Supping with the Devil?
Government Contracts and the Non-profit Sector

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Edited by Peter Saunders and Martin Stewart-Weeks

Contributors:
Peter Saunders
Mark Lyons
James Cox
Peter Shergold
Lisa Fowkes
Rob Simons
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CIS Policy Forum 16

THE CENTRE FOR INDEPENDENT STUDIES

2009

Published March 2009
by The Centre for Independent Studies Limited
PO Box 92, St Leonards, NSW 1590
Email: cis@cis.org.au
Website: www.cis.org.au

Typeset in Adobe Garamond and Frugal Sans

Supping with the Devil? Government Contracts and
the Non-profit Sector
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1st ed.

ISBN: 9781864321548 (pbk.)

Series: CIS policy forums ; 16.

1. Public contracts--Australia.
2. Non-profit organisations--Australia.

Other Authors/Contributors:
Saunders, Peter, 1950–
Stewart-Weeks, Martin, 1955–
The Centre for Independent Studies (Australia)

352.530994

Cover image: *The Temptation of Saint Anthony* by Matthias Grünewald circa 1510–16

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1: Supping With The Devil?
Government Contracts and the Non-Profit Sector
Peter Saunders

There was a time when it was easy to look at the formal organisations in a modern society like Australia and identify three clear sectors. Government (public sector) made laws and generally ran things. Business (the private sector) generated wealth by creating goods and services for profit. And a 'third' voluntary sector, based in 'civil society,' mobilised people in a variety of socially beneficial activities driven not by political or commercial incentives, but by a desire to 'do some good' or 'get involved.'

This trichotomy is no longer as easy to define as it once was. The third sector has become more 'businesslike' than it used to be, and it is increasingly operating in ways that bring it into direct competition with for-profit organisations. In many cases, it also now operates much more closely in partnership with government, bidding for contracts to carry out tasks that in earlier times the government would have administered itself. The very term 'voluntary sector' has been replaced by the newer terms 'non-profit sector' or 'not-for-profit sector,' and this reflects the increasingly professionalised and commercialised character of many third sector organisations. Calling them 'charities' nowadays seems quaintly anachronistic.

Job network

The clearest example of the way the third sector now operates commercially as an arm's-length agency of government can be seen in the Job Network. This was set up in 1997 when the federal government shut down its Commonwealth Employment Service and invited businesses and non-profit organisations to bid to supply job placement and training services to the unemployed. More than 10 years on, non-profits account for half of Job Network turnover, and some of Australia's leading non-profit welfare bodies, including the Salvation Army, the Wesley Mission, Mission Australia, and Catholic Welfare, now rely heavily on government employment service contracts for a substantial proportion of their income. But there are clear tensions over objectives and accountability, and many Job Network providers are unhappy with the way their relationship with government has been evolving.

The Job Network is not the only example of what might be called the new 'corporatist' relationship between government and an increasingly commercialised and professionalised third sector. With the establishment of a new national chain of Family Relationship Centres, government now contracts with the third sector to deliver relationship counselling, and all couples seeking divorce or legal separation are required to attend counselling at one of these new centres before going to the Family Court. Government also pays for beds in nursing homes run by non-profit organisations; it pays non-profits to deliver services for disabled people; and it subsidises non-profit agencies to provide child care services or to run independent schools.

There are clear benefits and advantages for all parties in these sorts of arrangements. Direct government provision of services has in the past often turned out to be inefficient and unresponsive to consumer needs. By contracting out its responsibilities to third sector agencies, government gets its service responsibilities managed and delivered by locally based organisations that often have a long track record in their communities and probably have a much better understanding of client needs. Furthermore, these non-profit agencies are commonly driven by a strong ethical commitment, and their staff share a sense of mission that should result in a better quality of service delivery. Government might also hope to spur innovation and make efficiency gains by requiring agencies to compete with each other (as well as with commercial companies) to gain and retain contracts.

Third sector agencies also gain something from these new arrangements. Most obviously, they increase their income. Public funding now represents half the turnover of the non-profit service providers in the Job Network, for example.[1] Such a substantial boost to funding can enable non-profits to enhance the scale and effectiveness of their activities. Not only can they improve the services they can offer to their client populations and extend their reach to deliver new kinds of services to bigger target groups, but they can also recruit a higher calibre of staff, develop research facilities, and so on.

But there is a downside for both parties. When government devolves service responsibility to agencies that it does not itself administer, it risks losing control over the way its policies are carried out, and it can find its objectives get watered down or even subverted by organisations unsympathetic to its ideological aims. Contracting out also weakens the lines of accountability for the way taxpayer funds get spent. As for the non-profit agencies, taking government money runs the risk of weakening their independence and compromising their political autonomy. Over time, they can even lose sight of the original purposes the organisation was set up to serve (the so-called 'mission drift').

Back in 1992, the Centre for Independent Studies published a short book by Jim Cox titled *Private Welfare*,[2] which called for greater involvement of both commercial and non-profit agencies in delivering government welfare services. It advocated more use of contracts and competitive tendering to deliver services such as employment training, home nursing and child care, as well as greater empowerment of consumers to make their own service purchases in areas like health insurance.

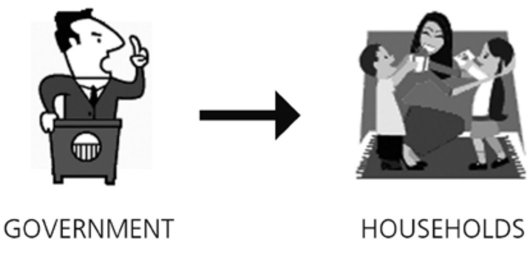
Sixteen years later, with the third sector now much more involved in delivering government services than it was at the time Cox's book was written, it is worth returning to the issues he addressed in the light of subsequent experience. The CIS therefore approached a variety of experts, many of them with direct experience of the third sector and government contracting, and asked them each to write a short essay examining the advantages and disadvantages of current arrangements. Contributors were asked whether the new 'corporatist model,' which characterises the relationship between government and the third sector, is in the best interests of either of them. They were also asked to consider what the third sector has gained from these arrangements, what has it lost, and if there is a better way of organising their activities. Their answers are gathered together in this volume.

Four models of service delivery

There are only four ways government can try to ensure that a given service gets delivered to the public at large, or to some specific targeted group deemed to be in need of its help. These can be termed 'statism,' 'supported mutualism,' 'corporatism,' and 'consumerism.'

In the traditional welfare state model ('statism'), when government wants a service delivered to the public, it does so itself through its own agencies. In this model, lines of accountability and responsibility are clear (at least in principle): Voters elect politicians who tell their departments what to do. But experience has taught us that this model can be bureaucratic, inefficient, indifferent to the interests of service consumers, and prone to 'producer capture' (e.g. by public sector unions or professional associations). It also encounters problems in controlling budgets, for in a democratic system, there is nothing to stop voters constantly demanding more from the political parties, which then compete with each other at election times in promising to increase the level of service provision.

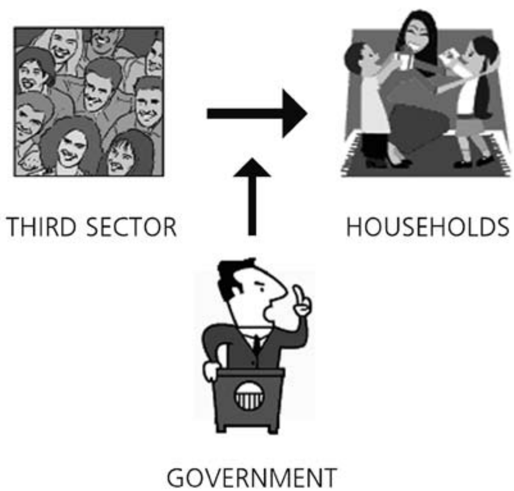
Figure 1: The statist model



A second way in which government can try to ensure people get the services they need is to support agencies outside the government that are already delivering these services. Traditionally, voluntary organisations have formed when people recognised a need for a service to be delivered, either to themselves (mutual aid and self-help) or to others (altruistic charity). As government has assumed increasing responsibility for delivering these services (the growth of the 'statist' model), so it has tended to 'crowd out' these non-governmental voluntary initiatives (e.g. mutual health insurance and retirement savings clubs declined in importance during the twentieth century as government developed its own health and age pension schemes). Nevertheless, a large non-government sector still remains, and as Mark Lyons notes in chapter 2, charities aimed at helping others are still growing in Australia, even as mutual aid organisations are shrinking.

