be responsible for seeking out services, and for participating in specific initiatives run by providers (such as counselling sessions or budgeting classes). As a cohort, service users want easy access to a coherent service that meets their holistic needs.

Specific demographic groups within the cohort also want culturally appropriate services.

The end-to-end funding mechanism

For the purposes of this study, we have mapped the 'machinery of government' process in which funding typically flows from central government to providers and finally to service users. Here we describe the key steps in this process.

Government funders become involved: Strategy, policy, funding, design

- **'Strategy'** refers to the government's high-level political priorities. These can change over time as governments come and go. For instance, the current Labour-led government has a strong strategic focus on child wellbeing.

- **'Policy'** is formulated at the government agency level, in order to achieve the strategic priorities of the government. In general, agencies tend to focus on new policy initiatives or new methods to address established policy challenges.

- **'Funding'** in this context describes the funding that government agencies receive as a result of successful Budget bids. This funding is allocated towards new policies, services or areas of focus, and towards ongoing funding for established policies and services. Decisions about which social services to fund, and at what level, are made at the agency level.

- **'Design of services'** also proceeds at the agency level, with agencies identifying the needs of certain population groups, and the services required to best meet those needs. Providers and philanthropic agencies are occasionally involved in service design stages of this process. However, this is by invitation only and it is not the norm.

Providers become involved: Procurement, contract, operating model

- **'Procurement'** typically follows a competitive tendering process, where providers describe how they will deliver a fixed volume of services for the lowest price, or the highest volume of services for the price specified in the contract. Other criteria are also used to evaluate

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tender responses, including the organisation's track record and its ability to reach certain population groups.

- **'Contracts'** are developed by agencies and signed by providers, and government agencies have significantly more bargaining power during these contract negotiations. The contracts typically focus on readily quantifiable metrics such as service volumes and costs. Contract negotiations tend to be more rigorous for new contracts than for established contracts.

- **'Operating model'** refers to the ways an organisation operates in delivering services and meeting needs. If a provider secures a contract, they are responsible for integrating the new funding and the new service line into their existing operating model. In some instances, providers may be required to adjust their operating model as a result of new funding.

Service users become involved: Needs identification, delivery

- **'Needs identification'** refers to the processes through which providers determine the level of need in their community, and the specific needs of the individuals they serve. Service users may approach providers directly or they may be referred to a provider.

- **'Delivery'** refers to the delivery of specific services to service users. The services are often clearly defined in the contract between the government agency and the provider.

- **'Outcomes'** refers to the goals service providers are tasked with achieving in their contracts. As noted earlier, contracts tend to focus on readily measured metrics such as service volumes.

- **'Results reporting'** occurs when providers submit performance reports to their funders. Providers are contractually required to do this, often on a quarterly basis, as a condition of ongoing funding.

The system is not working as well as it should be

Providers have long been under-funded, which increases reliance on the philanthropic dollar. In an ideal future state, funders, providers and service users would work together, as partners, to generate the best wellbeing outcomes for New Zealanders.

The system would be funded and designed to achieve the outcomes that matter

In an ideal future state, the contribution of providers in promoting the wellbeing of children, young people, individuals, families and whānau, and communities in Aotearoa would be sufficiently valued. These providers would be funded at the necessary level to achieve the objectives the government has engaged them to deliver, and the outcomes that matter to society.

Funders, providers and service users would work together, as partners, to generate the best wellbeing outcomes. A greater proportion of philanthropic funding could then be allocated to innovative and transformative projects, rather than to supporting or topping up funding for core government service delivery and overheads.

There are various drivers for and impacts of the system not working as well as it could

This research began with the working assumption that most providers are not sufficiently funded to provide the services they have been contracted by the New Zealand Government to deliver. In this research we not only seek to quantify the funding gap, but also to uncover some of the drivers and immediate and long-term impacts of this underfunding.

This research investigates the following **drivers:**

- There is a historical preference for partial or contributory funding models for devolved essential government services.

- Funders prefer to invest in more generous funding packages for new services, which puts established services at a disadvantage.

- There is a drive for efficiency and effectiveness, which creates adverse funding behaviour and devalues the outcomes providers deliver.

- There is limited agreement across the social service system as to what funding will achieve and what 'good' looks like.

This research investigates the following **impacts**:

- Under the current funding arrangements, providers generally do not receive enough funding to cover basic running costs.

- It is getting harder for providers to attract and retain staff, given the growing wage gap between the public and private sectors.

- Providers are forced to compete against each other and are incentivised to accept under-funded contracts.

- Providers strive to make ends meet through reliance on philanthropic funding, public donations and other funding strategies.

- Providers are struggling to meet levels of service demand and people are not getting the support they need.

This research investigates the following **funding gaps**:

- Providers do not receive sufficient funding for their basic operating costs, manifested through allocation of overheads and reserves.

- There is an unsustainable wage differential between the provider sector and the government sector.

- Providers do not receive sufficient funding to meet actual demand, and are often required to deliver over and above contracted volumes.

THE WHĀNAU ORA MODEL OF COLLECTIVE SERVICE DELIVERY

The Whānau Ora model serves as an example of culturally appropriate, collective service delivery. Under the model, three commissioning agencies have been set up covering the North Island, the South Island, and Pasifika communities across New Zealand.

The commissioning agencies are contracted by Te Puni Kōkiri to fund community-based initiatives and services that will benefit whānau and contribute to community development. Whānau Ora 'Navigators' help families access the services they need, when they need them.[21]

The Whānau Ora model supports service providers to deliver more seamless support, and supports families and communities to be self-determining. However, there is still room to improve the commissioning.

Recent Wellbeing Budget changes are a step in the right direction

The government has committed to investing in providers through Budget 2019. From the provider perspective, highlights included the following:

- A $26.7 million increase in funding over four years to reflect the increased costs of service delivery and provide some funding relief.

- A $320 million funding package for cross-agency investment in preventing family and sexual violence.

- A move towards more sustainably funded contracts for care services, intensive family intervention services, and a new youth transition service for young people leaving government care.

- A greater proportion of multi-year contracts, including four-year contracts, giving providers more funding certainty.

- Moves towards greater co-design of new services, including more significant engagement with providers during the service design phase.

- The development of contracting standards for social service procurement, driven by the Ministry of Business, Innovation and Employment. There was a good level of engagement with providers during this process.

- In the wider social service sector, $21 million in operational funding relief for ambulance services, and indications the government will explore how to move towards a sustainable funding model, which may include full funding.[22, 23]

Yet while Budget 2019 provided some much-needed relief, significant investment is still required to stabilise the social service system as a whole. The total level of sector-wide investment in Budget 2019 was low, and many providers continue to operate with uncertain and insufficient funding, with negative impacts for the overall wellbeing of New Zealanders.

Concerted efforts must be made to accelerate the pace and scale of change.

>> 2.
DRIVERS OF THE FUNDING GAP
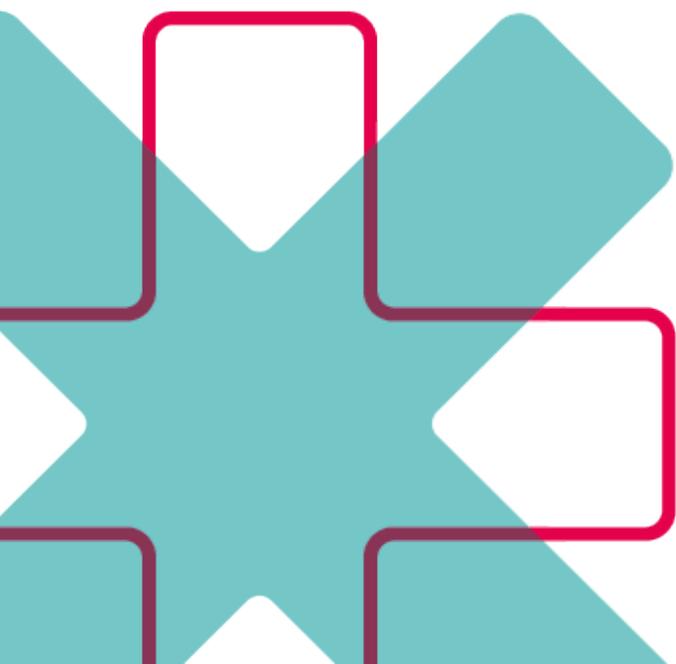
Partial funding model for devolved essential services

Historically, there has been a preference for partial or contributory government funding. This is opposed to a default where essential services are **fully funded,** as an underlying principle, **as if they were being delivered directly by a government agency**.

Responsibility for essential services has been steadily shifted to providers

Since 1984 the government has steadily devolved the provision of social services to the community sector,[24] while retaining core responsibility for funding these services.

Over roughly the same period, government agencies also began defining their population of focus more narrowly. This effectively pushed more complex and high-needs service users to providers for support. For instance, one provider noted that Oranga Tamariki typically focuses their efforts and resources on the top 10% of people in need – an arbitrary cut-off point.

Devolved responsibility – but with only partial or contributory funding

Providers deliver essential services that are either designated in legislation or that could be considered part of the government's core role.

Providers therefore see that the government has **devolved** responsibility for the provision of these services. As such, they believe they should be treated as equal partners and receive full funding for this service delivery to the same level government agencies would be.

However, when providers became responsible and accountable for delivering government-funded services, there was not a corresponding increase in funding to cover service delivery and supporting infrastructure.

Generally, government **contracts out** service delivery, delegating responsibility as a principal does to its agents, rather than devolving it. Historically, the government has therefore followed a partial or 'contributory' funding model so that, as a first principle, it is assumed that services

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contracted out to NGOs will not be fully funded unless an exception is established.[25]

"So we are taking on a lot more of the issues. We get these so-called thresholds being built that are not actually related to risks to families and children – they are more of a way of bureaucracies and institutions tightening the box so they can pass those people onto someone else."
(Social service provider)

This partial funding model aligned with the ideology of the 1980s: reducing the size of the government, and encouraging people and providers to become self-sufficient rather than relying on government support. The model was possible because the government was the dominant purchaser of services, so they could set delivery targets and prices.[26] The contracting mechanism required providers to submit quantitative reports on their outputs and comply with other exacting requirements.[27]

The partial funding model is still in place today, although we are seeing some changes beginning to occur. For instance, in its 2015 review of social services, the Productivity Commission noted that "government agencies quite often pay less than full cost when contracting providers to deliver the government's goals and commitments. Such underpayment is unreasonable".[28]

Reluctance to fund basic running costs for essential services

Under current funding arrangements, providers do not receive sufficient funds to cover their basic running costs or overheads. There are a number of drivers for this.

Government funders want to incentivise providers to find efficiencies and cut costs, so they reduce the funds available for overheads. Funders may also have insufficient information to determine a realistic rate for overheads. This can set off the 'non-profit starvation cycle': funders set unrealistically low expectations for overhead costs, so providers respond by scrimping on overheads and under-reporting real costs, which reinforces funders' unrealistic expectations.[29]

The lack of funding for overheads can also be exacerbated by philanthropic organisations and grant-making bodies. Most philanthropic funders have a

rule not to fund services they regard as the responsibility of government to fund, which includes filling the funding gap for providers with partially funded government contracts.

In a similar vein, research from the United States of America highlights that many philanthropic organisations are averse to funding overheads,[30] and 80% of grant makers are aware their funding is insufficient to cover even basic costs, such as the time spent on performance reporting back to funders.[31]

The research literature suggests there is a lack of consensus across the sector as to whether government should fund providers for overheads or **full costs**.[32] The full cost model would see providers achieve a surplus, which they could hold in reserve or re-invest in their organisation. As most providers cannot currently generate a surplus to hold in reserve, they are in a fragile financial position, without the financial safeguards businesses and governments typically enjoy.

