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Funding social services: An historical analysis of responsibility for citizens' welfare in New Zealand

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Abstract

Government funding and delivery of social services increasingly fails to meet citizens' demands. One theory is that charities alleviate this pressure by delivering services to supplement those that governments provide (Weisbrod, 1988). When the government and market fail to meet social needs, these services are funded by donations and service charges. A second theory is that charities partner with government to fund and deliver complementary services (Salamon, 1987). This article analyses the historical choices made by New Zealand's government and charities relating to social services funding and delivery. Charities have not responded solely to what Weisbrod (1988) calls government failure, nor have they entered into continuous partnerships with government as Salamon (1987) would suggest. Instead, funding choices appear to be mutable, placing charities and beneficiaries in precarious positions when social services funding reduces. This article encourages debate about how social services should be funded: by government, charities or the marketplace.

Keywords

Charity funding, contracting-out, government failure, supplementary services

Introduction

The responsibility for, and funding of, social services in any economy at different periods in history has been borne variously by government, charities and the marketplace. Who should fund these services, and how they should be delivered, is a salient question given their increasing cost. In a market-based economy, for-profit firms sell only services that are commercially profitable, yet often those who most need social services cannot afford to pay, and therefore the market fails to satisfy society's social service needs. Historically, governments have responded to this "market failure" by funding specific social services. Yet they too fail to provide all the services citizens demand, leading to "government failure". Weisbrod (1988) hypothesises that, following market and government failure, charities will form as a last resort to deliver supplementary services.

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Contrary to the conjectural proposition of supplementarity, Salamon (1987) argues that charities arise independently. Hence, government and charities enjoy complementary partnering relationships, jointly delivering and funding social services to meet citizens' demands in an almost seamless manner.

The expected basis of social welfare funding differs considerably between these models. Weisbrod's (1988) theory of supplementarity indicates collective financing (through taxes) for the majority of social services, while Salamon's (1987) theory of complementarity requires private individuals to also make philanthropic donations and pay service fees. These differences have implications, not only for the relationship between government and charities, but also in defining the tactics that a charity must utilise if it seeks to survive and service its beneficiaries. Funding choices will impact the donating and tax-paying public, but the greatest disruption will be to the users or beneficiaries who face deprivation if funding is unavailable. Historical and contextual patterns can inform a debate as to the appropriate balance between collective (public) and private (individual or market-based) social services financing, as well as the relationships between government and charities in delivering services.

Supplementary and complementary charity–government relationships have been analysed in the context of the United States (US) (Salamon, 1995) and Nordic states (Kildal and Kuhnle, 2005) to form typologies of government. However, this type of analysis does not appear to be widespread. The objective of this article is to analyse the economic theories of Salamon (1987) and Weisbrod (1988) to ascertain their applicability to New Zealand and charity funding historically, as well as to encourage debate on the appropriate mix of government and private funding of social services. In doing so, the article describes main phases of the welfare government in New Zealand from 1935, with an emphasis on the government's social services expenditure from 1984 onwards. This study also analyses historical trends in charities' incomes, both generally, as well as through case studies of specific charities from 1984 to 2008. These cases provide examples of the effects of different funding policies.

Relative to the for-profit sector, there is a sparse literature on the historical aspects of accounting and accountability in charities and other not-for-profit entities. Relevant works include Fowler's (2010) study of the Nelson School Society (in New Zealand), Abraham's (2008) analysis of the Girl Guides Association in Australia, Jeacle's (2008) scrutiny of the Annual General Meeting in a UK setting, and Normand and Wootton's (2010) examination of a US Civil War institution. Cordery and Baskerville (2007) compared charity regulation in the UK and New Zealand, and, while regulation is one aspect of the relationship between government and charities, the current research considers a further aspect – that of social services funding and delivery.

The first section outlines the theoretical frameworks of supplementary and complementary relationships between government and charities in the funding and delivery of social services. In the second section, the historical overviews are presented, along with the case studies. This is followed by a discussion of the data and a concluding section. Additional case study data is provided in the Appendix.

Theoretical frame

Weisbrod (1988: 60) describes social services as "collective" goods that are "external benefits [provided] to persons who do not help to finance the [providing] organization's objectives".[1] Governments typically provide such goods because for-profit firms cannot charge sufficient service fees to enable them to meet their profit-making objectives. Charities also fund (and deliver) services that government fails to provide as a supplementary response to social need (Weisbrod, 1988), or, alternatively, charities work in partnership with government to deliver social services which are complementary (Salamon, 1987, 1995).

Establishing a welfare state which provides collective goods is an expression of a country's norms, values and social goals (Kildal and Kuhnle, 2005). The funding of social services which form the basis of welfare is therefore a normative issue that not only asks what the government should do, but also the extent to which charities should rely on private rather than collective funding. In analysing these issues in the US context, Weisbrod (1988) posits a strong government and weak charities, while Salamon (1987) argues that the empirical evidence shows government–charity relationships have been (and remain) complementary. His later work frames these relationships as partnerships (Salamon, 1995). It is curious that dissimilar theories can be applied to one context, especially as these theories point to different expectations of collective and individual financing. While other theories may be used to analyse these relationships, these dichotomous economic concepts are summarised in Table 1.