Because voluntary activity tends to strengthen social cohesion (by bringing people together to pursue a common purpose), as well as relieving government of some of the responsibilities that might otherwise fall upon it, politicians have tended to look favourably on it, and have often supported it financially (e.g. with tax concessions). Sometimes, these government incentives have evolved into actual money transfers from the public treasury. Mutualism today thus involves a continuum between 'fully autonomous mutual activity,' where government plays no role at all, and 'fully subsidised mutual activity,' where organisations rely on government to provide their funding. Most organisations operate somewhere in between these two extremes.

Figure 2: The supported mutualist model



In recent years, a third pattern has emerged ('corporatism') in which government offers contracts to non-government agencies to deliver services that it has a responsibility to provide but which, for whatever reason, it thinks could be better delivered by non-government agencies. It is this corporatist model that is the principal focus of this book.

Sometimes contracts are signed with commercial (for-profit) companies; sometimes they are signed with 'third sector,' non-profit organisations. In both cases, businesses and 'third sector' agencies function as arm's-length extensions of government. They may enjoy discretion about how they achieve agreed objectives (indeed, this is part of the reason why government devolves these responsibilities in the first place—it wants greater flexibility and innovation in service delivery in order to break the bureaucratic inefficiency associated with statist systems), but the outcomes are determined politically.

Clearly, corporatist arrangements have advantages for both parties, but as we have seen, they also pose dangers. From government's point of view, the biggest danger is that it is giving up some degree of control, so it has to find a way to ensure that public money is being spent as it requires, and that agencies are held accountable for what they do. In the end, the bureaucracy and inefficiency associated with the statist model is likely to reappear as contractors are ever more tightly regulated, for otherwise, governments risk losing control of the agencies they contract with and seeing their policies changed, diluted or even ignored.

The dangers for the agencies are even more worrying. This is not so much a problem for businesses, for they take on contracts in order to make a profit, and provided the commercial arrangements are appropriate, they should have no ethical problem delivering what the customer (in this case, government) wants. But non-profits have their own *raison d'etre*. Very often they are faith-based organisations driven by strong ethical and theological principles, which they do not want to see compromised, still less abandoned. In this context, contracting to carry out services defined by politicians is almost guaranteed to cause friction, for government and the third sector are most unlikely to share common objectives and moral principles.

Figure 3: The corporatist model

There is also a fourth model—'consumerism.' This is where government recognises a service need but simply ensures that final consumers have the means to purchase it for themselves (either from non-profit agencies, or from private sector businesses). This might involve issuing vouchers (e.g. education vouchers to be redeemed at a non-government school of the parents' choosing); transferring funds to consumers through welfare payments and credits (e.g. child care allowances helping parents pay fees to commercial or non-profit child care providers); or offering tax breaks to increase people's spending power (e.g. reduced taxation for those who buy private health insurance and remove themselves from the public hospital system).

However it is organised, government no longer plays a role in providing or managing the service; its involvement is now limited to helping people pay for the services they decide to buy. In such a system, non-profit agencies will have to compete to make their services relevant to consumers in order to encourage them to spend their vouchers or tax credits with them, rather than with a competing agency or company. Because this consumerist model shifts effective purchasing power from the service provider to the final consumer, it is often resisted, both by government departments, and by commercial and non-profit agencies.

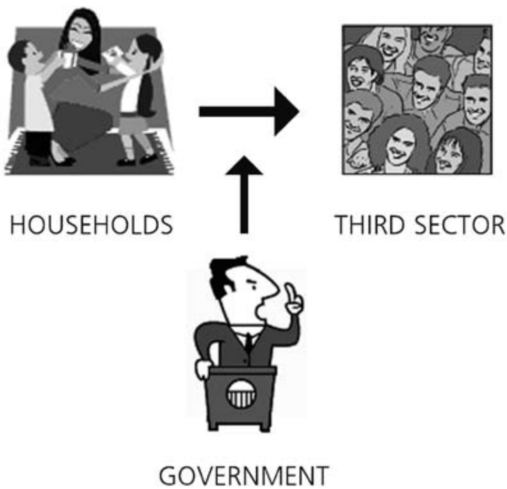
One reason governments sometimes resist the consumerist model is that they want to change people's behaviour rather than enable them to pursue their existing preferences. In schooling, for example, there may be concerns about allowing parents to choose their children's schooling if it results in students following a narrow and sectarian curriculum.

Similarly in welfare, allowing unemployed 'customers' to choose their employment service providers runs the risk that those who wish to avoid work may seek out the least effective agencies.

A further problem with this model is that not all consumers have the knowledge or motivation to make effective choices. When the Job Network was first established in 1997, for example, the aim was to allow unemployed people to choose their own employment service provider. Agencies would then be paid according to the number of clients who chose to use them. But this system never really worked, for few 'customers' could be bothered to make an informed choice, and Centrelink ended up relying on a computer to allocate people to local Job Network agencies that had spare capacity.

This alerts us to the fact that consumer choice will often have to be mediated through some kind of brokerage arrangement (medical treatment is another obvious example, for patients will often lack the knowledge or competence to choose the best surgeon or the most appropriate procedure). The problem then arises as to how brokers are to be selected, managed and regulated. The obvious danger is that government agencies end up taking the power back for themselves, as in the case of Centrelink and the Job Network.

Figure 4: The consumerist model



It seems likely that each of the four models of service delivery outlined above will be appropriate for different kinds of services and for different types of consumers. Sometimes it will make sense for government to provide services directly to consumers; sometimes it will be better for non-government agencies to organise things; sometimes contracting arrangements will be appropriate; and sometimes it will be best just to support consumers so they can make their own choices.

But as Mark Lyons notes, funding arrangements in Australia have evolved with little coherent rationale. It almost seems a matter of historical accident as to which model has been adopted in any given area of service delivery. Sometimes households are given vouchers so they can buy services from a provider of their choice. At other times, government does the purchasing on behalf of consumers, or it offers grants to third sector agencies so they can provide services. Lyons suggests that all these existing funding programs should be reviewed to determine which model is most appropriate in any given case, and in his concluding essay, Martin Stewart-Weeks echoes this suggestion, arguing for an independent review of the existing system of government contracting.

The core question is this: The corporatist model has become increasingly prevalent over the last 20 years or so in the relationship between government and third sector agencies, but is it necessarily the best solution in the areas where it has been applied?

Supping with the devil?

Among those who agreed to contribute an essay to this volume is Jim Cox, author of *Private Welfare* published by the CIS back in 1992. In chapter 3, he reflects on his earlier recommendations in the light of the last 16 years of policy development.

Cox recognises that the devolution of services from government to the third sector has generated some problems. Most notably, he focuses on the 'principal/agent' problem of how government can ensure that third sector agencies use the money they are given to provide the activities and services it wants, as against the ones the agencies want to deliver. As chairman of the Independent Pricing and Regulatory Tribunal in New South Wales, Cox is acutely aware of the danger of over-regulation as governments try to ensure contracting agencies do their bidding—and he acknowledges the costs that some non-profits now carry as they struggle under the burden of increasingly onerous regulations.

The only solution to this problem, he says, is a high level of trust on both sides, so that the third sector can be left to get on with its business without having to keep justifying itself to government micro-managers. But he provides few clues as to how this sort of trust might be achieved, and there are grounds for thinking that lack of trust may be endemic, particularly when right-of-centre governments (such as the Howard administration between 1996 and 2007) contract with third sector social welfare agencies staffed mainly by left-of-centre people.

Despite these problems, however, Cox still believes that the new models of delivering welfare that have evolved since his book was published are an improvement on the old, top-down, statist model. As he explains, 'Competition encourages providers to offer services consumers want.'