New initiatives preferred over existing services

New policy initiatives generally receive greater attention and more generous funding packages, which puts established services at a disadvantage. Existing service contract funding remains steady over time, meaning the real value of their contract declines.

A preference for new and 'innovative' services

Those responsible for determining government funding levels – including ministers and policy makers – typically prefer innovative new social services and initiatives rather than established services. Governments need to deliver the manifesto on which they were elected and therefore push for new initiatives. Ministers may also be driven by a desire to establish new services and ways of working, which they can then point to as political achievements.

Many philanthropic funders also prefer to fund new services or projects rather than existing ones. This collective preference for new services can undermine funding for existing services, if funding is reprioritised from older towards newer services. As the funding pool is stretched across a wider range of initiatives, it becomes more challenging for any one service to be financially sustainable.

New services are more likely to be sufficiently funded

Because of those funding preferences, newer services are more likely to be fully funded than older ones. For instance, a number of new services and pilot services are fully funded, including the new youth transition service announced in Budget 2019.

The mechanism for full funding can differ from service to service. One provider in this research was funded for a supported living pilot study. In this case, the provider was asked to prepare a realistic budget stating what it would cost to deliver the service, and they received funding for the full amount.

In other instances, fully funded service providers may be paid on a 'cost per FTE' basis. For instance, one fully funded provider received $120,000 per full-time equivalent (FTE) staff member, whereas partially funded contracts for the same service received $80,000 or $90,000 per FTE.

That some services are being fully funded is a positive development, however, the process via which services can achieve full funding remains opaque. In future, funders should ensure that this process is transparent and therefore open to all providers. Funders and providers should also ensure that 'full funding' is exactly that – with all costs factored in, including the establishment costs for new services. As one provider noted, it takes a significant investment of time and effort to build trusting relationships with children, families and whānau, and with government agencies. Contracts should be explicit and realistic about the time and costs required in the set-up phase.

Existing services are not given sufficient attention or priority

Providers with older, pre-existing contracts are at a disadvantage as contract prices remain fixed for a long time, with minimal upward movement to reflect wage pressures, inflation and other indexation adjustments.

Some providers in this research had service contracts with the government that had not increased in price for 10 to 15 years, beyond two or three small, one-off increases to reflect annual inflation or adjustments.

One driver of contract price stagnation is the Budget cycle, which tends to focus on new services and initiatives. There is no standardised mechanism for providers with existing contracts to raise and fund cost pressures, especially in relation to increasing levels of demand. The implication is they should simply find ways to 'make it work'.

As nominal contract prices remain steady, but the purchasing power of funding reduces, real funding levels decline. The financial terms of the contract do not reflect the realities of the contemporary environment. The government may therefore appear to be driving an efficient and effective system, as their costs remain steady. But this comes at the expense of providers who are under increasing financial strain, and service users who experience the adverse consequences of an under-funded service.

Drive for efficiency and effectiveness

The outcomes delivered by providers are not sufficiently valued. A general focus on efficiency and effectiveness drives adverse funding behaviour, meaning providers do not have the funding or the flexibility they require to best meet the needs of service users.

Measurement focuses on outputs rather than meaningful outcomes

Because wellbeing outcomes are difficult to measure, government tends to rely heavily on outdated and traditional output measurements. Social service contracts typically specify a volume of services and the dollar value to be paid for this service delivery.

The volume model shifts the focus to outputs rather than more meaningful outcomes that providers are working to achieve.[33] The distinction between efficiency and effectiveness is key here. For instance, one counselling provider may offer services for $20 an hour while another offers services for $60 an hour. While one is cheaper and therefore seen as more efficient, there is no guarantee their counselling services are more effective at generating positive, meaningful outcomes. Yet under a model focused on volume and price, there is an increased risk the government would award the service contract to the lowest-cost provider, regardless of the outcomes achieved.

The volume model also assumes incorrectly that demand for community services is static year on year. There is a lack of emphasis on, and capacity for, forecasting and understanding movements in demand for different types of services.

A competitive model does not fit well with complex social services

When the funding and provision of social services was split between the government and providers in the mid-1980s, architects of the new welfare state sought to introduce the mechanics and perceived benefits of the competitive market into the welfare state.

This was to be a 'quasi-market' system. Service users would still enjoy free or heavily subsidised services, but providers would compete for funding and therefore achieve efficiency gains.[34, 35] They would compete by over-delivering on service volumes at the contracted price, or delivering a set volume of services at a reduced price.

Inherent in this competitive model is the assumption that competition between providers will deliver the best possible solution at the best possible price, which represents the best value for the taxpayer dollar.

The assumption that competition drives more efficient services holds true in certain markets. The Productivity Commission noted that: "Tenders based on [the] lowest price are well-suited to procuring simple services whose characteristics are easily specified in advance."[36] However, social services are not simple and should not be treated as commodities.

Another potential benefit of competition is that it enables new providers to compete for contracts and enter the market. For instance, we have seen for-profit providers such as the Hobsonville Land Company entering the social housing market in recent years, offering affordable houses for first home buyers. Yet in general, New Zealand has a small proportion of private or for-profit providers compared to countries such as the United Kingdom.[37] This indicates that social service provision is still not financially viable enough to attract many for-profit providers.

A traditional, private and closed tender procurement process seldom generates the best possible result for the system and the people of New Zealand. Providers may under-cut each other on price, and take on an under-funded contract because they see this as better than no contract at all. There is also a risk that the focus shifts from outcomes to outputs.

Solutions and funding decisions are often developed in isolation

It is typically not until after a solution is chosen, funding allocated, and tender processes complete that a provider can identify the level of funding and resource required to deliver a service.

The total level of government funding for social services is often determined centrally. The budget pricing models are usually based on inputs to determine what it will cost to deliver. The assumptions and quantums in the pricing models are not transparent because the Budget process does not allow for that.

In general, providers have limited input, if any, into these funding discussions. The government therefore determines the total social services

budget without full information about the needs of the populations to be served and the true costs of meeting those needs.

Once the funding 'envelope' has been determined, services are designed at the ministry or agency level. Too often this process also proceeds without any communication between government agencies, or any involvement from providers. There have been some positive changes recently, with joint ventures across government agencies, and with agencies and providers partnering to 'co-design' services in some areas. However, there is no standardised and system-wide approach to enable government agencies and providers to regularly work together and co-design services. As such, there is still significant scope for improvement.

After services are designed, service contracts are developed that specify the population to be served, the desired outcomes and budgeted price, the duration of the contract, along with other key variables.[38] Desired outcomes are often converted into more readily measured metrics or outputs,[39] as noted above.

When service providers are not involved in shaping up the service or the associated contracts, the provisional price for service delivery is not grounded in evidence and is typically under-valued. (There also tends to be no involvement of peak or representative bodies, which have less of a vested interest than providers themselves, but want to ensure that funding decisions are robust and see there is adequate funding for the services represented.)

A provider's operating model is not taken into account until a contract is signed. This means providers are tasked with integrating new funding streams and new delivery mechanisms into their existing ways of working, which can create siloed workstreams and inefficiencies within provider organisations.

Philanthropic organisations are also excluded from government funding decisions and processes. Their funding contribution is assumed to be available to providers and their strategy aligned with government policies, even though they are not typically involved in policy development or service design.

Lack of information and understanding about the system

There is limited agreement across the social service system as to what funding will achieve and what 'good' looks like. There is limited information sharing and learning – the information that is captured is seldom used systematically to guide funding decisions.

Limited agreement on what good looks like

All parts of the social service system want a well-functioning society in which wellbeing is maximised. However, different parties have different perceptions about how best to get there, and what good looks like. There is therefore no single definitive way of measuring how effective the system is at promoting collective wellbeing.

At present, there is no method for systematically capturing and tracking performance data over time. Parties tend to operate in siloes and to capture data that only relates to their particular service or project area. (This is beginning to change, thanks to joint ventures across government agencies and other collaborative efforts.)

Yet in general, government agencies will track quantitative metrics, such as whether certain services were taken up by a target population. They may also track subjective outcomes, such as the percentage of service users self-reporting an improvement in their situation. Providers will tend to track and report on metrics required by government agencies. Philanthropic organisations will often seek different metrics, with usually less focus on quantitative success metrics.

The lack of systemic performance information is driven in part by over-reliance on a government procurement and contracting function that has limited access to specialised resources. This single function is expected to deliver functions in the areas of needs analysis, policy analytics, strategy, investment and evidence – all of which are usually spread across a range of well-resourced departments.

There is scope to improve evidence gathering and evaluation

Although there is a lack of system-wide performance measurement, governments hold providers to account for how they spend public funds by putting in place significant performance monitoring and audit requirements.

It is of course reasonable for providers to be held to account for how they spend public money. Providers themselves want to know they are delivering effective services. However, the focus of data collection tends to be on **monitoring** whether particular service targets have been met, rather than **evaluating** whether a service is improving the lives of service users and contributing to other meaningful outcomes.

The reason for this emphasis on monitoring rather than evaluation is the design of the reporting framework. As noted earlier, reporting tends to centre on whether providers have delivered quantifiable service volumes, rather than whether they have achieved more important but hard-to-measure outcomes, such as delivering a quality service perceived as beneficial by service users.

Even in the cases when more robust performance measures have been established (for example, the proportion of service users who met 80% of their self-selected treatment goals), the data captured is generally not granular enough to help providers evaluate and redesign their services, if necessary. For instance, simply knowing that most people meet their treatment goals does not help a provider understand what exactly is working in their operating model and what is not, and therefore how they could revise their practice to better meet people's needs.

Pilot studies are the exception here as new services are carefully reviewed and evaluated for impact. However, providers expressed frustration that successful pilot interventions are not scaled up, and that the learnings from pilot studies are not captured and applied across the sector.

There are barriers to information sharing and learning

Because different parties in the social service sector are collecting different types of performance data, and social services are monitored on delivery rather than evaluated for impact, it is challenging for members of the system to come together and share insights about what is working, what is not, and should happen what next.

There are also barriers to embedding a learning and continuous improvement culture in the sector. Most importantly, there is a power

imbalance between funders and providers, because providers rely on continued funding from the government and the philanthropic sector.[40] They are therefore often reluctant to share which aspects of their service are not optimal, and therefore how they intend to revise their practice.

Providers do not routinely share their successes and challenges because they are competing for contracts with other service providers, so feel they may lose some of their 'competitive advantage' if they share too much with others. Government contracts also do not provide funding for service review and evaluation, and it is difficult to obtain funding for this purpose outside of one-off research and evaluation projects.

Government funders are also not as proactive and transparent as they could be in sharing what they have learned from pilot studies, evaluations and performance reports. This may be driven by a fear of being criticised if they are shown to be funding services not achieving the intended results.

Because of all of these drivers, "government agencies generally know too little about which services (or interventions) work well, which do not, and why", as noted by the Productivity Commission.[41]

IMPACTS OF THE FUNDING GAP

Providers are not funded for the basics

Under the current funding arrangements, providers generally do not receive enough funding to cover basic running costs or even invest in their sustainability. They are taking on a high level of risk and many describe their position as financially unsustainable.

Providers cannot cover their running costs

Under the contributory funding model, some of the key costs that providers face are unfunded or underfunded. This includes funding for overheads and additional service delivery costs.

Basic running costs

Providers are unable to sufficiently fund basic organisational running costs or overheads as a result of partially funded contracts, and restrictive contracts where money is earmarked for service delivery.

In interviews, many providers said they prioritise front-line staff and equipment over ensuring their back-office processes are effective and efficient. This can lead to systemic inefficiencies such as heavy reliance on manual systems, and a lack of sophisticated data capture and analysis to track services delivered and results achieved.

The lack of investment in overheads can also make everyday life more difficult for staff members and contribute to a less-than-professional corporate image. For instance, many of the organisations in this research have remained in premises that are too small, and full of repurposed rather than fit-for-purpose hardware, in order to cut down overhead costs. Staff members also frequently use their own cars to visit clients.