As shown in Table 1, Weisbrod (1988) argues that charities have grown because the collective services they supply to beneficiaries to supplement government services are those that government will not, or cannot, provide. Private donors fund these services to ensure greater consumer choice, specialisation,[2] advocacy (both public and political) and cost-effective delivery of social services (Hayes, 1996). Supplementary services may also be delivered in a buffer zone, mitigating tension between government and society in politically awkward areas (for example, in the funding of abortions) (Hayes, 1996). Private funding of charities in the supplementary model is inversely related to the size of government expenditure. This is due to the belief that increases in funding from one funder will crowd out other funders, as occurred in the US; private funding to supplementary providers reduced when government increased funding to these charity providers (Steurle and Hodgkinson, 2006).

Rather than supplementary funding and delivery, Young (2006) suggests charities provide complementary social services, subject to generating sufficient public and private funding to meet beneficiary demand. This conjectural proposition of complementary services was first mooted by Salamon (1987), who championed the charity sector as the main supplier of collective goods. Rather than crowding out, the complementary model posits that charities' expenditure will rise contemporaneously with growing government expenditure, as charities increasingly deliver services in partnership with government, drawing on private and collective funding. Partnership is an important facet of the theory which envisages government and charities complementing each other (Salamon, 1995).

Table 1. Summary of two different theories for charity involvement in social services

Theory	Assumption	Evidenced by
Charities **supplement** for government and market failures (Weisbrod, 1988)	Government seeks to take on social functions to the exclusion of others. Charities fulfil the demand for these collective goods which is left unsatisfied by government	• Large government • Small charity sector receiving low levels of both government and private funding
Charities **complement** government in a partnership relationship (Salamon, 1987, 1995)	Charities are the first choice to meet social services needs. Government deals with charity failure, leading to shared (partnering) responsibilities for social services	• Large charity sector • Less government funding and delivery of social services • Partnership

Growing decentralisation and Third Way policies[3] (Giddens, 2000) results in governments drawing on local charities to engage communities and, in an example of complementary relationships, couches these relationships in terms of "partnership". James (1987) is cynical about complementarity, suggesting that governments partially fund charities' social services not to be partners, but to draw on altruistic citizens, and access volunteer or cheaper labour and beneficiaries' spirit of "self-help", in order to reduce overall service costs.

Complementary funding of social services should allow for more flexible social services delivery than supplementary-funded services, by including a broad range of funders and providers delivering services acceptable to a wide range of beneficiaries (Salamon, 1995). Further, competition created through having numerous providers and funders may result in more services being supplied at a lower cost (Salamon, 1995), although this has not been tested. Against this, increased government contracting-out intensifies provider monitoring and potentially increases delivery costs, but this depends on the level of partnering.

International economic data from the Johns Hopkins Comparative Nonprofit Sector Project finds that some government–charity partnerships result in complementary services being funded and delivered and that: "sizable nonprofit sectors seem to be highly consistent with large-scale government social welfare activity" (Salamon, 2006: 406). For example, in the US, charities' incomes from government and private philanthropy, and also service fees, grew notably over three decades (Salamon, 1990, 2006) suggesting complementary government–charity relationships. This data may alternatively suggest increased privatisation of charities and growing dependence on private funding (Rathgeb Smith, 2006). Rather than accepting supplementary and complementary relationships as contextually static, Abramson, Salamon and Steuerle (2006) estimate that the US government–charity funding relationships alternate between the two.

One challenge in this type of research is a lack of robust data to assess the relationship, and another issue is a relative lack of informed public debate. This article attempts to determine the relationship between the government and citizens in social services funding in the New Zealand context, by analysing available relevant data in order to inform a debate and encourage more research.

Measuring and assessing the role of charities in social services is difficult. On the one hand, Rose-Ackerman (1986) argues that assessing the extent to which charities' outputs are collective goods is the most relevant. Therefore, Weisbrod (1988) aspired to develop a "collectiveness index" to assess the degree to which organisations deliver fully collective services. However, he was unable to do so, and measured instead a proxy for collectiveness, which was the extent of average private funding to these organisations. This alternative was also utilised by Salamon (1995) and Abramson et al. (2006) who measured funding (not-for-profit organisations' income). In order to ascertain whether government–charity relationships are complementary or supplementary, similarly to these authors, this research also focuses on funding into the not-for-profit sector as a proxy for measuring services supplied. This research utilises available data in respect of three main streams of funding into the sector: (i) government grants and contracts; (ii) donations and philanthropic grants; and (iii) service charges.

Social services: government and charity in New Zealand

The history of the relationship between public and private funding of social services in New Zealand has been long and complex (Tennant, 2007). The early settlers were not, on the whole, wealthy, but they came in the hope of gaining prosperity in a new land. The nineteenth-century British settlers established local Friendly Societies which practised ideals of self-help and self-reliance, which in turn became part of the colonial ethos (Oliver, 1981). By 1884, there were 281 Friendly Societies in New Zealand with 21,000 members. These were, in effect, an alternative or substitute for government and charity assistance, with paying members drawing on the collective funds pool in times of need. Gradually other assistance developed, for example, church orphanages, refuges for prostitutes, private and public schools for uncontrolled children, and a patchy system of charitable aid administered through hospitals (Oliver, 1981). Churches were also active in social services, deploying donations to serve beneficiaries.