Most of his fellow contributors to this volume appear to agree with this. They all recognise the problems that have arisen in the new corporatist arrangements; yet most still conclude that they are better than the old statist system that they replaced, and most think the problems can be ironed out (Vern Hughes is an exception, as we shall see). Nobody suggests going back to the old, top-down statist arrangements.

As secretary of the Department of Employment and Workplace Relations in the late nineties, Peter Shergold was responsible for implementing the new Job Network, so he brings unique insight to bear on the relationship of government to non-profit service contractors. In chapter 4, he echoes some of Cox's concerns. Leading the government side, he says that he was constantly aware of the danger that policy commitments could be subverted by third sector contractors motivated by different values, and he remained acutely concerned about the accountability problems when responsibility for spending taxpayers' money passes out of government hands.

Yet despite these concerns, the 'nagging doubts' that Shergold expresses in his chapter about outsourcing employment services relate more to the deleterious impact on the third sector than to the possible subversion of the will of the elected government. Like Cox, he refers to the growing administrative burden on third sector agencies, and he is concerned about their over-reliance on government as a source of revenue. He also worries about 'mission creep'—the tendency of non-profit organisations to widen the scope of their activities simply to attract more government funds—and the asymmetry of power when it comes to negotiating contracts with government. Interestingly, however, he does not share the fear of many activists that contracts can be used to silence opposition. He points out that, having entered a service contract, the government is vulnerable to the threat of adverse publicity that would arise in the event of a serious disagreement with its third sector partners—and he emphasises the informal channels for influence that open up for organisations that work with government rather than remaining at arm's length from it.

From the other side of the Job Network fence, Lisa Fowkes suggests in chapter 5 that participating in government contracts has had positive and negative effects for the third sector, although on balance she believes the impact has been positive.

Fowkes is the CEO of Job Futures, a limited company set up by 26 non-profit organisations to bid for Job Network contracts. She admits that the culture of the participating organisations has been changed by the experience of running government-sponsored employment services. They have become more business-like, but she thinks this may be no bad thing. They have also been forced to rethink their rights-based approach to welfare in the light of practical experience dealing with claimants who try to avoid their responsibilities (something that has created tension with other welfare groups that have remained outside the Job Network and continue to be critical of policies based on the principle of mutual obligation). Again, Fowkes believes this dose of realism, born of hands-on experience, has probably been positive.

Nevertheless, her contribution also surfaces a lot of concerns. She thinks the needs of individual clients have been overlooked as organisations have adapted to government-imposed targets, and she worries that the single aim of finding people a job may have eclipsed the more traditional focus of these welfare organisations to view people's problems in a wider context. Like other contributors, she complains that the Job Network has been over-regulated, and that innovation and initiative have been squashed as a result of over-cautious attitudes in Canberra. Like Cox, she concludes that government must show a greater willingness to cede control—but she leaves hanging Shergold's question about how then to maintain accountability when taxpayers' money is being spent.

This dilemma goes to the heart of the corporatist model. One of the key reasons why government looks to the third sector to carry out tasks on its behalf is because they are likely to be better at it. The non-profits know the quirks and specific needs of their own localities and can tap into the enthusiasm of their workers to find new ways of getting the job done. But these are also the factors that represent a threat to any elected government. Encouraging diversity means different populations will get different treatments (in which case, some people will start complaining, and critical stories will start appearing in the media). And allowing agencies to innovate means some activities are almost bound to fail (in which case, public money will be seen as having been wasted). For a politician with an eye on re-election, or a bureaucrat looking for career advancement, it is much safer to insist that everyone is treated the same way and that things are done according to the book, just as they always have been. No public servant ever got sacked for being too cautious.

There may be no way out of this dilemma (in his concluding chapter, Stewart-Weeks muses that we may be stuck between a 'status quo that is unacceptable and a future that is unattainable'). But if this dilemma really is insoluble, then perhaps we need to look for other models that might work better than corporatism and contracting out. If we rule out a return to top-down statism, there are only two other options.

One is what we have called 'supported mutualism.' This involves government taking a back seat while third sector organisations organise services. At most, all the government does is supply some small cash top-ups.

Rob Simons gives an example of this sort of arrangement in chapter 6 where he explains how The Smith Family has been operating. The Smith Family, he says, made a deliberate decision to stop tendering for government grants and to concentrate its efforts on its 'Learning for Life' program (which seeks to improve the literacy and education levels of children in deprived areas). It still receives some government funding. It gets discretionary grants to support the activities that it is already running; it gets some specific program funding to provide services, such as mentoring, that fit into its ongoing programs; and it participates in a brokerage role in the government's 'Communities for Children' program, funnelling government money to local organisations in the areas in which it is working. Overall, though, three-quarters of The Smith Family's income still comes from donations and bequests, and only 14 percent of it comes from government.

The result is that The Smith Family has maintained its independence. They use government funds to 'grow their mission,' for the money follows the activity rather than the other way around.

The other alternative is what we have called 'consumerism.' This involves a strategy to empower the final consumers of services by giving them the means to purchase the support they need from whichever providers (commercial or non-profit) they choose. In other words, to the extent that government funding is involved, it goes not to service providers (through contracts and grants) but to households.

This is essentially the strategy advocated in chapter 7 by Vern Hughes, who calls for a root-and-branch shift in policy to empower consumers by diverting government money into their hands.

Hughes argues that the third sector is 'in tatters.' It has been undermined by increasing reliance on government contracts (which has turned many organisations into mere agencies of government); by competition from the private sector; and by the pernicious creep of a deadening managerialist mentality stoked by the 1970s expansion of higher education. The sole focus now is on achieving targets and outputs, but this new instrumentalism ignores the core functions of a vibrant third sector, which have to do with enhancing the spirit of self-help and personal responsibility, and strengthening community ties ('social capital').

The answer lies in shifting funding away from third sector agencies and towards the individuals and households who make up their client populations. Hughes says that this will not only allow people to take back control of their own lives but will also in time re-energise the third sector because it will leave people free to come together to develop new organisations to meet their common needs and objectives.

Where to from here?

In his concluding essay, my co-editor, Martin Stewart-Weeks, points to the consensus among all contributors that change is needed in the contracting arrangements between government and third sector agencies, yet he suggests there is little sign of change happening. Most commentators agree there needs to be a higher level of trust between the parties, that the relationship needs to involve greater partnership and less directive control, and that having set clear objectives, government should step back and allow contracting organisations to innovate (and, occasionally, to fall on their faces). But how is this to be achieved?

Stewart-Weeks outlines a few key proposals, including an independent review of the current contracting system to see what works and what doesn't, and the development of a new partnership model allowing for experiments in different patterns of accountability. But the tone of his remarks suggests that more than just this is needed.

He says we need to rediscover what he calls 'self-directed mutualism,' and move away from corporatism by shifting money more from the producers of services to the final consumers. The contracting model can work well when (as in the example of The Smith Family) government reinforces what a third sector agency is already doing, enabling it to extend its services to more people, or develop its services in more enterprising ways. But all too often, the sums involved are such that ministers and bureaucrats inevitably end up trying to direct and control the way the money is being spent. This is little better than the old statist arrangements, and in some ways it is worse, for it can corrupt the integrity of the third sector and prevent government from fully achieving the objectives it wants.

When contracting morphs into top-down control in this way, it is probably time to re-think. The message from these essays is that there are two ways this might be done. Either the government should back off, assisting mutual aid arrangements where they exist rather than directing third sector activities; or it should switch its funding from subsidising the producers of services to empowering the final consumers.

Both these strategies are feasible, and both seem preferable to the big-government corporatism that has grown up in the last 20 years and is now in danger of smothering the third sector altogether. The temptation for non-profit organisations to go after government contracts is huge, for the financial rewards can be substantial. But when they chase this money, these organisations are supping with the devil. They would be well advised to use a longer spoon, or even better, to turn their attention from getting government cash to competing for the willing patronage and growing goodwill of the people and communities they seek to serve.