A small minority of providers may go against the grain and find ways to prioritise investment in overheads and back-office efficiencies. To this end, one provider in this research chose to deliberately run down their organisational reserves and invest in cloud systems and smart phones in order to increase operational efficiencies. However, few organisations have sufficient reserves set aside to fund these types of investments.

It is worth noting that some newer government contracts do include sufficient coverage for overheads. However, these contractual arrangements are the exception.

DEFINING 'OVERHEADS'

'Overheads' can be difficult to define, but in general this cost category includes any "central administrative costs that NGOs have to pay to run the organisation (like office rent or staff training)".[42] The term contrasts with the 'direct' costs of frontline service delivery.

However, there is currently no sector-wide agreement as to what is covered by the term 'overhead'.

According to the Nonprofit Overhead Cost Project, overheads can be defined as "accounting, fundraising, information technology, human resources, physical plant and other common organizational elements that undergird a nonprofit's mission and programs".[43]

Non-profit Quarterly notes that: "While overhead is most commonly thought of as the expenses presented as management and general and fundraising functions on … audited financial statements, the accounting guidance to determine which expenses belong to which function is so vague that reasonable people make wildly different determinations about how to allocate expenses across functions."[44]

Service delivery costs

Additional service delivery costs include any extra costs associated with providing a core service to a specific service user or population. Rural providers face these extra costs as it takes more staff time and resource to travel long distances between service users. Providers who support non-English speakers need to supply interpreters, which is an additional service cost.

Those who deliver in a kaupapa Māori framework also have higher associated costs, as Māori providers have a more direct accountability to their communities than other providers. A kaupapa Māori provider will work in a context of direct, whakapapa-based whānau, hapū and iwi relationships, which places great responsibility on these organisations to meet the needs they see in their communities. This often means kaupapa Māori providers have more staff and deliver a wider range of services than other similarly

funded provider organisations, which has an ongoing impact on their financial sustainability.

As Boulton (2005) notes: "The contracting model does not take into account Māori kaupapa, or ways of working, and as the relationships required are more complex than standardised interactions between provider and client, providers are giving a great deal of voluntary time to meet the needs of tangata whaiora ('people seeking wellbeing')."[45]

Additional service delivery costs are typically unfunded because the contracting instrument is focused on a fixed volume of services for a fixed price. It is a relatively blunt instrument, and there is little scope or political will to adjust service costs to the particular situation or service user.

Sustainability costs

Providers often cannot afford to invest sufficiently in training their people and building capacity.

In the first instance, it is challenging to free up people's time so they can attend training, when service demand is so high and staff members are stretched. It is also challenging to find sufficient funds. Many interviewees noted that they have to seek out low-cost or free training courses for their staff. Providers also try to coordinate their training with other organisations to reduce costs.

Funding constraints and daily service delivery pressures make it difficult for providers to invest in research, innovation, or scaling up. Research is valuable as it helps providers measure the impact of their services and adjust their practices accordingly. However, organisations are rarely able to allocate funding towards research and evaluation, and many providers lack internal research capability.

Innovation can enable providers to be more efficient and deliver higher-value services. Yet only one provider in this research had a staff member focused on finding more innovative ways of working and meeting need. This kind of spending was described as "the icing on the cake", and one of the first costs to be trimmed when times get hard.

Providers also lack funding and headspace to explore how to grow and scale up, as they are already stretched thin trying to meet the needs of the people right in front of them. They are therefore rightly wary of scaling up and over-committing even further.

Providers take on risk without the supporting infrastructure

Providers are held to the same level of accountability as government, but without the same level of resource

Under the current funding model, providers are held to the same standard of accountability as government agencies, but without the same level of resourcing. For instance, government agencies are overseen by select committees, ministers and other government monitoring arms, such as the Office of the Auditor General. By contrast, providers are typically overseen by poorly remunerated or volunteer boards, who are much less able to invest significant time and resource into audit and risk management.

Another topical example is the current Royal Commission of Inquiry into Historical Abuse in State Care. Like government agencies, some providers will be expected to participate in this inquiry. This is costly because it diverts staff resources from operational matters, and because providers will typically need lawyers to attend hearings and help prepare evidence, as a form of risk management. None of these costs are remunerated. although there are indications that a Secretariat for the Combined Government Response to the Commission is now considering the resources providers require to participate in the inquiry.

Providers bear significant risk, with no equivalent reward

Providers currently bear significant risk without an equivalent level of reward. Key risks include providing services and taking responsibility for young people and families whose situation is serious enough to be investigated by government agencies with statutory authority. Another key risk is bearing liability for health and safety – for instance, as the 'person conducting a business or undertaking' by providing housing for young people who have been in the youth justice system.

When providers bear these risks, they must invest more time and resource into risk management and reporting to their boards, which diverts resources from the frontline. As boards track the increase in their level of liability, many are considering closing down services and withdrawing from the sector.

"I don't think the government realise how fragile the NGO sector is. There are a lot of chief executives of NGOs who are saying to the board, 'we need

Many providers are financially unsustainable

Many providers are in a financially unsustainable position. Some operate from contract to contract, with very little or nothing in reserve, and they are at significant risk of collapse.

When providers in this research were asked how financially sustainable their organisation is under the current funding arrangements, 11% noted that their organisation is not at all sustainable/currently unsustainable, and an additional 30% were struggling. Only 2% of providers felt their organisation was very sustainable.

The organisations' self-assessments of financial sustainability are backed up by data from annual reports. Of the providers whose annual reports were sampled in this research, 28% were running a deficit in 2018/19. In interviews and surveys, a small number of providers noted they had built up sufficient reserves to last for two years, should they lose a number of their contracts. However, many providers depend completely on funding from current contracts and would be in financial trouble if a single contract were terminated. Providers can even get into financial difficulty when there are delays in signing a contract – for instance, at least one provider in this research was forced to borrow money when contractual payments were delayed.

These outcomes are not surprising given the current funding set-up. As Cordery and Halford note: "Where charities become dependent on a reducing pool of competitive government funding, it is likely that a number will fail."[46]

When providers fail, the negative impacts are far reaching

Providers highlighted the wide-reaching negative impacts, both for service users **and the government**, when specific services or whole organisations are forced to close down.

One provider in this research explained that the loss of a nationwide support service will have contributed to the current mental health crisis, and they observed it will cost more for the government to address the current situation than it would to have maintained the service.

Another interviewee explained they had closed down a service because their staff could not keep up with the high level of demand in the community. In the short term, demand from these service users would either have been passed onto another (stretched) provider, or the demand would have gone unmet, with adverse consequences. In the longer term, the government's funding liabilities will have likely increased because they did not sufficiently fund this service.

"A person from government said, 'oh, there doesn't seem to be much impact' from closing your services. But the impact isn't always immediately known to government. The impact might occur 10 years down the track. Also, the goalposts for entering OT [Oranga Tamariki] are always going up and down, so if you make them high enough, those kids won't end up there. But kids who don't end up in OT may still end up with mental health issues, or in the justice system. They 'leak out' and are seen in other parts of the government system." (Social service provider)

The workforce is underpaid and overworked

It is getting harder for providers to attract and retain staff, given the growing wage gap between the public and private sectors. People employed by providers are under-resourced and stretched, and their situation appears unsustainable.

There is a growing wage gap between providers and the public sector

There is a growing wage differential between providers and the government sector. The relative underfunding of wages in the community sector has been exacerbated by the successful pay equity claim won by the PSA for Oranga Tamariki social workers.

Provider employers have been unable to meet the new market rates, adding to the wage gap, so the sector is characterised by underpaid workers, including both frontline and back-office staff. In essence, workers in this sector are 'paying' for the funding gap through low wages.

The pay gap is most clearly shown with social workers. The pay equity settlement will lift the average salary of an Oranga Tamariki social worker by just over 30%. As noted in a government media release: "The pay equity settlement applies to more than 1,300 Oranga Tamariki social workers and will see an average lift in their salaries of 30.6% over a two year period."[47] From December 2019, a new social worker with Oranga Tamariki will start at $60,000, with the base social worker scale going up to $100,000. The mid-point of the Oranga Tamariki scale will be $83,000.

By contrast, data from the Aotearoa New Zealand Association for Social Workers shows that NGO social workers in their membership have a salary range from just under $50,000 to just under $57,000. The median salary for a social worker in 2019 is $52,840. This is an increase of only $840 relative to the 2018 median figure, whereas the median salary for government social workers has increased significantly.

Before the settlement, Strategic Pay data was used to estimate an average wage differential of 13% between community-based social workers and Oranga Tamariki social workers. That disparity increased in December 2018 when the first phase of the pay equity settlement was actioned. The

differential is now estimated to be around 30% and will likely increase further by 2020. For some providers, the differential is over 45%

Providers must rely on underpaid workers

Staffing costs are typically the biggest overhead for providers. A significant proportion of providers can operate only because they rely on underpaid frontline staff who are motivated by strong social ethics. One provider in this research observed: "They are effectively blackmailing people with social work ethics to deliver an underfunded service."

Providers are often forced to hire social work graduates who will accept lower wages, but who are costly in that they need a high level of training and supervision. These graduates often move onto the public sector soon after they are trained up, which means providers shoulder the costs of training up graduates for the public sector to enjoy the benefits.

"It's not about the money – but you shouldn't be taken advantage of, just because your heart is in it."
(Social service provider)

Back-office staff are also underpaid, performing broad roles with high levels of responsibility for only low or moderate salaries. One interviewee explained he manages 20-plus staff and has over 30 years' experience, but his salary is only $80,000, well below the market average. Another provider explained their IT person serves as their chief information officer, the IT helpdesk, the person who builds the intranet and so on. Another explained that their chief executive (CE) performed the functions of their CE, a human resources lead, and their chief financial officer. The salaries of these staff members in no way reflects the breadth of their responsibilities.

Results from the online survey showed that over half of providers in this research are 'heavily' reliant on filling the funding gap by paying staff less than they would earn in the for-profit or government sectors. Nearly three-quarters are 'heavily' or 'somewhat' reliant on this.

Providers have difficulty attracting and keeping staff

Frontline staff

The increased disparity in wages between Oranga Tamariki and community-based providers is already having a significant impact on providers' ability to attract and retain qualified and registered social workers who are able to work effectively with children and families.

The following comments from providers highlight the significant challenges they are facing:

> *"Since the Oranga Tamariki announcement, we've lost 18 social workers. That includes an entire team who moved to the District Health Board." (Social service provider)*

> *"In the Hawke's Bay we lost 14 workers over Christmas, all to Oranga Tamariki." (Social service provider)*

> *"In Wellington at present, there are 75 jobs advertised for social workers. The top of our pay scale is the bottom of the Oranga Tamariki scale." (Social service provider)*

"Our greatest concern is that we cannot fund qualified people at the same level that they would be paid in the state sector. If we can't get staff, we can't deliver the service." (Social service provider)

These challenges are exacerbated for providers in small rural towns, who seek staff with a specialist skillset from only a small population base. One rural South Island provider noted:

> *"We have two vacancies for one of our services – with a possible third. Unfortunately, continuous advertising has not produced applicants worthy to interview, and I am becoming more anxious about our ability to fulfil our contractual obligations. I am going to write to our contracts person in Christchurch today. One of our staff is going for an interview today – to a position that is paying $23k per annum more than we can. We simply can't match what is on offer in the government sector." (Social service provider)*

Providers are finding they have more vacancies and it is taking longer to fill new positions. One provider had been trying to recruit someone into a

residential home for eight months, noting that this "speaks to the nature of the work, but also the wage gap".