A lack of philanthropists with large reserves of private wealth, combined with the fact that not all migrants or indigenous people joined Friendly Societies, meant that the government performed a funding role from the colony's inception in 1840. Government intervened, despite New Zealand's establishment as a colony being synchronous with a "pendulum shift" against public welfare in England (Tennant, 2007). This interventionist stance in social services was widely described as a "social experiment" (Tennant, 2007).

The interaction between the government and charities in funding social services also reflected the "smallness and intimacy of New Zealand society" (Tennant, 2007: 9) with charities lobbying their Members of Parliament when they required more funds. As this was typically grant funding, charities continued pursuing their own aims rather than the government's (O'Brien et al., 2009). Their good relationship with the government enabled charities both to obtain funds for themselves, and to spur the government to improve beneficiaries' welfare.

This section briefly describes four main periods of New Zealand's social services policies: the Social Democratic consensus from 1935, the crisis of consensus from 1966, market-based reforms from 1984, and the Third Way swing back to Social Democracy from 2000 to 2008. Available quantitative data of government expenditure is used to illustrate this analysis. While it would be helpful to "map" inputs to charities' spending, total social services expenditure incurred by both the government and charities in New Zealand has not been robustly assessed. Government social services spending has been tracked by external parties such as the Organisation for Economic Co-operation and Development (OECD); however there is no comparable data for the charitable sector's financial contribution to social services. An increasing demand for statistical data led to New Zealand joining the Johns Hopkins International comparative study of the not-for-profit sector (Sanders et al., 2008), which builds on prior research (for example, Robinson, 1996; Robinson and Hanley, 2002; Slack and Leung-Wai, 2007) to measure the input of donations and philanthropic gifts to the private sector. Similarly to the Johns Hopkins International studies, these earlier studies considered the not-for-profit sector as a whole, rather than charities and social services specifically. Their estimates were derived from analysing temporally available statistical data, reports on public funding and surveys of philanthropists. These estimates are also used in this research.

Social Democratic consensus: 1935–1965

Following the election of the first Labour Government in 1935, New Zealand's social policies were developed under a Social Democratic consensus (Armstrong, 1994). The government committed to funding and providing government services in addition to regulating the economy. This reform was a reaction to the Great Depression's accentuation of market failure, and the need to redress inequalities between owners and workers. While social democrats believe it is necessary for the government to intervene to overcome market excesses (Cheyne et al., 2008), in New Zealand's case, government's intervention was limited. Few of the newly introduced benefits were universal; being founded on the paternalistic notion that the male head of the household deserved a living wage, despite women having gained suffrage in 1893. The paternalistic approach reduced the costs of the social reforms, with Keynesian economics moderating the social democrats' calls for greater government contributions to welfare (Armstrong, 1994). The consensus settled between equality for all New Zealanders and cost-efficiency.

This consensus period was unique in respect of the government's commitment to welfare and social services funding and delivery (Thompson, 1998). Policies appeared to be underpinned by a government intention that it would control and direct welfare (Cheyne et al., 2008), and Fries (2001) observed that the government's policies effectively nationalised parts of the charity sector. In addition, the government suppressed private philanthropy through a relative lack of taxation rebates offered to philanthropists (Fries, 2001).

Data on government funding to social services charities was estimated for 1967 (following the end of this Social Democratic consensus) at \$3.9 million (O'Brien et al., 2009). This figure was 0.68 per cent of the government's social services spending (against total spending of 16.8 per cent of GDP).[4] As this extrapolates to a mere 0.13 per cent of GDP, it supports Cheyne et al.'s (2008) theory of strong government control. Further, low levels of philanthropy signalled that citizens expected the government would meet social welfare needs, and charities would perform a supporting role only. This period appears to align with that described by Weisbrod (1988) as one when charities were supplementary service providers.

A crisis of consensus: 1966–1983

From 1966 to 1983 New Zealand endured a period of transition. Armstrong (1994) labels this as a 'crisis of consensus' marked by the rise of (anti-paternalistic) feminist and Māori activism on the one hand, and, on the other, the Libertarian right's arguments that government interference in the economy was unwarranted, and that entrepreneurship and free markets should be encouraged.

New Zealand was by now described as a "reluctant" welfare state (Shirley, 1994), along with the UK, Ireland, Canada, the US and Australia. Here economic and social policies are separated and, due to economic matters being emphasised, government is pressured to reduce social services funding. This leads to government failure and the need for increased private funding of charities.

In this period, Nordic countries, along with the Netherlands, Belgium and Austria were conversely described as Social Democratic welfare states (Kildal and Kuhnle, 2005). A strong link between social and economic policy, combined with high quality public provision, discouraged private alternatives. Broad public participation underpinned policy, with the expectation that government-funded welfare would include the entire population (Kildal and Kuhnle, 2005). Government welfare provision was relatively high (as it was in New Zealand during the Social Democratic consensus period), and there was a minor role only for charitable services, which were supplementary to those of the government.

A largely European block (Switzerland, Finland, Germany, France, Japan and Italy) was described as falling philosophically between New Zealand and these Nordic and European countries during New Zealand's crisis of consensus period. They were Conservative welfare states (Shirley, 1994)[5] that closely managed social and economic policies and wielded strong social controls to achieve stability. Stability required government intervention to maintain constitutional rights and 'traditional' values, but outside of these values, conservatives were suspicious of government intervention (Cheyne et al., 2008). In the countries holding these core values, charitable activities were supplementary to government activity.