Endnotes

1. Oliver Brutell, 'Managing Competition in a Public Service Market: The Job Network in an International Perspective' in the Centre for Labour Market Research's discussion paper series 05:3 (Crawley, WA: University of Western Australia, 2005), www.cbs.curtin.edu.au/files/05_3.pdf (Accessed 24 February 2009).
2. James Cox, *Private Welfare*, Policy Monograph No. 22 (Sydney, NSW: CIS, 1992).

2: Government Funding of Australia's Third Sector

Mark Lyons

Australia's third sector contains as many as 700,000 organisations. The great majority are small; around 95 percent rely entirely on the efforts of volunteers to maintain them.

Third sector organisations (TSOs) are the product of collective action to provide services, to advance an interest, or to worship. The majority are formed or joined by people primarily to provide services and opportunities for themselves. They are an expression of a mutual or self-help impulse that is slowly withering in the face of individualism and consumerism. A far smaller number is formed and supported to help others as an expression of altruism—sometimes called charity. These altruistic charities are growing in number.

Government transfers to Australia's third sector contribute around one-third of the sector's income. But very few TSOs are recipients—perhaps 20,000 out of a possible 700,000. The great majority of these are charities; for this smaller group, government revenue constitutes more than half of its income.

Transfers come in the form of grants, purchases of service contracts, and quasi-voucher type payments. According to the ABS, in 2006–07 transfers amounted to more than $25 billion. TSOs in a wide range of industries are recipients of funds: arts and culture, health, social assistance, education, sport, employment and training, and community development. The group of TSOs that receives the largest amount of government support are schools. But the TSOs that are least happy with current arrangements and that tend to frame the debate about government transfers to the third sector are those providing social assistance (previously called community services). They are known loosely as the community sector.

Thinking and debate about government transfers to the third sector are shaped (and distorted) by several myths. One is the myth of government privatisation, which says that the third sector has grown greatly over the past two decades as governments have privatised or outsourced many functions previously performed by government employees. While the Job Network provides an example of outsourcing that has led to the growth of a few TSOs, for the most part social assistance in Australia has always been mainly provided by TSOs, often with government support. Growth has been because of huge increases in demand for assistance, which the third sector has grown to provide, helped by large increases in government support.

A related myth is that the third sector is dependent on government funds. A few TSOs are receiving up to 100 percent of their revenue from government grants and contracts. But most are not. Even TSOs in the social assistance industry receive only a little more than half of their income from government sources. For them, fees and charges are a second important revenue source. For most social assistance TSOs, the support from the public and business or from unrelated business ventures is small.

Generally government officials are largely ignorant of the third sector, seeing only those organisations they fund. And even then there is little institutional memory, or little understanding of how current arrangements came into being. By contrast, in the third sector, there is a clearer recollection of how things once were but little understanding of the huge changes in public administration that transformed the government rationale and thus the form of many earlier arrangements. As a consequence, there is rarely a shared understanding of what is needed to move things forward.

A big increase in government support for TSOs providing social assistance began in the 1960s but increased dramatically in the early 1970s when many new TSOs were formed with the encouragement of government officials and government funding. The understanding of third sector actors was that they were partners with the government in providing public services. For government officials, providing services through TSOs empowered both the community (especially women) and ensured the provision of services.

The transformation of government that began in the late 1970s and proceeded through the next two decades—a transformation known in this country as economic rationalism and managerialism—changed all this but not in a particularly conscious or well articulated way. Funding arrangements evolved under a number of competing pressures without ever being the object of any clear reflection or policy analysis. In some services, such as schooling and child care, voucher type arrangements emerged. In other parts of social assistance (and non-institutional health), many funding arrangements came to be described as governments purchasing services on behalf of those who received them. But this was a loose formulation and never consistently applied. TSOs were required to compete for funds, both to expand services and also for renewal of support that they had come to take as a given. Increasingly, for-profit enterprises were encouraged to compete for these funds. Funding agreements or contracts came to be increasingly complicated, often transferring risk from government onto the funded organisation. The level of reporting increased greatly, as did the specification of how services were to be provided. This was despite a rhetorical claim by governments that they were purchasing outcomes and were engaged in partnerships.

What is needed to improve the relations between the third sector and governments and to ensure a more efficient and effective provision of services is a tiered series of extensive consultations wherein government officials and the third sector are committed to understanding and moving forward, rather than defending (and extending) the current confusing and inefficient status quo.

The first level should be based on a review of all levels and forms of government transfers to TSOs. Its focus should be to simplify the confusing morass by determining the basic distinguishing characteristics of the three models of government transfer: the grant, the purchase, and the (quasi) voucher. Each creates quite different relationships between funder and funded, and each has different sets of administrative arrangements for achieving optimal outcomes. None of these models is exclusively limited to TSOs, but government should recognise that TSOs and for-profit firms bring different benefits and risks to a funding relationship and decide whether they want to support both types of organisations to provide a particular service. The several thousand existing funding programs should then be reviewed and allocated to the appropriate model—and their arrangements reviewed and simplified accordingly.

3: Private Welfare Revisited

James Cox

In 1992, I wrote at the request of Greg Lindsay a short book that examined the contribution by privately funded and provided income and services to the achievement of society's welfare objectives. In that book, I noted that 'Australia's traditions of needs-based welfare and private provision of welfare represent a stock of intellectual capital which, if built upon, may enable us to avoid the worst of the dangers that have been pointed to by critics of the welfare state, while continuing to meet the most important of the community's aspirations for economic justice.' I noted that the private provision of welfare services has been important in Australia. The public sees a role for both government and the market (or voluntary effort more generally) in providing welfare: Government effort by itself cannot be trusted to be efficient nor private effort to be equitable.

Part of the reason for writing the book was to draw attention to the importance of private welfare. I argued that private welfare offers many advantages when compared to government welfare. For example, the private provision of welfare enables the provision of diverse services in response to the needs of client groups, often permits competition, and involves less use of compulsion and tax finance than government welfare. Indeed, I argued that it is often advantageous to involve the private sector in the provision of government welfare programs. This is particularly the case if the programs are based on clear objectives, are directed to need, and allow for competitive tendering for the right to provide the service. Finally, I discussed the scope for new forms of cooperation between the government and private sector in the provision of social services. These include introducing contracts and competitive funding into new areas (including profit-making organisations);

introducing the brokerage model where earmarked cash payments are made to brokers who develop tailor-made packages of services for their clients; changing means tests and other eligibility criteria for benefits; and developing regulatory regimes that do not unduly restrict the scope for competition. Greater acceptance of the use of prices (or user charges) to direct resources to the most productive uses in the welfare sector would make it easier to implement these ideas. Distributional objectives would then be met by undirected or earmarked cash payments made either to the intended beneficiary of the program or to someone who can be trusted to act on his or her behalf. To make these new forms of partnerships possible, government departments would need to develop new skills in, for example, pricing services and writing contracts.

These ideas seem to me to be just as interesting and important in 2008 as they were in 1992. Since the 1990s, competition policy has become an important part of general economic policy. It has become accepted that competition encourages providers to offer the services that consumers want—and to produce them at minimum cost. A great deal of effort has been made to introduce competition in what were previously thought to be unpromising areas. Energy and telecommunications companies now compete to offer their services to customers. Competitive franchising arrangements are increasingly common for bus and other public transport services, and access regimes are being developed for water. These regimes will not only enable new operators to construct and operate new infrastructure but also to use the incumbent's existing infrastructure where necessary for transportation purposes.

In this climate, it is natural for people to inquire whether the competitive model should also be employed in the large part of the economy comprising the welfare state. The competitive model, involving service delivery by competing organisations, is the main alternative to delivery by centralised bureaucracies. I thought in 1992 that there might be scope for government to reduce its involvement in certain areas. Not too much of that seems to have happened during the 15 years of prosperity that have followed. However, there have been notable instances where the government has changed the nature of its involvement from service provider to (possibly partial) funder, purchaser and regulator. The notable example is the replacement of the Commonwealth Employment Service by the Job Network in the important task of encouraging people to return to work. There is increasing interest in using forms of the brokerage model to deliver health and other services to the increasingly large group of the chronically ill. General practitioners may well be best placed to coordinate the required services on behalf of their patients. On the other hand, a market in vocational training seems to have developed less rapidly than I expected in 1992. New areas for cooperation between government and private operators may well develop. For example, at present cash benefits are paid by the government but services to assist people to enter or re-enter employment are provided privately. There could be advantages in having the same organisation both provide the services and pay the benefits (subject, of course, to the rules that the government requires). This would enable a single provider to assess the needs of individuals and provide them with the combination of benefits and services that can best assist them into employment.