These recruitment challenges look set to continue, as data from the Social Workers Registration Board 2018 workforce survey indicates that nearly one third of social workers aged 30 and younger do not plan to remain in this profession in Aotearoa. People noted that the pay scale, workloads and levels of bureaucracy were key reasons behind their decision to leave the profession.[48]

Back-office staff

Providers also struggle to replace key back-office staff who are willing to perform multiple roles for low pay – an issue felt across the not-for-profit sector.[49] In interviews, one provider commented: "There is a significant key personnel risk to find someone after the CE goes – with her level of skill willing to be paid at the same level."

Another provider noted that the current set-up creates risk "because if so much capability is contained within one person, then when they move on they are really hard to replace".

Staff members are overstretched and overworked

When providers over-deliver on contracts whilst experiencing a funding gap, staff bear the brunt. They work in challenging and emotional environments, with high caseloads. In some organisations, staff work out-of-office hours and on weekends, without compensation, to ensure flexible services are available to support families in need.

According to data from the Social Workers Registration Board 2018 workforce survey, 31% of social workers in the provider sector are working more than 41 hours each week. In addition, 46% of these employees are working between 49 and 52 weeks a year, rather than taking a minimum of four weeks of leave each year.[50]

Despite staff members' efforts, under-funding makes it difficult to sufficiently meet the needs of service users, and this is demoralising for people who are service driven. One provider in this research talked about the need to ensure staff get sufficient time out, as "vicarious trauma" is a risk of this kind of work. Another said they spend a significant amount of time looking after their staff because they are so stretched.

Organisations are taking steps to try to protect staff (and make the role more attractive), for instance by allowing flexible working, increasing annual

leave and giving time off for birthdays. Staff also generally enjoy working in these organisations because they are committed to the ethos of early intervention, and they appreciate the tight-knit working environment. Nevertheless, staff burnout remains a significant risk.

A family violence service provider summarised the issues well in a 2019 report from the Ministry of Social Development. As they put it: "Short term contracting, contributory funding (which has decreased due to lack of CPI increases over eight years) plus competitive tendering and unrealistic expectations of providers to demonstrate significant change improvement to long-standing community issues, result in stretched and stressed leaders and agency workers."[51]

CUMULATIVE CHALLENGES FACED BY EMPLOYEES

The workforce in the social service sector is not only under significant pressure and underpaid for the work they do, their adverse situation is compounded by a number of demographic and workforce factors.

Firstly, it is relatively common for employees to have insecure employment arrangements, including fixed-term and casual contracts, because organisations receive only short-term funding for contracts.

The occupation is predominantly female and, as with other female-dominated professions, it has been systemically undervalued in terms of wages.

Up to 20% of the workforce identify as Māori, whereas Māori make up 15% of the broader New Zealand population. In addition, social work is one of the most common public sector occupations for Pacific people in New Zealand. This is a challenge as it means Māori and Pasifika people are over-represented in a role that is underpaid, despite its social importance.

Results from a Workforce Planning Survey conducted by Carte Blanche for Social Service Providers Aotearoa and CareerForce indicates that 22% of the social service workforce has no formal qualifications, which includes National Certificate of Educational Achievement (NCEA) qualifications. The report indicates that, while organisations invest in training their staff members, this training is not typically geared towards attaining a specific certificate or degree – likely because the cost of qualifications is prohibitive.[52]

Providers forced to compete against each other

The competitive tendering process benefits better-resourced providers. This approach also means providers are incentivised to accept under-funded contracts, and disincentivised from collaborating with each other on joined-up service provision.

Competitive processes benefit some providers over others

The competitive tendering process is resource intensive, effectively requiring providers to divert funds from frontline service delivery. For instance, one interviewee in this research explained that after the All of Government (AOG) procurement guidelines were released, some medium- and larger-sized member organisations began to contract in tender writers, investing tens of thousands of dollars in tender responses.

While this is not a standard practice across the sector, it demonstrates one of the ways in which the competitive tendering model favours larger, better-resourced providers – who are not necessarily the best placed to deliver a quality service.

There are also downsides when providers compete for philanthropic funding. There is a widely held view that 'it's a numbers game', meaning providers need to apply for a certain number of grants before they will win one. This is an inefficient use of scarce resources – both for financially lean providers and philanthropic organisations.

"My staff used to spend eight months of the year processing grant applications and dealing with enquiries about how organisations could contort themselves to try to get funding." (Philanthropic organisation)

Providers may accept under-funded contracts to survive

The competitive model makes it more likely providers will accept under-funded contracts, rather than no contract at all. For instance, one small provider in this research was promised a contractual cost increase following Budget 2019, but when they received the new contractual paperwork, the increase was smaller than promised. The provider signed the contract despite this error because they feared losing the contract altogether, and they did not feel they had the bargaining power to push for the promised increase.

At the system level, there is a risk providers will engage in a 'race to the bottom' if contracts are consistently awarded to the lowest-cost providers, rather than those who can provide a high-quality service that improves the wellbeing of vulnerable people.

The funding model also increases the risk that providers will accept a short-term contract, which makes it very difficult to make any long-term plans or investments. One provider in this research explained how they had run a pilot test for a supported living programme:

"I've spent weeks and weeks advocating for the extension of that contract, but it's only ever renewed for one year. It makes it hard to find staff – people who are willing to work on a one-year contract." (Social service provider)

Competition hinders collaboration and partnership

In general, the existing competitive funding model hinders collaboration and joint tender responses in which providers work together to deliver complementary services. Instead, each provider is seeking to win their own slice of the funding pie. (It is worth noting that in some instances, providers do work concertedly to make collaboration happen. When this is done well it can have transformative impacts.)

The challenge for providers is that although many government agencies speak the rhetoric of collaboration, the tendering processes generally inhibit collaboration in practice. For instance, one provider in this research partnered with others in the sector to put forward a collaborative bid for a

government tender. When they came to submit the paperwork, it was not possible to tender together because of different accreditation levels as well as a range of other rules. They therefore reverted to the competitive model and tendered separately. As ComVoices observes: "The continued call for more collaboration between community organisations is undermined by competitive tendering processes."[53]

It also takes time, and therefore resource, to collaborate, and providers are not funded for this.

Compliance burden placed on providers

Providers in this research noted it is resource intensive to produce compliance and performance reports for every one of their service contracts, and to participate in audits with multiple government agencies.

Providers also face the same reporting requirements regardless of the size of their contract, which contrasts with the process of risk-based reporting as recommended by the Productivity Commission.[54] (There has been some positive movement here that needs to be extended further – for instance, with Oranga Tamariki moving to streamline its compliance reporting.)

In some areas, rules and regulations are becoming increasingly strict, and providers are expected to wear the full costs of complying with new requirements. For example, the government now requires all social workers to be registered, with their practising certificate renewed each year. This is an unfunded cost, which puts further strain on providers' stretched resources. In addition, health and safety compliance costs are increasing, particularly for those providers who work with clients affected by violence, those who provide home visiting services, and those whose staff are at risk of secondary trauma.

Providers struggle to make ends meet

Providers fulfil their 'duty of care' and meet community needs rather than turning people away. They endeavour to make ends meet by relying heavily on additional philanthropic funding, fundraising, volunteering and other funding strategies.

Providers have a duty of care for the people they serve

Most of the providers in this research attempt to deliver services to individuals and communities, even when they do not have the capacity to do so. These organisations feel it is their duty of care, their responsibility and their moral obligation to help those who walk through the door, rather than pushing the negative impacts of the funding gap onto service users. As one provider noted: "If you are talking about a young person that is trying to kill themselves, you can't say no."

Providers pursue funding from a range of alternative sources, as part of their efforts to "make it work".

"The quality of what is being provided is not affected by the funding shortfall. The social workers are amazing." (Social service provider)

Providers rely heavily on philanthropic donations

Providers rely heavily on the philanthropic sector to fill the funding gap. According to the online survey of providers, 60% are 'heavily' reliant on philanthropic organisations to fill the funding gap, and 83% are either 'heavily' or 'somewhat' reliant on philanthropic funds.

Philanthropic organisations interviewed for this research noted that providers frequently approach them with requests to fund services, salaries and other overheads associated with core government services. For instance, one philanthropic organisation estimated that 60% to 70% of the

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applications they receive are from providers seeking to extend their current services, as opposed to offering innovative or new services. As noted earlier, philanthropic organisations are typically averse to funding these kinds of costs, which they see as the responsibility of the government.

"They are like clubs – once you are in it's great, but I have no energy to take the time to cold call." (Social service provider)

Applying for philanthropic funds and grants can be resource intensive and, as such, more financially robust providers are better placed to pitch for these funds. Two providers in this research observed that applying for grant funding required a 1 Full-time Equivalent (FTE) or 1.5 FTE role with a specialised skill set, and that this diverted funds away from the frontline. For these reasons, some smaller organisations in this research did not seek philanthropic funding.

Providers rely on fundraising and volunteering

Fundraising

Providers also rely quite heavily on fundraising from the public to fill the funding gap. In the online survey conducted as part of this research, over half of respondents from SSPA noted they are 'heavily' reliant on public fundraising to fill the funding gap, and just under three-quarters are either 'heavily' or 'somewhat' reliant on this funding source.

Those organisations that do community fundraising drives cite a number of motivating factors. Publicly donated funds are often the only form of 'untagged' funding that providers receive, as government and philanthropic funding is typically allocated to a specific service or project. As such, public donations can be used in a flexible manner, such as to fund overheads and bespoke offerings that service users need but funding agreements do not cover. This form of fundraising also increases the visibility of community providers.

"We've deliberately pursued independent fundraising because it raises our profile in the community, and means we are not wholly beholden to

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Fundraising can be resource-intensive, meaning some smaller organisations do not pursue fundraising drives in any significant way. One provider noted they held a fundraising event attended by 300 people and made $10,000 from the event. However, event planning took two to three weeks of dedicated staff time, so these providers are effectively spending money to make money.

Providers that fundraise can also find it difficult to set firm annual budgets, because the level of funds generated by fundraising efforts cannot be known in advance.

Volunteering and pro-bono services

Some providers try to stretch their scarce resources by relying on volunteering and pro-bono services.

A proportion of providers rely on volunteers to fill the funding gap. The survey results showed that more than 15% of providers are 'heavily' or 'somewhat' reliant on volunteers to fill the gap, but with over half of providers 'not at all reliant' on volunteers for this purpose.

It is important to note that volunteers play a vital role in the not-for-profit sector, and their contribution is highly valued. However, it is concerning when the services of volunteers are used to replace the services of paid and qualified staff members. For instance, one smaller organisation that participated in this research had volunteers filling core social work and counselling roles. The quality of the service may be compromised under such an arrangement and, in addition, it is not sustainable to expect volunteers to fill these roles in the long term.

At least five providers in this research said they received pro-bono services from specialists. The range of assistance varied – including pro-bono work from lawyers, professional development training through connections with academics, reduced property prices, and rate-free status on properties thanks to an agreement with council.

Providers are often forced to use a range of other mechanisms to fill the gap

Alternative funding streams

A small number of providers in this research outlined other means they use to fill the funding gap:

- **Cross-subsidisation of contracts:** Cross-subsidisation is sometimes encouraged as an alternative funding mechanism, but is unsustainable for providers if multiple services are being propped up by one well-funded contract. There is a risk that if the well-funded contract is cut, a cascade of services will become unsustainable and need to close.

- **Charging fees for service:** Fees can only be charged when service users are willing and able to pay. Providers support some of New Zealand's most vulnerable people, many of whom face financial hardship. The funding stream generated by fees is likely to be minimal – and the co-pay model increases the risk that people will not access necessary services.

- **Other investments:** Investing in assets or establishing successful trading enterprises is a valid funding strategy, but it is available only to those organisations with sufficient capital to invest in the first place.

Sharing resources with other organisations

Some providers stretch their scarce resources by sharing with other organisations. Just over one-quarter of the organisations surveyed are 'heavily' or 'somewhat' reliant on sharing resources and overheads in order to fill the funding gap. A number share office space with other NGOs in order to spread the costs of back-office functions, office resources (such as photocopiers) and rent.