As the reluctant welfare state through the 1970s, the New Zealand government withdrew its funding for many social services, and these became increasingly privately funded (Wilson et al., 2001). Charities that had historically enjoyed government support were forced to review their service delivery, raise funds from private sources (individuals) and, when they were unable to obtain extra funding, cut back on services. It was not common to charge service fees to beneficiaries. Charities' inability to meet all social needs also saw them actively referring those in need to government-provided services (Tennant, 2007).

While the government spoke of 'partnership', indicating complementary funding of services, in this period government began contracting-out to charities. Contracting-out added complexity to government–charity relationships, brought increased accountability demands, and professionalised service delivery. Further, the government contracted with a more diverse set of service providers, and encouraged more charities to form (O'Brien et al., 2009). Cultural diversification and an increase in the tax deductibility of donations intensified charity competition, which, in turn, contributed to the demise of some charities (see, for example, Sutton et al., 2010).

Market-based reforms: 1984–1999

The year 1984 and the election of the fourth Labour Government brought significant economic reforms, and the marketisation of many government services. The social services sector had already experienced a foretaste of these changes (as described above). Social services policies emphasised neo-liberal theories and drew on rationalist principles, agency theory and managerialism (O'Brien et al., 2009). These changes reflected welfare reforms in other countries previously described as being reluctant welfare states (including the UK and the US), and also, from 1990, in the Social Democratic states (Kildal and Kuhnle, 2005). Neo-liberal reformers argued that the government had failed in prior periods (Cheyne et al., 2008), and that beneficiaries should manage their own social needs. Their normative position was that the government could not make decisions in beneficiaries' best interests.

Armstrong (1994) describes this period as a "rolling back" of the welfare state, in order to make it "accountable to the electorate". She quotes a Treasury document arguing that the government should intervene only when there is breakdown in the family or the market "the two natural channels through which [all human] needs are met" (Armstrong, 1994: 124).[6] Such market-based policies redefined the government–charity relationship (Wilson et al., 2001). Government funding of the not-for-profit sector steadily increased from an estimated 0.16 per cent of GDP in 1986 to 0.78 per cent by 1994 (O'Brien et al., 2009), and 0.86 per cent by 1999 (Robinson and Hanley, 2002). Charities grew in size as well as number, due to increased government procurement, income from service fees and philanthropic donations. While government increased its contributions, partnering was not evident in this procurement phase, suggesting the relationship could not be defined as complementary. In essence, social service charities became alternative providers. This label "alternative" describes a stage of the continuum where the relationship is neither supplementary nor complementary, and in this case where public procurement was emphasised.

From the mid-1980s, social policy change became "a dominant feature of political life in New Zealand" (Cheyne et al., 2008: 1). Following the Royal Commission on Social Policy which reported in 1988, economic and social policy changes continued through the 1990s. Change was exacerbated by electoral reform where Members of Parliament were selected by a proportional representation system (Mixed Member Proportional [MMP]). Previously, the unicameral system was based on "first-past-the-post" which had regularly resulted in a single party having a majority in the House. MMP reduced the strength of any one particular party in Parliament, requiring coalition agreements to be negotiated. This weakness is a driver for social services policy changes (Cheyne et al., 2008). Subsequently, government's focus digressed from neo-liberalism, and its social services expenditure rose as a percentage of GDP through the 1990s. However, by 1995 New Zealand's spending had dipped lower than the OECD unweighted average (Adema and Ladaique, 2009) as shown in Figure 1.

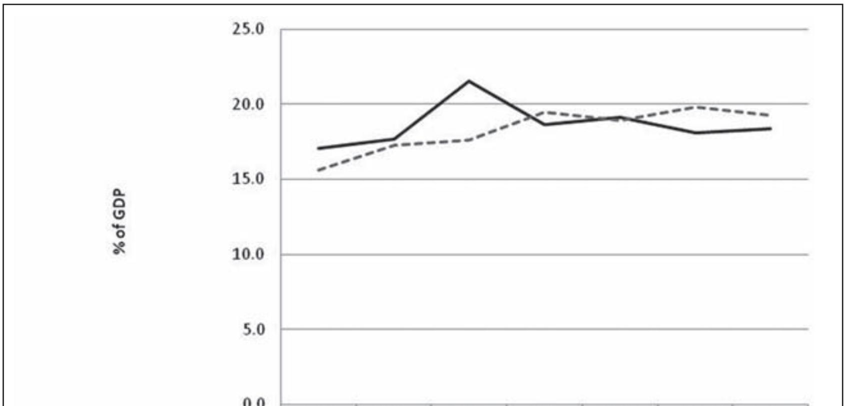
It can be seen from Figure 1 that New Zealand's public spending-to-GDP ratio has varied considerably compared to the OECD average. From 1980 to 1985, at the end of the period labelled by Armstrong (1994) as a 'crisis of consensus', spending increased only 0.7 per cent of GDP, while the OECD average rose 1.7 percentage points from a base of 15.6 per cent.

Figure 1 shows New Zealand's expenditure increased sharply following the electoral reforms. This was not driven by similar spending in other nations (as shown by the increase of 0.3 per cent in the OECD average), but by the New Zealand government's re-focus on social policy. The change from a centre-left (Labour) government to centre-right (National) in 1993, however, brought decreased social service spending. By 2000, the Labour-led coalition (discussed in the next section) again raised social services spending, but since 2002, spending has continued at or below the OECD unweighted average (Adema and Ladaique, 2009).