While there are important issues to be resolved in the development of this proposal (for example, to ensure that beneficiaries receive consistent and equitable treatment from the organisations that they deal with), the proposal has the important advantage of ensuring that income support and services work together to ensure that people return to work wherever possible. Such proposals may, however, be less relevant when unemployment is high rather than when vacancies are plentiful.

The editors of this volume have asked me, based on my experience of economic regulation, to say something about the problems that may occur when a government contracts with a private organisation to deliver services that are funded and regulated by government. In the space available here I will discuss just one of these: the problem of conflicting objectives.

To the government, provision of a service by a private welfare agency is a way to advance the government's objectives. To the private welfare agency, government funding is a way to advance the agency's mission. It may be tempted, if the rules permit, to divert government funding to those activities that are of greatest interest to the agency. This is a principal–agent problem. A similar issue arises in economic regulation;

in many ways, a regulatory determination is similar to a contract between the government and the regulated firm. The regulator's problem is how to persuade the private firm that is interested in maximising profits to advance the public interest as the government sees it. To add to the difficulties, the regulated firm is likely to know more than the regulator about its costs of production. A regulatory determination offers the regulated firm a set of incentives to try and reconcile the firm's private interests with the public interest. This can become quite complex. For example, too great an emphasis on reducing costs in the regulatory determination may lead the regulated firm to reduce service quality in addition to eliminating inefficiency. The regulator will, therefore, be required to monitor service quality, decide how much more of it is worth to the customer, and how much to reward the regulated firm for improvements in service quality. Such complex regulation increases costs both for the regulator and the regulated firm.

I have argued in the past that economic regulation works best when there is a high degree of trust between the regulator and the regulated firm. Both parties need to understand and respect the role of the other and fulfil their part of the regulatory contract. The impulse to increase complexity can be controlled where there is a high degree of trust on both sides. This reduces the cost of regulation for both government and the regulated firm. Similar issues arise when the government contracts with the private sector for the delivery of welfare services. The contracting parties need to understand that they have a common interest in the successful delivery of welfare services and act accordingly. The excesses of over-regulation can be avoided if a sufficiently high degree of trust can be maintained at least most of the time. It is my hope that the partners now so creatively engaged in the private delivery for government welfare services will search for the 'high trust equilibrium' and will continue to avoid the 'low trust equilibrium' that leads to over-regulation.

But how can trust be improved starting from a situation where it is not much in evidence? The starting point should be awareness by both government and non-profit organisations of the costs that over-regulation will impose both on itself and the other party. They have to recognise where their self-interest lies. The second step is willingness by both parties to act on this knowledge. As in other contexts, it is possible for each party to build trust progressively by acting in such a way as to increase confidence of the other party with whom it intends to build a cooperative relationship. Of course, people may not always realise sufficiently where their longer term self-interest lies. However, the successes that can be achieved when both governments and private providers are able to act cooperatively may in the end prove influential.

4: Social Enterprises and Public Policy

Peter Shergold

Recently, James Purnell, the UK Secretary of Work and Pensions, announced a radical initiative in which Britain's entire welfare system 'is to be opened to offers from the private and voluntary sectors, in a far-reaching drive to shrink the role of the State and improve service delivery.'[1] Everything from welfare-to-work schemes to projects to rehabilitate former prisoners will now be open to non-government providers.

I should have been delighted to see an ambitious Australian experiment firmly transplanted to Albion in a new 'right to bid' to deliver government services. Yet something in the references to 'turning proposals into contracts' and the government 'reserving only a few policy functions for itself' engendered a growing sense of unease in my normally sunny disposition.

In April 2001, when I was the Secretary of the Department of Employment, Workplace Relations and Small Business, I entered into a robust exchange with Professor Mark Considine of the University of Melbourne. It was, I think, a civilised argument conducted (if my faltering memory is correct) in an early morning seminar at ANU's University House.

Our difference of views later got published in 2002 in *New Players, Partners and Processes: Public Sector Without Boundaries?*[2] The purposeful question-mark in the title hangs like a storm cloud over the landscape of outsourcing. I was one of the few conference participants strongly supportive of the contracting-out of government programs previously delivered directly by public services. As I enthused to the OECD Review of Australia's Labour Market Policies later that year, the creation and growth of the Job Network—for which I bore administrative responsibility—represented an Australian experiment that delivered 'a bold, even courageous, reform of public administration.'[3]

Seven years on and I still see the creation of a competitive market to deliver public services as a good thing. It offers an opportunity for governments to buy the implementation of its programs from the most efficient providers—under conditions established in policy and oversighted by public servants. Better still, a focus on paying for outcomes can drive innovation in the manner in which services are delivered.

Many non-profit community-based organisations have been highly successful in tendering for contracts. They have become crucial partners to governments in delivering their programs. They are, to a significant extent, the reason why government funding has risen in the last decade from around 40 percent to 50 percent of the revenue of Australia's non-profit sector.[4]

As a 'mandarin,' I always recognised the challenges that outsourcing presented to good administration. Indeed, a recurrent motif of my frequent addresses to public servants over the years was that they could not contract out accountability for the expenditure of public money. I welcomed the fact that key agents of integrity, such as the Commonwealth Ombudsman's office, were able to scrutinise the records of private and social enterprises insofar as they related to the expenditure of public funds.

For similar reasons, I believed it was necessary to monitor and evaluate the performance of the outsourced providers—in terms of ethics as much as efficiency and effectiveness. I was not naïve. I recognised that many non-profit organisations, quite appropriately, had their own strong agendas based upon community vision—and that, on occasion, such views might be at odds with those of the governments from which they received funds. I did not wish to see the voice of social enterprises neutered but nor was I willing to see the policy intentions of governments subverted by the organisations contracted to deliver their services.

In short, I write as one who, both by experience and inclination, is sympathetic to the outsourcing of policy delivery. I do not subscribe to the common criticisms of 'corporatism' or the perils of 'new public administration.' I am attracted to a world of shared power in which network governance involves more participants playing more active roles outside the agencies of public service. In areas as diverse as family relationship counselling, suicide prevention, disability and aged-care services, sporting activity, cultural events, and environmental protection, the 'third sector' offers governments the opportunity to harness community based expertise and commitment for public good.

Yet, as my 'bold experiment' becomes increasingly mundane as an accepted method of delivering publicly funded programs, I worry increasingly about whether community organisations have unwittingly entered into a Faustian relationship with governments in which they now find themselves 'supping with the devil.' I am not just concerned by the challenges faced both by public service and non-profit organisations in maintaining their respective goals: More profoundly, I am increasingly worried that the exciting opportunities for collaborative partnership are being undermined by a lack of will, imagination and political courage.

From the particular perspective of the third sector, I see at least six key challenges for social enterprises entering into contractual relationships with governments.

First, the voice of advocacy may be muted by a need not to overtly criticise the policies of the governments for whom they deliver services. Either explicitly by contract or implicitly by perception, a community based organisation may feel a need to constrain its espousal of the very views that sustain its endeavours. This is probably the fear that I hear most commonly expressed by non-profit leaders. In truth, I suspect, it is the danger that might be most easily addressed.

I sense that the relationship that develops between a public sector and its major service providers is not unlike that between a bank and its largest borrowers. There is a mutual interest in preserving the partnership. A government does not wish to risk an organisation responsible for delivering its programs in a large way from handing back its contract, any more than an organisation heavily dependent on public funds wants to see its contract terminated.

My experience tells me that the larger a provider, the greater is its capacity to secure access to governments and lobby its cause. At least behind closed doors, its importance to government enables it to wield more influence.

Certainly governments need to publicly affirm to non-profit groups that the receipt of a grant, or award of a contract, will not mute their capacity to give voice to the community interests they represent. That is why some form of compact or charter of civil engagement needs to underpin the relationship of governments with the third sector. The framework of reciprocity needs to be clear and transparent.