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People are not getting the support they need

Under the current social service system, providers are struggling to meet levels of service demand and they are forced to triage clients in need. People often wait too long for limited services, which are too inflexible to meet their complex real-life needs.

Providers struggle to meet demand

The level of demand for social services is increasing, and providers are consistently **over-delivering** on their contracts in order to fulfil their duty of care to meet service users' needs. Just under two-thirds of providers surveyed for this research 'strongly' agreed that 'We provide more services than we are funded to provide', and close to 90% 'strongly' or 'somewhat' agreed with this statement.

Providers shared a range of examples to demonstrate what over-delivery looks like in practice. One provider is contracted to service just over 200 families, but they have an open-door policy so they serve twice that number of clients. Another organisation receives government funding for services to 66 clients, but they receive and follow up on referrals for 250 clients – more than three times the contracted figure.

A small minority of providers (5% of survey respondents) refuse to over-deliver, as part of a deliberate strategy to protect their organisation's financial viability and ensure their staff do not burn out.

"We perform a bit of a risk assessment, and we deliver the most resources to those people who present the highest risks, i.e. people who we are trying to keep alive. The people who miss out are those with the medium or lower level of risks – their level of wellbeing is low, they aren't thriving. They fit the criteria of our programme, but we can't focus significant resources on them." (Social service provider)

Providers forced to triage clients in need

As noted earlier, providers will do all they can to meet the needs of service users, even when they have very limited capacity. Yet the funding gap still negatively impacts on service users.

Providers are forced to use triage mechanisms to process service users. They then refer people onto another service if one is available, provide a light-touch service, or put people on a waiting list. Providers are only equipped to deliver full services right away if their funding levels are sufficient or if the service user has the most severe needs.

Because providers are forced to triage service users, it is very common for vulnerable people to be placed on waiting lists. Over a third of providers surveyed for this research 'strongly' agreed with the statement, 'We have a waiting list for services and our clients must wait too long'. Close to 60% 'strongly' or 'somewhat' agreed with that statement.

In interviews and survey responses, providers mentioned statistics such as 10% of clients wait up to 10 weeks to be seen, or 20% of people wait two to four weeks, or 30% of service users wait four weeks. In the more extreme cases, providers described services for which they had 120-plus families waiting three to six months to be seen. Other providers observed that "six month waiting times are sadly common for our service", and that they "have waitlists up to a year".

"They certainly don't get better on our waiting list."
(Social service provider)

It is difficult to quantify the impact of delayed access to services. Collecting and analysing this kind of data is not straightforward because it requires a comparison between those who received a timely service and those who did not, with controls applied for all confounding variables. Providers lack the resources and capacity to do this research, and it does not appear to be a focus for government agencies.

What can be said with certainty is that issues compound when people experience service delays, and that at present, "opportunities are missed for early intervention to avoid the escalation of problems", to quote the Productivity Commission.[55] There is also a raft of literature on the benefits of early intervention – for instance, to improve children's educational

outcomes[56] and reduce youth offending rates.[57] As one provider explained, people "certainly don't get better" on their waiting list.

The level of support is insufficient to meet people's needs

Funding constraints and triaging processes mean that the 'quantum' of services people receive is often insufficient to meet their needs.

In the online survey component of this research, nearly 40% of providers 'strongly' agreed with the statement that, 'There are service gaps – our clients' needs are not being fully met'. Three-quarters 'strongly' or 'somewhat' agreed with the statement. In interviews, one organisation explained how they receive funding for four counselling sessions with clients, but some clients require 20 to 30 sessions in total, and need to be able to return for more counselling when they are struggling.

The lack of full-service support is a particular problem for certain communities or demographics, including Māori and rural populations. As noted earlier, the kaupapa Māori approach – or customary practice – is for providers to acknowledge and engage with the wider whānau.[58] It can be costly to work in this way, as providers need to hold more face-to-face meetings and travel between sites.[59] However, this method of working can lead to better and more sustainable outcomes for service users. By contrast, a partially funded service may be forced to provide a culturally inappropriate 'light touch' service. This will be both perceived poorly by service users and their whānau, and increase the likelihood that people require additional support services in future.

"We cover a wide rural area. Four or five years ago, we were facing a serious financial shortfall, and I got our government Planning and Funding person to come in and meet with me and some of our board. Her immediate solution was to stop working in the rural areas. From the bureaucracy's point of view it was just 'pull back'. But rural communities have far bigger needs and far less access to services than people in town do." (Social service provider)

It is also costly to provide services to rural communities because service users are geographically dispersed, and providers are not funded for the

additional costs of service delivery. As a result, very few providers have mobile services in rural areas. In one interview for this research, a provider explained how people in his area often hitchhike to the nearest town centre, in order to access social services. Those providers that still offer rural service delivery are motivated to meet an unmet need, even if it is not economical to do so.

Providers struggle to respond to the complexity of service users' needs

The complexity of service user needs is increasing, a point noted by a wide range of providers in this research.

There are a number of drivers – including macro drivers such as intergenerational poverty, inequality, rising housing costs, and the ageing population.[60] There are also system-specific drivers, including government agencies defining their population of focus more narrowly, which pushes higher-needs service users over to the community sector.

In this research, one small provider organisation shared how a family will contact them or be referred on due to a 'presenting' issue, such as lack of access to housing. But the family will be facing a host of other issues, such as financial difficulty, addiction, family violence, or their children's truancies.

A larger provider explained that the children they support are experiencing serious wellbeing issues at younger ages than they have historically. These include young girls seriously self-harming, young men coming through the justice system on murder charges, and young people in general at greater risk of suicidal thoughts.

One of the country's largest providers of child and family services noted that nearly half of families referred to a specific intensive service had at least three 'referral factors' present, including family involvement with the government, parental mental health challenges, family violence, neglect or emotional abuse, alcohol and drug issues, and significant health and/or disability needs.

The complexity of service user need is also noted in the wider literature,[61] with the acknowledgement that 'presenting issues', such as homelessness or mental health, are "tangled and interdependent".[62] Because these challenges are so interlinked, experiencing hardship in one area of life can rapidly trigger a downward cycle in others. (See box below, 'The interdependent nature of hardship').

The current arrangements in the social service system make it difficult for providers to respond to the unique and complex needs of service users.

When there is a funding gap – when government agencies operate in siloes and contractual arrangements closely prescribe which services will be delivered and at what volume – the upshot is an insufficient and inflexible funding model.

In support of this conclusion, a 2019 Ministry of Development report in the family violence space concluded that: "Contracted programmes tend to be inflexible, and do not always cater to whānau presenting with complex and compounding needs."[63] Likewise, results from survey component in this research showed that just under one-third of providers 'strongly' agree that 'Government contracts are too restrictive to meet the reality of our clients' complex needs', and close to 60% 'strongly' or 'somewhat' agree with this.

THE INTERDEPENDENT NATURE OF HARDSHIP

In the course of this research, one provider shared the story of a family who were on the "edge of care" – meaning the children were at risk of being taken into foster care.

The family's washing machine broke down, which meant the children went to school in dirty uniforms. The relationship between the parents and the school then deteriorated, so the parents pulled the children out of school. Truancy services got involved and then Oranga Tamariki got involved.

Once problems like this escalate, it is time consuming and resource intensive to engage with all of the parties involved, and to try to right the situation.

This research unveiled numerous examples of people whose needs are not being met in a holistic manner.

In the family violence area, providers observed that the best path to healing is a wrap-around holistic service response. However, government contracts do not factor this in, particularly in delivering services to children. A service provider focused on youth saw a particular need for male mentors who speak te reo Māori, but they noted it is very difficult to recruit people with these skillsets. Another provider observed that what people need "could be different for every client. Horse therapy might work for somebody, instead of a group workshop. You need flexibility to work through it and find the right path".

"Sometimes we are creative with how we use the funds we've got. Some funders don't like that, but you can't treat an issue in isolation – you need to be creative about what you are providing so it meets people's needs."
(Social service provider)

Some providers refuse to have their services defined by their contracts – they simply seek to meet people's needs, and will work around the contract requirements if necessary.

As one interviewee expressed: "I detest it when people say they won't deliver something because the contract doesn't allow it. We are not defined by government contracts – we've developed our own kaupapa, and way of supporting and connecting with families."

QUANTIFYING THE FUNDING GAP
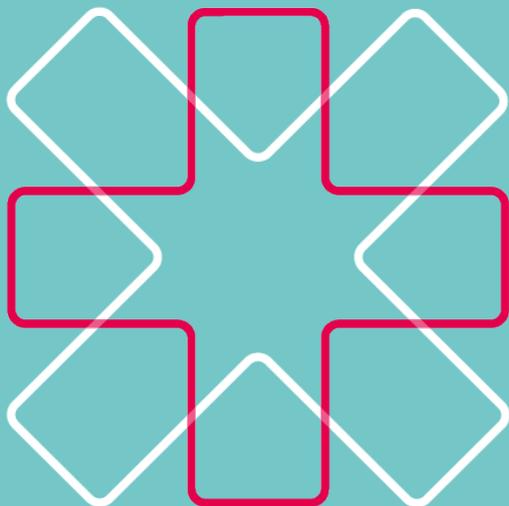
Quantifying the gap: Analysis

The funding gap across the social service system has not previously been quantified. By comparing actual provider income and expenses against the profile of a financially sustainable provider, it is possible to determine ideal operating funding levels.

Income received by providers

For the purposes of this analysis, the estimated annual income of providers within the scope of the study is $1,435 million. This figure is based on Budget 2019, Estimates of Appropriations, actual government expenditure on providers, and a sample of provider annual reports. The methodology for estimating income was considered reasonable for the purposes of this project, and feasible given time and resource constraints.

Income received from government

The annual income which providers receive directly from government is estimated at $1,120 million. Based on a sample of provider annual reports, the majority (77%) of income comes from the Ministry of Social Development and Oranga Tamariki. In dollar figures, this equates to at least $860 million for services delivered by providers directly for children, young people, individuals, families and communities.

The estimated additional annual income from other government agencies is at least $260 million. On average, 23% of annual government income was received from a range of other government agencies, including the Ministry of Justice, New Zealand Police, the Department of Corrections, the Ministry of Health and District Health Boards, the Ministry of Education, Te Puni Kōkiri and other agencies.

Income generated from non-government sources

Providers' annual income from non-government sources is estimated at about $320 million, which equates to around 22% of providers' total income. The majority of this other funding is derived from philanthropic organisations, with the remainder derived from donations, fees for service, investments and other sources.

Direct costs, overheads and reserves

Direct costs

In the social provider sector, 'direct costs' means those costs directly associated with delivering services. This includes wages for frontline staff and for those managing frontline staff, and any other resources used to deliver services, such as petrol costs or educational resources.

If providers are to be financially sustainable, ideally 65% of their total expenditure would be allocated to direct costs. This figure is based on a sample of government agencies and well-performing providers, and also on the Standards for Charity Accountability produced by the BBB Wise Giving Alliance.[64] By contrast, the average expenditure on direct costs for providers in this research was 76%.

Overheads

'Overheads' refers to all of the other costs required to keep an organisation running, as discussed earlier in this research. If providers are to be financially sustainable, ideally 30% of total expenditure would be allocated to overheads (and 5% to reserves – see below). This is also based on a sample of government agencies and well-performing providers, and the Standards for Charity Accountability.[65] The average overhead allocation of providers in this research was 22%.

Reserves

'Reserves' refers to the additional funds that providers retain at the end of the financial period, after income and expenditure are accounted for and a surplus has been achieved. Reserves are critical for sustainability as they allow providers to manage the risk and uncertainty associated with contract-based funding and donations. Reserves enable providers to maintain their cash flow and carry on as a going concern.