Third Way swing to Social Democracy: 2000–2008

Following the formation of a Labour-led coalition in mid-1999, a number of key social democratic policies were again adopted, perhaps because, as noted by Dollery and Wallis (2002: 2): "Social commentators throughout the advanced English-speaking world have become increasingly dismayed at the persistence of deprivation, poverty and unemployment, despite almost a decade of economic prosperity". The electorate demanded change and the MMP coalition government brought a "new pragmatic social conservatism and Third Way Social Democracy" (Cheyne et al., 2008: 234). Such "Third Way" political trends which attempt to link citizens to "global opportunities" were also evident in the UK, the US and Europe (Denhardt and Denhardt, 2000).

While the Third Way's overarching policies remain undefined, in respect of social services the Third Way emphasises communitarian ideals and promotes organisations which partner with



	1980	1985	1990	1995	2000	2005	2007
New Zealand	17.0	17.7	21.5	18.7	19.1	18.1	18.4
OECD - Unweighted average	15.6	17.3	17.6	19.5	18.9	19.8	19.3

Figure 1. Public social spending-to-GDP ratio for New Zealand and OECD unweighted average (Adema and Ladaique, 2009: 23)*

Note: *The specific data referred to in this paper was downloaded from the internet from http://stats.oecd.org/Index.aspx?datasetcode=SOCX_AGG (6 April 2011).

communities for the greater common good, rather than for individual profit (Adams and Hess, 2001). However, Third Way policies prefer market-based answers to social policy problems, encouraging competition to create efficiencies and to reduce the price (cost) for public goods and services. The prospect of market failure means for-profit organisations are unlikely to satisfy the demand for these goods and services, and therefore charities and increased private funding will be called upon to meet those demands.

A survey by the Local Government and Community Branch of the Department of Internal Affairs (DIA) (2007) is inconclusive as to whether government increased charities' funding in this period. Information extracted from government departments for the year ending 30 June 2006 deduced that government grants and contracts comprised 25 per cent of not-for-profit organisations' revenues. This amount ($1.25bn) was matched by an estimated $1.274bn from philanthropic sources (Slack and Leung-Wai, 2007). No fee-for-services funding figures were available. However, the DIA (2007) acknowledged that government funding of the not-for-profit sector could be as high as 45 per cent, if health funding (which was decentralised through regional bodies and therefore omitted from the estimate) was included. This would be more in line with Sanders et al.'s (2008) estimate of philanthropy at 20 per cent of the sector's revenues.

Third Way policies were, however, evidenced by the government's Statement of Government Intent (SOGI) in 2001 to guide its relationships with not-for-profit organisations (Association of Non-Governmental Organisations of Aotearoa, 2009). The SOGI emphasised respect and partnership in government contracting and underlined the expectation under Third Way policies that the government, market and community would co-exist harmoniously. Indeed Matheson, Howden-Chapman and Dew (2005: 3) envisaged a complementary relationship, stating: "The landscape of Government–community relationships has … significantly changed. The arms-length, outputs-focused, prescriptive contracting environment of the 1990s has been replaced, in many policy areas, by the rhetoric of partnership as a means of delivering social goals".

The National Party (which was elected in late 2008) picked the mood of the electorate by promising to "turbo-charge" charities. Signalling a desire for increased partnering, the soon-to-be Minister for Social Development stated:

> … more government involvement is not the solution to every social problem. We will get behind and support the community and voluntary groups that are making a real difference in our communities. National wants to promote a culture of generosity and giving, and by doing so support the community groups which benefit from this. We also want to encourage people to volunteer their time to community groups.[7]

Such a statement gives weight to the description of this period by Cheyne et al. (2008) as a "new consensus". Reflecting on Matheson et al.'s (2005) view of a complementary relationship between government and charities, the Association of Non-Government Organisations of Aotearoa (2009) was more sceptical when it analysed the SOGI as to whether it had moved government–charity relationships beyond rhetoric to partnership. Their report found the government lacked strategic engagement with the not-for-profit sector. Some agencies sought partnership arrangements, appearing to acknowledge their role as complementary providers. However, a majority of government agencies had limited or no knowledge of partnering with the not-for-profit sector, and consequently 'partnership' remained a theoretical concept. The Association of Non-Government Organisations of Aotearoa (2009) also noted that over the previous three decades, contracting-out had increased costs, specifically through the government's higher accountability demands.

Commentators do not agree as to whether Third Way reforms in New Zealand have led to charities 'filling the gaps' for government failure in an alternative relationship, or whether the increased charity delivery of services signals a partnering (complementary) relationship between the government and charities. Government contracting-out to charities in 2008 remained significant, but the impact on specific organisations was diverse, as can also be seen in the following four case studies.

