

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

Summary

August 2019



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 underfunded and over-reliant on the philanthropic sector.

Results indicate that currently the government funds providers for less than two thirds of the actual costs 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.

This report was funded with generous donations from SSPA members and the following Trusts and Foundations: Eastern Central Community Trust, Wellington Community Trust, Bay Trust, Whanganui Community Trust, Rātā Foundation, Otago Community Trust, Trust Waikato, Foundation North, TSB Community Trust, Todd Foundation, Tindall Foundation, Vodafone New Zealand Foundation, Hugh Green Foundation and JR McKenzie Trust. We thank the SSPA members and the contributing Trusts and Foundations for their contributions.

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 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 underfunded 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 underlying 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 puts 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 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 enough not 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 that the government funds providers for **less than two thirds of the actual costs** of delivering the essential services that 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 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:

- 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.