A provider in a financially sustainable position should be able to allocate at least 5% of their total expenditure to reserves, or at least three months' operating costs. This is based on a sample of not-for-profit and profit-driven organisations. Howard Stringer, former Chief Executive Officer of Sony Corporation, also believes "a five percent operating margin represents a baseline to continue to lead and innovate".[66] In the annual reports sampled for this research, the average margin of providers was 2% of total expenditure.

Quantifying the gap: Calculations

Results from this research indicate that the government funds community-based providers for **less than two thirds** of the actual costs of delivering these essential services, and that the total underfunding is at least **$630 million annually**.

Underfunding of overheads and reserves

Providers do not receive sufficient funding for their basic operating costs. Overheads are not typically covered under the contributory funding model for a number of reasons. One is that funders want to incentivise providers to be as efficient as possible, and so they reduce the level of funding available for overheads and reserves. Also, funders may have insufficient information to determine a realistic overhead rate.

There is no sector-wide agreement about what 'overheads' should cover, and because providers are typically overhead starved, their reported overhead costs are lower than they would be if sufficient funding was available. There is also no shared agreement in the sector about whether contracts should cover reserves, which would enable providers to operate sustainably.

Analysis of overheads and reserves

According to the results of this analysis, the underfunding of overheads and reserves across providers is estimated at about **$130 million annually**.

Between the ideal 'overhead costs' of 30% and the actual 'overhead costs' of 22% is a disparity of 8%. To estimate the increase in annual overheads funding that providers require, current total income received from government can be multiplied by that 8% disparity, to give a total of about $100 million.

Between the ideal 'reserves costs' of 5% and the actual 'reserve costs' of 2% is a disparity of 3%. To estimate the increase in annual 'reserve costs' funding that providers need, current total income received from government can be multiplied by the 3% disparity, to give a total of about $30 million.

This analysis is based on the assumptions that (1) all essential services that would otherwise be delivered by government should be fully funded at the

ideal 'overheads' rate of 30% and the ideal 'reserves' rate of 5%, and (2) that all providers are delivering essential services.

Underfunding of wages

There is a growing wage differential between the social service provider sector and the government sector, as discussed previously in this research. The differential is now estimated to be 32%, based on the average community social worker salary and the new average salary for government social workers. For some providers, this differential is expected to rise to around 45%.

Analysis of wage disparities

According to the results of this analysis, the underfunding of wages across providers is estimated at about **$300 million annually**.

If parity between social workers and other employees in the government and non-governmental social provider sector was to be achieved, then the wage differential of 32% needs to be completely equalised. Applying the 32% wage disparity to total income from government means the estimated increase in 'direct costs' funding needed by providers is $520 million.

Taking into account additional employee contributions, such as KiwiSaver and Accident Compensation Corporation, it is assumed that wage increases will have no material impact on 'other direct costs', 'overheads' (other than administration employees) and 'reserves costs'. Those costs can be deducted, leaving an estimated **$300 million annually.**

This analysis is based on the assumption that social workers are the largest single occupational group in the social provider sector, and that all employees, including those involved in administration and managing staff, are proportionately as underpaid as social workers.

Underfunding of absorbed demand (funding what providers actually do)

The results of this research indicate that providers do not receive sufficient funding to meet actual demand.

They are often required to deliver over and above the volume funded for in their contracts with government. Providers typically fulfil their 'duty of care' to communities, rather than turning people away that are in need.

Analysis of absorbed demand

The underfunding of absorbed demand across providers is estimated at about **$200 million annually**.

The total funding shortfall has been calculated by multiplying the current total income received from government by a conservative estimate of 15% funding shortfall in relation to demand. However, this estimate sits at the lower end of the wide range of responses from providers, which indicated that additional demand could be anywhere between 0% and 350%.

The vast majority of providers surveyed for this research indicated they are absorbing demand, with 87% 'agreeing' or 'strongly agreeing' with the statement, 'We provide more services than we are funded to provide'.

This analysis is based on the assumptions that (1) all essential services that would otherwise be delivered by government should be fully funded at a level sufficient to meet all demand, and that (4) any potential economies of scale derived from delivering a higher volume of services would not apply.

Although there is no doubt there is a demand gap and an urgent need for additional funding to cover it, there needs to be further investigation into the drivers of demand and the ways in which providers are absorbing it. This could include investigating the types of services where the demand gap is greatest, and also where clients are accessing multiple services from different providers.

Underfunding of additional unmet demand (funding what could potentially be done)

Providers are also unable to meet demand for more holistic services. Across the social service system, there is a lack of government investment in preventative services and early intervention.

At the service level, the lack of funding means people receive a lower level of service than they ideally would – for instance, fewer counselling services than they need to make sustained progress. Volume-focused contracting also means services are highly standardised and not readily adapted in order to reflect the unique, complex circumstances of people's lives.

Analysis of additional unmet demand

This research did not seek to quantify underfunding of additional unmet demand across providers. However, survey results showed that roughly three-quarters of providers are unable to meet additional demand, and 74% of providers 'strongly agree' or 'agree' with the statement that, 'There are service gaps – our clients' needs are not being fully met'.

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Some providers have a very clear understanding of what this additional demand is, and they actively seek to meet holistic needs with funding from other sources. Other providers suggested they are unable to meet the needs of these clients because either they are difficult to reach, have complex needs requiring multiple services, or their needs are not covered by current services.

Again, while there is no doubt there is an additional demand gap and an urgent need for additional funding, further investigation is needed, including around the drivers of this additional demand. There is an opportunity here for government, philanthropists and providers to work together on understanding and meeting needs with more holistic services.

Summary: The required funding increase

Providers are funded for **less than two-thirds of the actual costs** of delivering these essential services. According to the results of this research and analysis, the total underfunding of providers by government is estimated to be at least $**630 million per annum**.

This includes the:

- underfunding of overheads and reserves of about **$130 million**
- underfunding of wages of about **$300 million**
- underfunding of absorbed demand of about **$200 million**.

>> 5.
RECOMMENDED SOLUTIONS
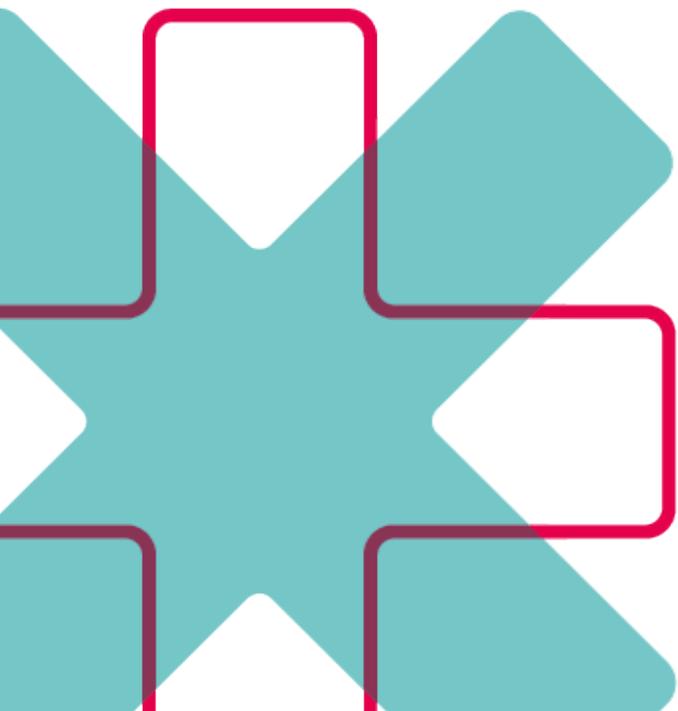
Solutions in the immediate future

The following recommendations should be considered and implemented immediately to stabilise the social service system – by resetting underlying principles, funding the basic operating costs of providers and enhancing current funding mechanisms.

Resetting the principles of the social service system

All societies aspire to improve people's wellbeing and, as a collective, New Zealand society has choices about how to achieve this end.

The government should formally acknowledge the critical role providers play in delivering frontline services to people in need, and acknowledge the vital role philanthropic organisations play in helping to fill the current funding shortfall. The government should also recognise that philanthropic funders could play a more transformative role if the government fully funded all essential social services.

This recognition would align with the government's stated commitment to achieving wellbeing for all New Zealanders. Recognising the role of providers and philanthropic funders would also demonstrate the goodwill of the government, and establish a solid platform for parties to come together and agree on the shared, underlying principles of the future system.

This research has demonstrated that providers do not currently receive sufficient government funding to perform their roles. As a first principle, any essential services delivered by providers should be fully funded, as they would be if they were delivered by government. Government should bear the burden of establishing why funding should only be partial, in any particular case. As the Productivity Commission notes: "Government should fully fund those services that deliver on the government's goals and commitments."[67]

Collaborative funding models should be established to fund any services 'over and above' essential services, or to serve other purposes determined by providers. Philanthropic funding could be allocated to services of this nature.

Recommendations:

1   That government acknowledge the critical role and importance of the provider and philanthropic sectors in ensuring the wellbeing of New Zealanders, and work in partnership to develop **underlying principles** as a basis for change across the social service system.

2   That government establish, as an underlying principle, that all essential services that would otherwise be delivered by government agencies should be funded at a minimum of **30% 'overhead costs'** and **5% 'reserve costs'** as a proportion of total income.

3   That government establish, as an underlying principle, that the **wage disparity** should be closed between government agencies and those providers delivering essential services that would otherwise be delivered by government.

4   That government establish, as an underlying principle, that where providers' contracts are for essential services that would otherwise be delivered by government, the contracts should cover the **additional demand** for those services that is currently being absorbed by providers.

5   That government establish, as an underlying principle, that there is no expectation that additional **income generated by providers** should be directed towards funding essential contracted services.

Stabilising and meeting the basic needs of providers

This research has determined that providers are funded for less than 70% of the actual costs of delivering essential services.

The Ministry of Social Development, Oranga Tamariki and the Treasury should work with other relevant agencies, and with providers and the philanthropic sector, to prepare a Budget 2020 package for ministers to consider. This should include the annual underfunding of providers delivering essential services to children, individuals, families and communities, which has been estimated to be at least $630 million annually.

Further investigation is needed as how best to allocate this funding. As part of preparing the Budget 2020 package, the Ministry of Social Development, Oranga Tamariki and the Treasury should carry out further analysis of the historical underfunding of providers to identify any specific trends, including any disparities between service type and the population demographics being served. These agencies should also carry out further analysis to more

accurately determine the additional demand that providers are currently absorbing, and the demand that providers are currently unable to meet.

Recommendations:

6   That government acknowledge that providers are funded for **less than two thirds of the actual costs** required for delivering essential services, and that this is estimated to be a total underfunding of **at least $630 million** annually.

7   That the Ministry of Social Development, Oranga Tamariki and the Treasury work with other relevant government agencies and with provider representatives to prepare a budget bid ahead of Budget 2020 to address the underfunding of **annual overheads** and **reserves** across providers, estimated at about **$130 million**.

8   That the Ministry of Social Development, Oranga Tamariki and the Treasury work with other relevant government agencies and with provider representatives to prepare a budget bid ahead of Budget 2020 to address the underfunding of **annual wages** across providers, estimated at about **$300 million**.

9   That the Ministry of Social Development, Oranga Tamariki and the Treasury work with other relevant government agencies and with provider representatives to prepare a budget bid ahead of Budget 2020 to address the underfunding of **demand** across providers, estimated at about **$200 million**.

10   That the Ministry of Social Development, Oranga Tamariki, and the Treasury undertake further analysis of **historical underfunding** to identify any specific trends, including disparities between service type and the population demographics being served.

11   That the Ministry of Social Development, Oranga Tamariki and the Treasury work with other relevant government agencies and with provider representatives to further investigate the drivers of the **additional demand** for services that providers are absorbing.