Case study data

Case study research was undertaken to inform the secondary research into government and charity relationships. Health and social services organisations were chosen, as this sector accounts for around 14,000 (14 per cent) of the not-for-profit organisations in New Zealand and employs more than 44 per cent of the 105,000 staff in this sector (Sanders et al., 2008). Four health charities' financial accounts were analysed for 24 years, from 1984 to 2008. The organisations were: Intellectually Handicapped Children New Zealand (IHC), Royal New Zealand Foundation of the Blind (Foundation of the Blind), Royal New Zealand Plunket Society (Plunket), and New Zealand Red Cross Society (Red Cross) (see the Appendix for a synopsis of these organisations). These charities were chosen for closer analysis because of the size of the health sector and due to the longevity of these organisations. Annual Reports were sourced from New Zealand's National Library or, where availability issues arose, from each organisation directly. Information collected was coded into three distinct revenue sources as established by Sanders et al. (2008) (government, fees-for-service and private funding), enabling time series graphs to be prepared analysing the movements of funding levels over time. (The government series is shown in Figure A.1.) These organisations' revenues were diverse as can be seen in Table A.1.

In order to facilitate a more comprehensive understanding of the results, senior members of each organisation involved in either the fundraising or accounting were invited to participate in semi-structured interviews to explain their organisation's revenue changes over the prior two decades. In all, six interviews were undertaken, with these being recorded and transcribed.[8] These case studies show the fund dependencies of the health charities created by successive governments' policy changes from the market-based reform and Third Way Social Democracy periods. As explained in the Appendix, none of the case studies received the "average" percentage of funding expected from public and private sources. Two of the charities experienced a net withdrawal of government funding overall, necessitating increased dependence on philanthropy and service fees.

Funding relationships are vital to charities' continuance. For two charities, over 80 per cent of their income was from government in 2008, and the interviewees from these organisations (Plunket and IHC) noted that their high levels of government funding were a result of government recognising the costs of increasing professionalisation. The IHC interviewee (14 years with the organisation) explained that, from the year 2000, government funding was increasingly targeted at individuals and their needs. This interviewee was of the opinion that the total number of clients serviced had not increased dramatically, but that the funding for appropriate services had. This signals government's move to service procurement at professional prices in line with the Third Way period's marketisation, although the long-term stability of IHC's government contract suggests partnering and a complementary relationship.

All of the charities acknowledged they needed to be efficient, because, as an interviewee from IHC noted: "there will always be another provider to step in if you can't do the job for the contract fee". Other providers could include for-profit providers as well as charities.

Notwithstanding the high levels of government funding in IHC and Plunket, all four charities were committed to reducing their dependence on government funding, in order to be able independently to support and advocate for their members and beneficiaries, rather than being aligned to government's wishes. Plunket lost a government contract in 2006 and negotiated a private sponsorship deal to ensure their telephone advice centre was still able to provide a free-to-the-beneficiary service. Therefore, one Plunket interviewee noted that the organisation specifically looked for "more of a wider mix in terms of sponsorship, donations and grant funding" to replace the government contract (now held by a for-profit provider). Further, unlike IHC, both Plunket interviewees (eight years and 16 years with the organisation) recounted that government funding had not kept pace with the "baby boom" (that is, an increase in their beneficiary base). These interviewees were adamant that Plunket would find funds to continue to deliver relevant services to those who needed them, even if they could not pay, noting Plunket's funding tactics would include using more volunteers, accepting losses, and being more technologically adroit to search out and deliver services to beneficiaries in high deprivation areas.

These tactics are indicative of how a charity might respond to a new regime where they enjoy a complementary relationship with the government for some services, but are key providers (alternative to the government) for others. The danger of the alternative relationship is that some beneficiaries may miss out, if the charity is unable to absorb extra costs or to make cuts. Even the IHC interviewee noted that, despite efficiency drives to ensure sustainability, this large organisation could no longer "supply free goods from the service side of the business". Any extra services would attract a fee which some beneficiaries would not be able to afford.

Government funding to the Foundation of the Blind also reduced (see Figure A.1), with the interviewee intimating this charity sought greater input from service fees, derived from selling their unique expertise. The interviewee noted:

> We have the expertise to work with people who are not eligible for our free service, but they still want the service so we can charge for it. We can use that money to provide a source of income to fund our charitable objectives.

Strangely, the Foundation of the Blind's service fees declined over the 24-year period, suggesting their primary tactic has focused on private philanthropy as a replacement to declines in government funding.

Two of these charities increased the percentage of funding from service fees. Red Cross presents itself as largely independent from government, and the interviewee from the Red Cross commented:

> We use the funds raised from our training and trading activities to pay for our administration and overhead costs, as well as to contribute to our community services offering. We usually do not wait until government grants funding to give services.

The increasing dependence of Red Cross and Plunket on service fees indicates the growing privatisation of charities. Rathgeb Smith (2004) expects this to occur when government withdraws from social services funding. However, in the case of Red Cross, their government funding had also increased, with the organisation drawing less on philanthropic donations. Greater dependence on service fees shows a reliance on individual citizens to bridge the funding gap. This suggests increasing government failure, charities becoming alternative providers, and increased service charges and private funding.

Discussion

In order to analyse the relationship between the government and charities in funding social services, this research drew on secondary sources to assess the composition of social services funding. It also reviewed historians' reflections on New Zealand's political environment. Notwithstanding the growing demand for such data, statistical information to analyse the government–charity relationship in New Zealand is patchy at best, with international studies being useful merely as a guideline to the level of government funding that might be expected to be received by charities. For this reason, a small primary data collection project was also undertaken.

It is conjectured that the relationship between the government and charitable sector for funding and delivering social welfare has varied in different policy climates as shown in Table 2.