Second, the costs of regulatory scrutiny may burden the administrative capacity of social enterprises. I have no doubt that organisations receiving public funds and delivering public programs should expect their operations to be transparent and finances to be audited. Accountability must apply to the expenditure of public funds no matter what the chosen vehicle of delivery. Indeed, reporting requirements may significantly benefit non-profit organisations by forcing them to identify more fully their real costs of doing business.

There are, however, two ever-present dangers. The first is that the contractual conditions and their monitoring are made unnecessarily burdensome by a risk-averse public service. My experience has been that too often bureaucrats behave as if they are managing a contract rather than a relationship. Conditional requirements accumulate over time. For a national organisation receiving funds from different tiers of government, the administrative costs of federalism can seem heavy.

The second danger is that non-profit organisations think that the reporting requirements are an impost—unnecessary evils imposed from outside—possessing no intrinsic value. Rather than seeing administrative rigour as a means to make best use of scarce resources for community benefit, many employees in the third sector come to view the assessment of capability and conduct as a regulatory weight of no intrinsic value. Performance management comes to be perceived as a response to external accountability rather than a driver of mission.

Third, social enterprises that seek government funding may be subject to mission creep. This is a danger that is more subtle and, for that very reason, more pernicious. The goals that have attracted and sustained support for a community based organisation—the inspiring vision that brings voluntary endeavour and philanthropic donations to an organisation—may be progressively transformed by the desire to secure government funding. Sometimes the organisation will be persuaded to widen its ambit by the availability of funds. The broadened goals probably will still have social value, but they nevertheless have the effect of diverting an organisation's effort away from its original core mission. Sometimes the organisation will be tempted to expand its activities beyond its capability, accentuating risk of failure. Often, the drift occurs without being properly recognised and, too frequently, in the absence of strategic discussion at the board level.

Fourth, the relationship between government and the third sector is epitomised by an asymmetry of power. The worthy goal of collaborative government is made more difficult by the fact that governments (and the public services that work for them) have far greater power than the community based enterprises with whom they contract. It is not just that governments are generally able to harness greater resources of skill and expertise on a continued basis than the organisations with whom they deal: More profoundly, it is the knowledge that governments are far more likely to be able to exercise the power of decision.

The symptomatic feature of this unequal relationship is reflected in the form of contracting. The organisations that win contracts to deliver government services rarely have the capacity or opportunity to negotiate the policies (or even the administrative guidelines) that determine the form of the programs that they are paid to deliver.

Fifth, governments too often lack the courage of their outsourcing convictions. The prime advantage of contracting non-profit organisations to deliver government services should be the opportunity to stimulate social innovation. It's not just that community based organisations can produce outcomes more cost-effectively than public service agencies but that, collectively, they can trial new, more service-oriented methods of delivery. Yet governments are often persuaded—by too great an abundance of caution, too narrow a vision, or too much fear of public criticism—to prescribe the processes by which outcomes are achieved. Why, one asks, does a government outsource if it acts over time to cast the provider into a shadow of the public service agency it replaced?

Sixth, and perhaps the greatest danger of all, is that social enterprises may come to look first to governments for the wherewithal to deliver their goals. Ironically, organisations founded on community enterprise may start to perceive their future and count their success in terms of winning government funding. To a significant extent, non-profit organisations have been able to give hope and direction to welfare-dependent communities that feel marginalised, socially excluded, and helpless. It would be a tragedy if those organisations began to place limits on their social entrepreneurship by their own increasing dependence on the public purse. Social innovation is born of creativity, imagination and risk—not qualities that are generally associated with government funding.

These, then, are my nagging doubts. On the horizon, I can still discern a distant vision of networked governance—a brave new world in which community organisations are empowered to apply their commitment and values both to the design and delivery of public policy, and transparent systems of government in which 'citizens themselves can see and intervene in debates about how services can be made more citizen-centric.'[5] My fear, and I hope I am wrong, is that the ship of state will flounder on the rocks of compliance and control before landfall on the shores of collaboration.

Endnotes

1. George Parker and Alex Barker, 'UK Seeks Private Bids on Welfare Delivery' in the UK *Financial Times*, 24 June 2008, www.ft.com/cms/s/0/4855c04e-421e-11dd-a5e8-0000779fd2ac.html?nclick_check=1 (Accessed 24 February 2009).
2. Meredith Edwards and John Langford (eds.) *New Players, Partners and Processes: Public Sector Without Boundaries?* (Canberra: National Institute for Governance, University of Canberra; Victoria, BC: Centre for Public Sector Studies, School of Public Administration, University of Victoria, 2002).
3. Peter Shergold, 'The OECD Review of Australia's Labour Market Policies' in *The Australian Economic Review* 35:1 (University of Melbourne: Melbourne Institute of Applied Economic and Social Research, March 2002), 92–96.
4. Givewell Survey, 'Healthy Growth So Far, but Stormy Times Ahead: Australian Charities Financial Analysis 2007' (November 2007).
5. Paul Johnson and Martin Stewart-Weeks, 'The Connected Republic: New Possibilities and New Value for the Public Sector,' September 2007, www.slideshare.net/theconnectedrepublic/the-connected-republic-2 (Accessed 24 February 2009).

5: Non-profits and the Job Network

Lisa Fowkes

In this paper, I will look specifically at the issues for non-profits in contracting with government to deliver Job Network services. My argument is that for non-profits, delivering this contract has had both negative and positive effects on the values and operations of participating organisations. I also believe that, from the government's point of view, there has been a failure to achieve the full potential of the contracting approach.

When the Job Network was established, many believed that the market created would be hostile to non-profits both because of the philosophies that appeared to underpin the program and because opening the market to for-profit organisations, including multinational companies, would lead to concern within the third sector about its ability to compete with these large corporations. My organisation, Job Futures, was formed in this context by 26 community based non-profit organisations that felt they would stand the best chance of success if they were able to match these organisations in scale, scope and impact. Other non-profits, similarly, created new service delivery vehicles and alliances (e.g. Salvation Army's Employment Plus, Catholic Social Services Australia, Wesley Employment, Mission Employment) to get into this market.

The most overt challenge to the values of many of these organisations came in the area of 'breaching.' In the early years, there was some tolerance of providers who declared that they would not apply sanctions to job seekers. But as the government introduced new waves of reform that, among other things, increased the obligations of job seekers, this tolerance disappeared. In recent years, policing of providers' application of penalties to job seekers has been a key focus area for government, which regularly monitors the extent to which job seekers who fail to attend appointments are reported by providers to Centrelink. The 'Participation Reporting to Did Not Attend Interview' ratio has been identified as a measure of service quality.

Over time, non-profits have reduced their criticism of the breaching regime because of a combination of factors. There has been a perception in the third sector that criticism of government policy in this area has had consequences for the provider (and I think there is circumstantial evidence, at least, that this has been true). It is also hard for organisations to comment when they themselves do not have 'clean hands'—they are contractually required to apply the breaching regime and are therefore complicit in it.

But I also think that there has been some softening in the views of many providers to breaching. Non-profits who secured Job Network contracts joined the world of Centrelink staff, school teachers, and prison guards—delivering services to people who don't necessarily want to be there but who are penalised for not showing up. Staff at Job Network sites often have caseloads of more than 100 clients and operate under intense pressure to achieve job outcomes. Job seekers may be hostile, passively resistant, aggressive, and sometimes violent. In these settings, desensitisation to job seekers' needs is not unexpected. At a more fundamental level, many providers have accepted that some level of penalty should be applied as part of the welfare system. The experience of operating within this framework has forced a rethink of some of the 'rights' approach to welfare.

This issue was highlighted at a recent ACOSS (The Australian Council of Social Service) conference. A frontline worker from a Job Network office stood up and described how applying 'a good kick in the bum' (i.e. the threat of a breach) enabled him to shift very long-term unemployed clients off welfare and into work. The room quickly divided into those for whom this represented the worst aspects of the paternalistic and/or coercive welfare state, and those (generally Job Network providers) whose experience was that, without the threat of loss of benefits, they were not always able to motivate a client to change.