Ensuring appropriate funding principles and mechanisms

This research has revealed that there are no consistent funding principles across the social service system, and there is a lack of transparency as to how funding decisions are made.

A minimum overhead and reserve policy should be established for all providers, with these standard rates calculated from the actual direct costs required to deliver the service.

This research has also demonstrated that government funders and philanthropic organisations tend to prefer new services, which puts established services at a disadvantage. Nominal contract prices remain steady while the real value of contracts declines.

Going forward, contract prices should be indexed to reflect annual cost increases, and work should be undertaken to determine the most appropriate index to apply. Additional mechanisms should also be explored to enable providers to adequately address cost and demand pressures.

Recommendations:

12　That the Ministry of Social Development and Oranga Tamariki establish a **consistent policy** across government agencies that all essential services that would otherwise be delivered directly by government are funded at rates of 30% 'overheads' and 5% 'reserve costs', as proportions of providers' total income.

13　That the Ministry of Social Development and Oranga Tamariki establish consistent policy and funding mechanisms across its contracting processes to ensure that contract prices for all essential services that would otherwise be delivered by government are adjusted annually, in line with an appropriate **index**.

14　That the Treasury establish new policy mechanisms across government, through the Budget process, to ensure that **future investments** in any one part of the social service system do not adversely affect other parts of the system.

15　That the Treasury establish new funding mechanisms across government, through the Budget process, to appropriately acknowledge and fund **cost pressures** faced by providers, particularly pressures resulting from additional demand or the changing needs of service users.

JOINT OUTCOMES: $320 MILLION TO PREVENT FAMILY AND SEXUAL VIOLENCE

Budget 2019 set aside a $320 million package of funding over four years, to help prevent family and sexual violence.[68] The package was developed by 10 agencies working in collaboration, including Oranga Tamariki, the Ministry of Social Development, the Ministry of Justice, and the Police. [69]

Funding will be funnelled into five broad initiatives:

• Increasing investment in prevention

• Safe, consistent and effective responses to family violence in every community

• Growing essential specialist sexual violence services

• Improving the justice response to sexual violence victims

• A Joint Venture Business Unit.[70]

Funding and delivery will be overseen by a joint venture of chief executives from multiple ministries, who are collectively accountable for results.[71]

Solutions in the medium term

The following recommendations enable the social service system to operate in a more unified, cohesive and effective manner through jointly defining what success looks like, establishing working relationships and building overall capability and capacity.

Wellbeing outcomes for the social service system

There is only limited agreement across the social service system as to what good looks like and what works. The government should work in partnership with providers and the philanthropic sector to design a wellbeing outcome strategy and a consistent performance framework to measure and monitor tangible progress. Government should also establish mechanisms and infrastructure for collecting meaningful information, and approaches to sharing and disseminating learnings and insights.

Although there is a lack of system-wide performance measurement, the government holds providers accountable for how they spend public funds by imposing significant performance monitoring and audit requirements. The government should standardise, and reduce to a reasonable level, the compliance burdens placed on providers, specifically where providers are delivering services on behalf of multiple government agencies.

Recommendations:

16   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the social service provider and philanthropic sectors to design and develop a **wellbeing outcome strategy** across the social service system that guides performance expectations.

17   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to design and develop a consistent **performance framework** to measure and monitor tangible progress, and generate insights that can lead to improved wellbeing.

18   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to develop mechanisms and infrastructure for collecting

meaningful **information** to inform the social service system's performance.

19   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to develop mechanisms for actively sharing and disseminating **lessons and insights** derived from the analysis of administrative, performance and evaluative information.

20   That the Ministry of Social Development and Oranga Tamariki establish standardised policy and compliance mechanisms that deliberately aim to reduce to a reasonable level the **monitoring and compliance burden** placed on providers, including where providers are delivering social services on behalf of multiple government agencies.

OUTCOMES THAT MATTER: THE PARTNERS FOR CHANGE OUTCOME MANAGEMENT SYSTEM

Partners for Change Outcome Management System (or PCOMS) is a system that recognises that service users are the best judge of whether a service is effective. In PCOMS, providers ask service users to regularly assess whether their situation is improving as a result of the service they are receiving, and whether their support worker is effective in their role. "The data this measurement produces then informs discussions between them [the service user] and their worker to jointly see what change could be made to improve the situation. This data is used in the therapeutic relationship in real time." [72]

Appropriate relationship principles and mechanisms

This research has shown that providers and philanthropic organisations are not enabled to participate effectively in government-led funding processes.

This is apparent at a number of stages in the existing funding process. The government generally designs solutions to problems in isolation from the provider and philanthropic sectors and, at the agency level, in isolation from other parts of government.

Providers are generally not involved until the government has developed its strategy and policies, confirmed funding through the Budget process, and developed the detailed design of services. The philanthropic sector usually becomes involved only when the procurement process has ended, services are beginning to be delivered, and underfunding is apparent.

Formal mechanisms should be established to enable providers and philanthropic agencies to participate effectively in government funding processes. This should include formal terms of relationship. It could also include a new Joint Venture – where parties have responsibility for ensuring the social service system is fit for purpose and well-equipped to improve the wellbeing of New Zealanders.

Recommendations:

21 That the State Services Commission investigate the feasibility of a new **Joint Venture** model arrangement where government, providers and philanthropic agencies can collaborate and collectively participate in funding, resourcing and delivery discussions.

22 That the Ministry of Social Development and Oranga Tamariki establish mechanisms to work in partnership with representatives of the provider and philanthropic sectors to develop **terms of relationship**, including accountabilities and responsibilities within the social service system that, are unique to New Zealand.

23 That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to develop mechanisms for collectively understanding and identifying wellbeing needs across the population, in order to inform **policy on possible solutions**.

24 That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to develop mechanisms for **quantifying the actual level of demand** and **quantifying funding requirements** for new and existing services.

25 That government work in partnership with representatives of the provider and philanthropic sectors to develop mechanisms for **co-designing and effectively pricing** either new services or evolved versions of existing services, as a response to agreed problem definitions and possible solutions.

CO-DESIGN OF AN AWARD-WINNING REMAND HOME FOR RANGATAHI

Ngāpuhi Iwi Social Services (NISS) was invited to put in a tender for a remand facility for Māori youth (rangatahi) who had committed a crime and were awaiting sentencing.[73]

The provider put forward a model different from that proposed by Oranga Tamariki. As NISS's General Manager explains, rather than house rangatahi in an institution with convicted offenders[74] they "proposed a different model of one-to-one specialist care where tamariki are placed with well-functioning whānau…as we felt this would result in better outcomes for them".[75]

After winning the tender, NISS entered a full co-design phase with Oranga Tamariki, and the Mahuru programme launched in Northland in 2017. Young people are housed in a family environment, with registered social workers who engage with youth during the day, and with approved caregivers taking care of the young people at night.[76] Through the programme, rangatahi are able to explore their connection to iwi, engage in workshops about drug and alcohol consumption, receive health checks and learn outdoor living skills.[77]

The Mahuru programme received an international award in 2019, at an indigenous affairs conference hosted by the Australia and New Zealand School of Government. Attendees were interested in the power of equal partnerships between iwi and government, particularly given Oranga Tamariki's re-commitment to improving outcomes for Māori tamariki, under section 7AA of the Oranga Tamariki Act.[78]

As the general manager observed: "It was the first time we'd had such an equal partnership with any government department and we commend the Ministry for going down this path."[79]

Building the capability and capacity of the sector

This research has demonstrated that providers are finding it difficult to attract and retain staff. Steps should be taken to value the community-based workforce, and to build capability and capacity within this sector. This should

include the development of a workforce strategy, including mechanisms for managing workforce disparity and investing in capacity where there is heavy additional demand for services.

At present, providers are held to the same level of accountability as government, but without the same level of resources. Providers need access to adequately remunerated governance boards and risk committees. Representative bodies both of providers and of philanthropic organisations should also be appropriately resourced to enable them to represent their sectors effectively in discussions about the social service system.

Recommendations:

26 That the Ministry of Social Development and Oranga Tamariki continue to work in partnership with representatives of the provider sector, through the Workforce Working Group, to design and develop a **workforce strategy** for the social service system, including for attracting and retaining social service workers.

27 That the Ministry of Social Development and Oranga Tamariki continue to work in partnership with representatives of the provider sector, through the Workforce Working Group, to design and develop mechanisms for **managing workforce disparity** and investing in capacity where additional demand for services is heavy.

28 That the Ministry of Social Development, Oranga Tamariki and the Treasury investigate providing sufficient remuneration for provider **governance boards** and risk committees so providers have access to specialist expertise to support risk management and oversight.

29 That the Ministry of Social Development, Oranga Tamariki and the Treasury investigate providing sufficient funding for **representative bodies** of the provider and philanthropic sectors to enable those sectors to participate effectively in discussions about the social service system.

30 That the Ministry of Social Development, Oranga Tamariki and the Treasury investigate establishing sufficient capability and capacity to enable the government, provider and philanthropic sectors to monitor the **performance** of the social service system. This may include **functions** that enable identification of needs, funding and pricing, investment in services, contracting, monitoring and evaluation.

COLLABORATIVE FUNDING IN PRACTICE: VOYCE – WHAKARONGO MAI

VOYCE – Whakarongo Mai stands for "Voice of the Young and Care Experienced – Listen to me".[80] VOYCE exists to ensure that voices of children and young people in care are heard and used to shape and improve the care services provided by Oranga Tamariki.[81]

VOYCE was established through contribution of four philanthropic organisations – Foundation North, the Todd Foundation, the Tindall Foundation and the Vodafone Aotearoa Foundation. VOYCE would give young people a voice and a way of influencing the system, and it would be based around the core principle: "Nothing about us, without us".[82] VOYCE was established as an organisation in 2017. In 2018, the four philanthropic organisations committed to funding the service for the next three years, alongside Oranga Tamariki, which provides core operating funding.

A number of lessons have been learned along the way, including the challenges involved in "Moving beyond the traditional government process of designing a service and putting it out to competitive tender".[83] But VOYCE shows that funders can come together to significantly shape and improve the social service system.

Solutions in the longer-term

The following solutions will enable the social service system to drive genuinely transformative social change through designing alternative 'collaborative' funding mechanisms and progressively investing in prevention and early intervention.

Collaborative funding principles and mechanisms

Government agencies, philanthropic funders and providers should explore how to collaborate in the funding of services across the social service system – as opposed to the current partial or contributory funding model. The government would systematically fund all services classified as 'essential', while government-philanthropic partnerships could be established to fund more innovative or complementary services.

Philanthropic funders play a vital role in the social service system, as they are able to invest in innovative solutions to address complex and large-scale problems. However, the full value of this philanthropic funding is not yet being realised, partly because of a lack of systematic collaboration between the government and the philanthropic sector. Instead, funding decisions tend to be made in siloes, which means funding investments do not generate the level of impact they potentially could.

This research has also highlighted that the competitive tendering model incentivises competition between providers, and discourages partnerships for shared funding and collaborative service delivery. It is expensive for providers to participate in the tendering process, which benefits better-resourced providers. Steps should be taken to increase transparency in contracting and procurement processes, to lower the associated costs, and make it easier for all providers to engage.

Recommendations:

31   That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to re-design and develop **alternative contracting and funding mechanisms** that reflect their revised roles and responsibilities across the social service system.

32 That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to investigate the feasibility of establishing **collaborative funding** mechanisms, as opposed to partial or contributory funding mechanisms, where joint investment is agreed.

33 That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sector to investigate how to fund and **scale up innovative initiatives** that have proven effective in pilot studies.

34 That the Ministry of Business, Innovation and Employment work in partnership with representatives of the provider and philanthropic sectors to design greater **fairness and transparency** across existing contracting and procurement decisions, in an effort to reduce provider's tendering costs.