As noted in Table 2, charities have progressively become social services providers. Yet, New Zealand's social services expenditure as a percentage of GDP (see Figure 1) has declined from its 1990 high, despite increasing demand (as noted by a Plunket interviewee). Therefore, two of the four case studies show charities have raised the level of private funding from philanthropic sources to deliver services not supplied by the government, and a third case study organisation rebalanced its strategy so that service fees comprise a greater proportion of its income. The fourth case was a complementary provider.

In the most recent period government stated it wanted to "turbo-charge" the sector to increase its resources and links with the community, but this appears to be a ploy to save funds and to reduce government's costs (as indicated by James, 1987). This is evidenced by three of the case study charities seeking to reduce costs and services when funding is unavailable, and/or increasingly charging service fees to beneficiaries.

The most recent social services policies in New Zealand have some resonance with Salamon's (1987) theory of charities providing complementary services to government in a partnering arrangement (Matheson et al., 2005). Yet, for many charities "partnership" in government contracting remains theoretical, rather than a reality. Partnering relationships are limited to a few agencies that perceive these arrangements to be beneficial (Association of Non-Governmental Organisations of Aotearoa, 2009), and for specific situations only, as the case studies also show.

The case studies evidenced two models operating contemporaneously. For some services, providers partner in complementary relationships with government; for others they are alternative providers, dependent on a mix of private and collective funding. Some charities are prepared to provide services without payment, while others ration services to those that are either procured by government, or for which beneficiaries pay service fees. While charities seek to grow their service fee funding base, the case studies show that their ability to do so is severely strained by the inability

Table 2. Policy climate and relationship between the government and the charitable sector

Date range	Description of policies	Responsibility for welfare
1935–1965	Social Democratic consensus	Charities were **supplementary** service providers in a strong, paternalistic government welfare environment
1966–1983	Crisis of consensus	**Complementary** practices were developed by the reluctant welfare government which encouraged increased private funding and tentative partnerships
1984–1999	Economic market-based reforms (MMP introduced 1993)	Charitable services became dependent on garnering sufficient market support. The government also "rolled back" so that charities became **alternative** providers
2000–2008	Third Way social democracy	Partnership was the rhetoric, but was not generally practised. In certain areas, charities were **complementary** to the government. Government was increasingly dependent on service providers with appropriate expertise. These were not necessarily charities. Beneficiaries who could not pay or were not a government priority were at the mercy of philanthropists. Thus charities became **alternative** providers

of their beneficiary client base to pay in the areas where welfare is most needed. Further, philanthropic funding is limited and historically low levels of philanthropic funding have been exacerbated by meagre taxation policies (Fries, 2001).

The marketisation of government funding has therefore led to charities competing for public and private funding to avoid failure. Rathgeb Smith (2004) warns this can lead to charities becoming privatised as they undertake more and more "business" and charge for services as quasi market-driven providers. Indeed, it may be that continued government withdrawal could result in a return to cooperatives, such as Friendly Societies, as individuals are encouraged to reduce their reliance on government (Painter, 2011).

Accordingly, when applied to Third Way social democratic policies, Salamon's (1987) theory fails to explain how the rhetoric of partnership can co-exist with the realities of competition and targeted government procurement. Weisbrod's (1988) theories are also not applicable as they signal an era which has passed, where government's welfare provision was strong and charities were minor providers.

Conclusion

In order to ascertain the government–charity relationships in respect of social services in different political periods, this article has utilised the antithetical theories posited by Weisbrod (1988) of charities providing supplementary services, and Salamon (1987) of charities partnering with government to deliver complementary services. The trajectory of government funding followed in this research found that, while government may promote complementary funding and delivery of social welfare services, it has progressively withdrawn from social services funding. This affects different charities in different ways. However, for those who need increasingly to rely on other (limited) sources for their income, the prognosis is that charity delivery of social services may decrease and charities will fail. As suggested by Painter (2011), citizens will be pushed to private funding, in line with models popular in the nineteenth century. This has ramifications for the beneficiaries for whom government funding was first intended.

This research also found Salamon's theory is limited due to the need to be able to show a partnership relationship. Neither does government's continuing withdrawal from funding meet the "strong government" requirement of Weisbrod's theory. The generalisations provided in these theories do not elucidate the differences between specific charities' revenue streams which are diverse and dynamic, and the fact that the theories may apply to some services and not others. Further data could assist the generalisability of these findings to the health sector specifically and the charity sector as a whole. Continued research should also analyse the extent to which private sector delivery agents are usurping the prior position of charities as preferred government provider.

This research found that, despite its declining spending, the New Zealand Government maintains a major role in funding social services. We argue that the moderating position of charities as alternative providers should therefore be considered alongside the complementary and supplementary theories. In this theory the government procures social services from charities and other providers in a competitive market. Charities must design services which attract user fees as well as compete for philanthropic donations, if they are to survive. These policies also signal a potential return to privately funded cooperatives – a circumstance which is disadvantageous to those who cannot pay, but are most in need of welfare.