Though the overt ideological challenges of applying breaches were understood by non-profits at the beginning of Job Network, what may not have been fully understood at that point was the extent to which it would represent for most non-profits a fundamentally new type of service delivery. This would mean substantial changes in organisational structure and culture, in the type of people recruited, in the types of technologies used, and in their prevalence in day-to-day service delivery. While there was room for some individualised case management of job seekers, the program rewarded those organisations with the capacity to deal with large numbers of people quickly. Volume and speed were more critical than holistic service delivery, which meant that job seekers who had been unemployed for a long time or encountered multiple barriers to employment were often neglected in favour of those for whom quick results could be achieved.

Overall, the focus on getting employment outcomes and the discipline of measuring success against other providers has been a positive change for the sector. We have been urged to sharpen our focus, improve the effectiveness of what we do, and push our clients to achieve what they can. Along the way, we were confronted by the fact that, in some cases, we may have been holding back clients and that our good intentions were not always aligned with good results.

On the other hand, the sharper focus moved us away from the more traditional, holistic approach of our sector that saw unemployment as part of a wider set of circumstances, including lack of education, accommodation, poor local services, and dysfunctional families. Certainly our wider social justice ideals were no help in the race for star ratings—which simply measured job outcomes (and mainly full-time outcomes). Organisations started to invest heavily in technologies that would help track clients and potential job outcomes. People from business and sales backgrounds started to replace the welfare workers and educators in our ranks.

Many excellent staff left in disgust at the amount of time they had to spend putting data into government systems and the constant pressure to get the required numbers of placements and outcomes. We recruited mathematicians and business analysts to get an edge over competitors in the star ratings. Some of these changes made us better at what we do. But over time, the practices of for-profit and non-profit Job Network providers have converged.

The next iteration of the employment services contract is the first major such tender since the Australia–US Free Trade Agreement, raising questions about a major push by US and European providers to get into the market. It provided a good time to ask whether it matters who delivers these services and what, if anything, is offered by our own community sector.

For most of the members of Job Futures, providing assistance to unemployed people to gain employment and employment-related skills is fundamental to their mission. Overwhelmingly, funds to carry out this work come from government and, at least in the employment area, principally the federal government. Contracting with government to deliver these services has been critical to remaining relevant. Job Network contracts have offered organisations the opportunity to make a substantial impact—by reaching hundreds and thousands of people and providing a resource base to deliver significant pre-employment and employer related initiatives.

Community based organisations have seen themselves as offering something unique in this arena. These organisations are locally run. They engage with the community in a range of ways and, typically, adapt to the specific problems and needs in their community. They are often highly entrepreneurial. Being tied to a local community, they have developed ways of surviving through waves of different funding regimes and winning or losing contracts. They don't have the option of simply moving on. Their entrepreneurialism extends to the ways in which they see and deal with local problems. Scarce community resources are identified and mobilised around issues. They become expert at joining up the myriad of different government funding sources and filling the gaps. These organisations are closely culturally aligned with their communities. They can and do act as cultural mediators between the bureaucracy and clients. They have the ability to deliver services in a way that takes advantage of the assets in the local community, and they will reinvest in that community to build those local assets. Community based providers are different not only from government, but also from some larger non-profits whose attachment and alignment to a particular community may be dependent on the availability of a national/state contract to deliver something there.

In theory, community based providers offer governments the potential to engage with local communities and clients and to tap a rich vein of local innovation. It offers the government the means to deliver genuine place-based strategies, that is, local solutions to local issues delivered by local people. At least one of the underlying government objectives in creating the Job Network was to access precisely these types of innovation, flexibility and responsiveness. Unfortunately, the reality, at least in Job Network, is somewhat different.

At the outset, the contracts were designed on the basis that the government would value one thing above any other—and that was jobs. This was to be the basis upon which performance would be measured and providers rewarded. The way that these outcomes were achieved was basically up to the provider.

Having set up a system on the basis that the only thing that mattered was getting unemployed people into work, the government lacked the courage to defend the diverse, brilliant, lateral, and occasionally misguided ways in which providers tried to achieve this. In the 2003–06 contract period, the government introduced substantially more prescriptive contracts describing in detail many of the services to be provided and reducing flexibility in application of program funds. From 2003 on, the rules became more and more detailed and the monitoring of service delivery more intensive. Systems, processes and rules were being developed to give departmental staff better capacity to 'micro-monitor' service delivery with little regard for the impact of these on those staff who actually had to use the systems or for the clients who felt the burden of increased administration through decreased time discussing their needs.

The increased regulation of service providers was not just driven by a desire for more accountability. A significant amount of additional prescription arose because of the government's desire to ensure that particular moral positions were reflected in the way services were delivered—either government positions or positions that would withstand scrutiny by the likes of 'A Current Affair.' Having conducted a trial where job seekers were issued with mobile phones and found that this was enormously successful, it was decided that mobile phones were luxuries and couldn't be bought for job seekers. Placements in X-rated bookshops were rejected—not because the job seeker had any objection but because of the nature of the workplace. Payment of fines that were preventing clients getting driver's licenses, paying for groceries when money was short, paying job seekers incentives to stay in work—all these things were gradually prohibited not because they were not effective, but because they were contrary to government attitudes to self-control and personal responsibility.

At the same time that rules about what providers could or couldn't do were becoming more prescriptive, the corporate memory of actually delivering services within the bureaucracy was fading. In the last months of the Howard government, the Minister for Workforce Participation expressed her dismay at the lack of innovation in the Job Network. At the same time, providers' frustrations with increasing administrative burden and intransigence of the Department were at fever pitch. By the time of the new Rudd government's review of the Job Network, there was a widespread view that the system was no longer working well and was not able to address increasingly difficult caseloads or the widening skills gap.

The position could have been different, at least in my view, if the relationship between government and providers had been more collaborative—or at least more closely resembled the reciprocity that generally characterises long-term contracting relationships.[1] Community based organisations have the capacity to adapt to changing environments and to pull together different resources to develop local solutions. Within my own network, there are organisations with enormous capabilities in skills development, engaging with marginalised groups, and networking with local employers. Many initiatives that could have used these capabilities were stifled by a contracting environment that was overly prescriptive and risk averse. 'Value for money' was used to justify some of these prescriptions—but much greater value for communities could have been created by enabling local organisations stitching together solutions for their communities.

There is no question that contracting with government has had a profound effect on non-profit providers. Engagement of these providers in services that had been delivered by government has challenged some of our thinking and, certainly, competition has challenged us to deliver results. Unfortunately, the other party to the contract has not responded in the same way to the challenges and opportunities presented by dealing with non-profits. Instead of valuing diversity and accepting some of the risks that go with innovation, government has asserted greater control over the way in which providers work and has used its contractual muscle to enforce policies that are informed more by politics than practice. The new Rudd government has said that it will recast its relationship with non-profits, and that it is looking for local solutions. There is a great opportunity for government to capture the value that the community sector can bring. But it will require a willingness to devolve control and, with that, accept that not every approach tried or taken will be comfortable for government.

Endnote

1. A useful analysis of different possible forms of contracting arrangements is described in Myles McGregor-Lowndes, 'Is There Something Better Than Partnership' in Jo Barraket (ed.), *Strategic Issues in the Not for Profit Sector* (Sydney: UNSW Press, 2008).

6: 'Supping with the Devil' or Progressing Strategy and Mission?

A Reflection on The Smith Family's Use of Government Funding

Rob Simons

The Smith Family is a national, independent social enterprise that provides opportunities for disadvantaged Australian families and communities to create a better future through education. Over the past 10 years, The Smith Family (TSF) has undergone a comprehensive organisational transformation by moving its focus from a welfare-orientated model to one more in line with a national, independent social enterprise. One of the first steps in the transformation was a decision in the early part of the decade to step back from tendering for a stream of government emergency relief grants. The decision reflected the view of the board that a more sustainable approach to addressing disadvantage was needed.

This is achieved through TSF's *Learning for Life* (*LfL*) suite of interconnecting programs. The suite has a twofold purpose: On the one hand, it works to increase the **participation** in society of disadvantaged children and their families through the provision of educational opportunities across the course of their life (increasing *human* capital); while on the other, it works to increase the **engagement** of those with the time, talent or dollars to support them (increasing *social* capital).