35 That the Ministry of Business, Innovation and Employment work with representatives of the provider and philanthropic sectors to design and develop mechanisms for encouraging collaborative tender responses and partnerships between providers, in an effort to encourage **complementary** service delivery.

Invest in prevention and early intervention

The social service system in New Zealand is weighted towards the funding of crisis services, rather than early intervention and preventative services.

Funding for social services is typically determined at the level of the government agency, which means there is a focus on treating specific issues or symptoms that relate to the mandate of the agency. This diverts the focus away from the treatment of underlying causes, which requires a more joined-up approach from government. A fundamental shift is required, towards identifying and investing in population wellbeing, as opposed to predefined agency-specific services.

There is a lack of system-wide information as to which services are effective, and why. This may contribute towards a focus on crisis services, where there is a clear need for services, and where service outputs are readily quantified. In contrast, the benefits of early intervention services are realised over a longer time frame, and the system is not yet set up to measure and value these longer-term outcomes. A renewed focus on investing for wellbeing is required, which should include determining how to identify and measure the value of early intervention services.

The transformative value of philanthropic funding is not currently being realised, because philanthropic funds are being diverted to supporting core

government services, rather than system-wide change. In addition, it is not yet standard practice for government agencies and philanthropic providers to work together and seek to address the systemic, underlying causes of social issues. A partnership approach should be adopted, in which government agencies, providers and the philanthropic sector come together to fund transformative social projects focused on prevention and early intervention.

Recommendations:

36 That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to investigate the feasibility of fundamentally shifting to an investment strategy across the social service system based on identifying and supporting the population's **wellbeing needs**.

37 That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to investigate the feasibility of taking a human-centred approach to social investment, by systematically identifying and valuing the positive outcomes of **investing in wellbeing.**

38 That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to investigate the feasibility of establishing strategies to increase investment in **prevention and early intervention**, while maintaining the delivery of intensive essential services.

39 That the Ministry of Social Development and Oranga Tamariki work in partnership with representatives of the provider and philanthropic sectors to investigate the feasibility of establishing a tiered approach to **collaborative funding** mechanisms, where collaborative funding is allocated towards prevention and early intervention initiatives.

INVESTING IN WELLBEING: THE SOUTHERN INITIATIVE

The Southern Initiative is a place-based regeneration initiative that covers the areas of Māngere-Ōtāhuhu, Ōtara-Papatoetoe, Manurewa and Papakura. The leaders of the initiative have been given a broad mandate to look at the significant social issues in South Auckland, and to explore how to drive innovative and effective social change.

Funding is provided by local government and philanthropic organisations.

The initiative takes a holistic view of what people need to flourish – including access to housing, employment with a living wage, good health, educational attainment and so forth. They then partner with government, council, iwi, community providers and businesses in order to achieve mutually beneficial outcomes.

One branch of focus is the early years. Gael Surgenor, Director of Community of Social Innovation has observed that good parenting requires strong executive functioning skills – but those skills disappear when people are under stress. By supporting young mums to access housing and support services, the initiative can reduce these women's stress levels and enable them to more fully utilise their own problem-solving skills – skills that children then begin to model.[84]

To give another example, the initiative recognises that simply being in work will not lead to transformative social outcomes – that "merely linking people to 'jobs' that are unstable or…mov[ing] people from a position of being poor to being 'working poor' actually exacerbates people's levels of cumulative stress".[85] As such, a partnership has been established with Auckland Council, to revise their procurement process in a way that benefits families in South Auckland. Any organisation that succeeds in winning a tender with the council must include some employees from South Auckland, pay fair wages, and invest in training and capability building.

The initiative has been described as a "world-class place-based initiative"[86] and it is driving real, transformative change.

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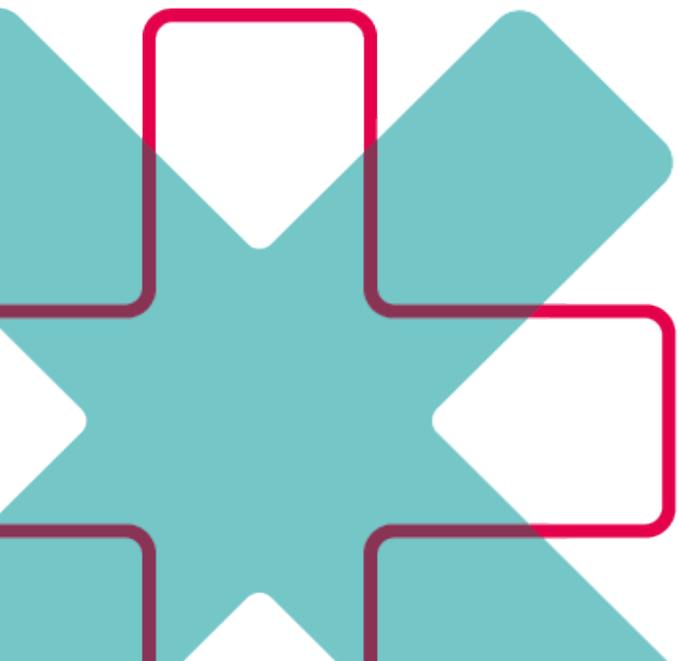
Approach to research

Overview

In April 2019, SSPA commissioned MartinJenkins to provide research and economic analysis of the current and future funding requirements for providers. The research was funded by SSPA member organisations and by philanthropic organisations.

This research project was overseen by a seven-person Sponsor Group, made up of representatives from SSPA, providers and philanthropic organisations. The group met every week throughout the project to provide governance and oversight of the work.

Defining the problem and describing the system

In this phase the project team specified the scope and problem to be solved, to keep the research focused on the specific problem at hand. The team also described the key elements of the social service system – this established a common framework for discussion, and enabled assessments to be made as how well the different parts of the system were functioning.

Scope of the problem

This research and analysis focused on providers that deliver services to children, young people, individuals, families and whānau, and are mainly funded through government contracts with the Ministry of Social Development or Oranga Tamariki, or both.

The analysis examines these providers as a cohort, and there is no sub-analysis based on specific population groups or specific types of service. The analysis is also focused on the funding gap, its implications, and future options; it did not address the quality of social services.

Defining the problem

The project team developed the problem statement by describing:

- **The current state**: This specified the pain points described by stakeholders in the system. It was informed by a high-level literature review and discussions with the Sponsor Group.

- **The future state**: This described what the system would look like once a solution was implemented. It was informed by the project team and

the Sponsor Group's understanding of the purpose of the social service system.

- **Drivers and assumptions**: This specified the drivers of the current state, and a set of assumptions about what needs to change in order to bridge the gap between the current and future states.

Describing the social service system

The problem can be exacerbated by the complexity of the system in which it exists. The problem statement therefore needed to take into account the different perspectives of children, young people, individuals, families and whānau in need, and the policy, investment and delivery mechanisms within the social service provider, philanthropic and government sectors.

The project team developed the system description by exploring and documenting:

- the **functions and responsibilities** of each stakeholder group

- the **drivers and incentives** of each stakeholder group – this included considering how various operating models drive different groups' behaviours and decisions

- the **different levers and mechanisms** available to each stakeholder group, and how groups use these to influence others in the system.

The system description was informed by a high-level literature review, and by engaging with the Sponsor Group and key stakeholders.

Engaging with stakeholders and reviewing the literature

In this phase, the project team engaged extensively with stakeholders from across the social service system in order to capture a diverse range of perspectives about their role in the system, the adequacy of current funding levels and mechanisms, and future directions for the sector, including future funding arrangements. The team also reviewed local and international literature.

Engaging with stakeholders – our approach

This research focused on the social service system and, as such, the project team engaged with stakeholders from right across the system. This included a sample of providers, philanthropic sector and strategic specialists, and government stakeholders.

Social service providers

The project team first identified a broadly representative sample of providers, using the SSPA membership database as a starting point. The sample was deliberately selected to cover key variables including size and location.

The team completed 14 semi-structured interviews with frontline providers. Those providers' organisations are all mainly funded by government contracts from Oranga Tamariki and the Ministry of Social Development, although many also receive funding from other agencies.

Two surveys were conducted with providers. This included an in-depth survey sent to the 14 respondent organisations to supplement the qualitative interviews, and a shorter online survey sent to the full SSPA membership database.

Both surveys sought quantitative data about: providers' experiences as they strive to meet demand; their funding levels; and their long-term sustainability. Fifty-one survey responses were received – four to the in-depth survey, and 47 to the shorter online survey.

Philanthropic organisations

The project team engaged with representatives from four large philanthropic organisations (Foundation North, the Tindall Foundation, the Todd Foundation, and the Hugh Green Foundation), and conducted an interview with a representative from the peak body, Philanthropy New Zealand.

Subject-matter specialists

Strategic specialists and subject matter experts were interviewed to provide rich insights. These included representatives from other social sector umbrella organisations, and six subject matter experts across statistics, public services association, family violence, accreditation, social workers, and child wellbeing.

Government agencies

The project team worked closely with representatives from a wide range of government agencies. As well as discussions with key individuals, MartinJenkins hosted two sessions with government agencies, each with over 15 representatives from the Treasury, Oranga Tamariki and the Ministry of Social Development. Ministers were also provided a briefing about the overall direction and purpose of this work.

Literature review – our approach

The project team reviewed local and international literature to build a more robust understanding of how the social service system is configured, the strengths and weaknesses of social service systems in other countries, and how to design a better system.

A wide range of articles was identified by the Sponsor Group, providers, government stakeholders and academics, and through keyword searching on relevant databases.

Analysing current and future operating costs

In this phase, data analysis and modelling were carried out to gain an understanding of providers' existing operating shortfalls, and the cost of meeting future levels of need in a sustainable manner.

Analysis methodology

Data analysis and modelling was performed to gain an understanding of actual provider income and expenses against what would be a financially sustainable provider to determine ideal operating funding levels.

- **Income:** Provider income was estimated through Budget 2019, Estimates of Appropriations, actual government expenditure on providers, and data drawn from a sample of providers' annual reports. Income was categorised by source, distinguishing between government funding (broken down by agency), and other sources of income such as philanthropic grants and charitable donations.

- **Ideal expenses:** Ideal expenses of providers were determined by reviewing industry standards, and determining the percentage of expenses that would be allocated across direct costs, overheads and reserves for a financially sustainable provider.

- **Actual expenses:** The real expenditure of providers was then calculated using a sample of annual reports to identify actual allocation across direct costs, overheads and reserves for a sample of large, medium and small providers.

From the research, funding shortfall manifests in three key areas: overheads, wages, and absorbed demand. Calculations for quantifying the funding gap were based on research findings and analysis of the relative size of the funding gap against actual income.

Recommending solutions

In this phase the project team used the findings from the research and analysis, along with their expertise in machinery of government, to recommend options for redesigning the funding mechanisms across the system as a whole.

The team focused on how mechanisms could better support the social service provider sector to meet current and future demand for services, and on how the flow of funding from central government to service users could be optimised to ensure people's needs are met.

The team described what an effective and sustainable funding model could look like in the short, medium and longer term.

Funding mechanisms – our approach

There were four key activities within this phase.

- **Mapping current mechanism**: First, the 'machinery of government' process in which funding typically flows from central government to providers and finally to service users. This included drawing on the literature, interviews with key stakeholders, and the team's in-depth knowledge of the machinery of government.

- **Identifying barriers**: The team then identified barriers within the existing end-to-end process that hinders sustainable funding and the effective delivery of services to meet people's needs. This was supported by interview and literature review findings.

- **An ideal process**: The team then designed enhancements, taking into account different approaches used here and overseas – such as 'fee for service', 'value based', 'place based', and 'social bonds'. These insights were mostly gathered through the literature review.

- **Quantifying the suggested changes**: Finally, the team assessed the scale and value of the recommended changes. This enabled the team to phase the recommended changes into short, medium and long-term suggested recommendations across the social service system.

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