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Notes

1. In effect these are quasi-public goods (Rose-Ackerman, 1986) as they are not exclusively enjoyed by only those that can or do pay. They may be able to be enjoyed by only one person at a time, meaning they are rivalrous but non-excludable if they are free to the recipient (e.g. public hospital services).
2. Lord Beveridge in 1948 commented "the philanthropic motive is in practice a specialist motive; it drives men to combat a particular evil, to meet a particular need that rouses their interest" (Hayes, 1996: 25).
3. These policies were first evident in the United Kingdom (UK) with the Blair government. Third Way policies push for higher individual participation in employment so that citizens can "succeed" in a global market. These policies are couched in social democratic terms of providing a "hand up".
4. Government expenditure on social services for the year ended 31 March 1967 was obtained from the New Zealand Appendix to the *Journals of the House of Representatives,* 1968, Volume 1, A-B.
5. Shirley (1994: 139) adapted this terminology from a de-commodification study by Esping-Anderson (1990). The data is derived from composite scores from 1980 standard of living indices emphasising citizenship and society.
6. This does not recognise the continuing increase in associational groups. For example, the New Zealand Official Yearbooks from Statistics New Zealand show the number of registered Incorporated Societies (associational organisations) increasing by 20 per cent from 1977 to 1986 and by 33 per cent through to 2000.
7. Hon. Paula Bennett "2008 Community Affairs", Available at: http://www.national.org.nz/Article.aspx?ArticleID=12095 (accessed 19 March 2010).
8. Ethics approval was obtained for this data collection from the appropriate University Ethics Committee and from the Chief Executives of each organisation in addition to the interviewees.

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Appendix: Organisations chosen for case studies of government and charity funding of social services

Intellectually Handicapped Children New Zealand ("IHC") was established in 1949. It advocates for the rights, inclusion and welfare of the 17 per cent of New Zealanders with intellectual disabilities and supports these individuals to live satisfying lives in the community (IHC New Zealand, 2009; Statistics New Zealand, 2007). IHC is an extremely large charity; in 1984 its revenue was five times larger than the other charities chosen and it grew 500 per cent in nominal terms over the period analysed.

Royal New Zealand Foundation of the Blind ("Foundation of the Blind") is "the main provider of vision-related services to blind and partially sighted New Zealanders" (Royal New Zealand Foundation of the Blind, 2009). Established in 1890, it delivers services to almost 12,000 members. The Foundation's revenue grew 300 per cent (in nominal dollar terms) over the period analysed.

Royal New Zealand Plunket Society ("Plunket") was established in 1907, providing core health services to children under the age of five. Plunket saw over 90 per cent of all babies born in New Zealand in 2008. It also provides parenting education and support services to children's families (Royal New Zealand Plunket Society, 2008). Plunket's revenue grew 500 per cent over the period analysed in nominal dollar terms.

New Zealand Red Cross Society ("Red Cross") delivers major social services, including meals on wheels, training people in First Aid skills and providing assistance in the aftermath of natural disasters at home and overseas. It was established following the Napier earthquake in 1931 (New Zealand Red Cross, 2009). Revenues in the Red Cross experience spikes in response to emergency relief, with core revenues growing steadily over the period analysed.

A summary of the financial analysis of the major sources from which these four organisations gain their revenues and the funding inflow ratios for 1984 and 2008 is shown in Table A.1.

Table A.1. Funding to four large New Zealand charities 1984–2008*

Organisation	Government funding		Philanthropic funding		Services funding	
	1984	2008	1984	2008	1984	2008
IHC	45%	81%	14%	4%	41%	15%
Royal New Zealand Plunket Society	86%	81%	4%	6%	10%	13%
Royal Foundation of the Blind	39%	26%	38%	57%	23%	17%
New Zealand Red Cross	4%	8%	55%	40%	41%	52%

Note: *Data for this analysis (and Figure A.1) was obtained from the charities' annual reports for the years ending 1984 to 2008.

As can be seen from Table A.1, there are marked differences in government funding as a proportion of total income. The DIA (2007) estimated that government funding into the sector was 25–45 per cent in 2006. A decade earlier (1996), Robinson and Hanley (2002) estimated it at 32 per cent. If there was a growing complementary relationship between the government and charities, one would expect a trend towards increased government funding, around the 35 per cent mark. Two of the organisations in these case studies in 2008 received a greater percentage than this average, two lower. Structural changes explain some differences; for example, the Foundation of the Blind sold their school to the government in 2001. Conversely IHC's revenue increased dramatically when government-run services to intellectually disabled clients closed and government contracted-out these services to IHC. Private funding is a significant input to both the Foundation of the Blind and the Red Cross, although it has reduced in the latter in exchange for service fees. Only the Red Cross receives significant services funding, due to its provision of First Aid courses to the public.

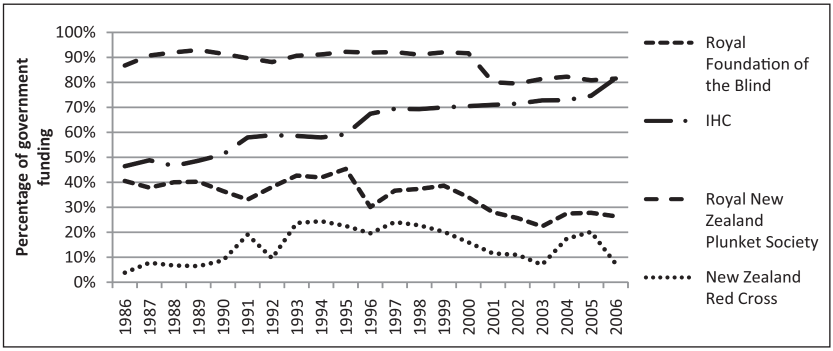

Figure A.1. Revenue from government as a percentage of total revenue: four New Zealand charities 1984–2008