All of the *Learning for Life* programs are built around facilitating these relationships between disadvantaged children and those in their wider community with the capacity to assist them. Such connections are crucial, not only to ensure that disadvantaged children are ready and able to progress through key transition points in their lives when they are most vulnerable (e.g. moving from home to school, from school to work), but also to build capacity in the wider community to be receptive to and supportive of their participation.

Through these relationships, which are built around sponsorship,[1] tutoring, coaching, or mentoring by adults or even their peers, disadvantaged children and young people are able to develop their academic, socio-emotional, and vocational skills to achieve their full potential. This includes support for essential comprehension, emotional, digital, and financial literacy to ensure that students are fully equipped to participate in the twenty-first century knowledge society.[2]

In line with our focus on children and education, we have continued to receive a small amount of funding from state and territory governments that support the purpose of *Learning for Life* without directly funding any part of the suite of programs. This can be looked at as *discretionary funding*, which endorses our place-based kids and education strategy and is an important signal for our relevance in a particular state or territory. A good example of this is the welcome and encouragement provided by the governments of the Northern Territory and Tasmania. In both instances, funding, as well as other relevant forms of support, has enabled us to expand the number of communities in which we can operate in line with TSF's strategic focus, which can be seen in *what* we do through our suite of programs and *how* we do it through our place-centric models and ways of operating in community.

In addition, we also receive some government funding to support programs, which align with our core focus where the funding enhances our capacity to bring the programs to scale. This reflects a partnership approach between TSF and the relevant government. Examples of this are the mentoring programs in the Northern Territory—*Senior Student Indigenous Mentoring Program, iTrack, and face2face*[3]—and the rollout of *Let's Read*[4] in Queensland and Tasmania. This is also about TSF providing solutions to regional government policy, such as improved school retention and education to work outcomes for Indigenous students and investment in the early years.

A particularly good example of funding that enables us to move forward our agenda for program and model development is the one we received to function as *facilitating partner* in seven Commonwealth *Communities for Children* (C4C) sites. C4C is an initiative of the government's *Stronger Families and Communities Strategy Phase Two* program, which aims to provide children with the best possible start in life. Utilising community strengths and assets, the initiative invests in disadvantaged communities through empowering communities to leverage and develop local resources for an evidence-based early childhood program mix. The seven sites in which TSF is a facilitating partner include Mirrabooka and Kwinana in Western Australia; airfield in NSW; Raymond Terrace/Karuah in NSW in a consortium with the Family Action Centre at the University of Newcastle; in Katherine in the Northern Territory; in Townsville West in Queensland in a consortium with Good Beginnings Australia; and in Brimbank in Victoria in a consortium with Isis Primary Care.

The Smith Family's facilitation role in C4C is as a *broker–banker*, not a service provider, so that 70 percent of the monies flow directly out to the local NGOs in the communities that deliver the services. TSF has used the C4C money as an investment—enabling us to extend program development and geographic spread with a particular focus on the early years—thus strengthening an emphasis on prevention and early intervention throughout the education lifecycle as a key component of our strategy to break the nexus of intergenerational disadvantage.

In considering the different types of strategically aligned government funding that TSF could accept, we identify three types that provide opportunities for strengthening and increasing our focus on children and education:

- **Funding for a facilitation role** that can enhance our forward agenda for program and model development—enabling us to make *Learning for Life* available for more children and families, as well as extending our work with and through other organisations in a place-based way
- **Funding for support of strategically aligned programs** that enables us to bring the programs to scale, and
- **Discretionary funding** that supports our presence and way of working in particular communities.

A guiding principle of our transformation back in 1999 was to diversify our funding base in order to strengthen the sustainability and the integrity of our vision in engaging a wide range of supporters. Our annual report for 2007–08 shows the following breakdown:

- Government funding at 3.5 percent applied to support for strategically aligned programs and discretionary funding that supports our presence and way of working in particular communities
- *Communities for Children* funding at 11.8 percent for the brokerage and banking responsibilities that comprise the role of facilitating partner
- Profit from our commercial enterprise at 5 percent
- Other income at 3.7 percent, and
- Donations, bequests and other fundraising at 76 percent.

The breakdown indicates how our diversified funding stream is crucial to ensuring that we maintain our independence as a strategically focused social enterprise. A diversified funding base ensures that we are not dependent on government resources to support our mission. It also enables us to negotiate terms of government contracts from a position of strength. Such negotiation is not without its challenges, but the latter are more about reaching agreement on meaningful reporting requirements rather than potential compromises to our strategy and mission.

Hence, TSF does not consider being selective about the types and proportion of government funding we accept as instances of 'supping with the devil' that may potentially compromise our current strategic focus on *children and education*. Indeed, by exercising *strategic discretion* we have been able to extend our mission that *together with caring Australians, The Smith Family will unlock opportunities for disadvantaged families to participate more fully in society.* Finally, we have also been able to leverage government funding to strengthen our capacity for the innovation and demonstration components of our agenda for societal change.[5]

Endnotes

1. The relationship and opportunities that the scholarship sets up between *LfL* students and their sponsors is treated more fully in TSF's 85th birthday paper 'Enabling Relationships: Students Connecting With Sponsors,' www.thesmithfamily.com.au/webdata/resources/files/85th_birthday_Enabling_Relationships.pdf (Accessed 29 January 2009).
2. Further information on TSF's concentration on improving digital and financial literacies can be found respectively in two 85th birthday papers, 'Digital Literacy: Connecting Communities Through Technology' and 'Financial Literacy: A Wealth Of Opportunities,' www.thesmithfamily.com.au/webdata/resources/files/85th_birthday_Digital_Literacy.pdf and www.thesmithfamily.com.au/webdata/resources/files/85th_birthday_Financial_Literacy-.pdf respectively (Accessed 29 January 2009).
3. The Senior Student Indigenous Mentoring Program addresses the post-school transition; *iTrack* provides mentoring opportunities online; and *face2face* is an adaptation of *student2student*—a peer mentoring remedial reading program. The latter is delivered over the phone, and *face2face* involves direct one-on-one mentoring. Further information on TSF's mentoring programs can be found in 'Building Relationships: Mentees Connecting With Mentors,' www.thesmithfamily.com.au/webdata/resources/files/85th_birthday_Building_Relationships.pdf (Accessed 29 January 2009).
4. *Let's Read* is an initiative of the Centre of Community Child Health (CCCH) that is being developed and implemented across Australia in partnership with TSF to promote emergent literacy among young children aged zero to five years. The program is designed to support and empower parents and carers to read with their children, and to develop the building blocks needed to make the transition from home to school as easy as possible.
5. The Smith Family's understanding of innovation involves facilitating new models of cross-sectoral collaboration, which entails *connecting different people in different ways to overcome an entrenched or emerging social issue.* See 'Innovation Relationships: Connecting Different People, in Different Ways, for Different Outcomes,' www.thesmithfamily.com.au/webdata/resources/files/85th_birthday_Innovation_Relationships.pdf (Accessed 30 January 2009).

The Third Sector, Civil Society and Government:

Beginning Afresh

Vern Hughes

For three decades, Australia's voluntary, charitable and community organisations have been assaulted on three fronts. From one side, governments have colonised a large proportion of these bodies by turning them into service delivery instruments for the state and creating, in the process, a field that is now rather charmlessly labelled the 'human services.' From another side, private sector operators have made significant incursions into this field, especially in child care, health care, the Job Network, and the burgeoning counselling, spirituality, and therapeutic self-care scene. And from within, a generation of non-profit managers have emerged to capture the internal culture of many organisations, replacing their once colourful and idiosyncratic cultures with a bland managerialism.

The result is a third sector in tatters. This threefold assault over the last 30 years has been less a series of periodic challenges than a kind of *blitzkrieg*. Most organisations with a history of more than three or four decades are now completely unrecognisable from the groups and associations from which were they formed in church halls and around kitchen tables in a previous era.

Disability service organisations are a case in point. Most of the bodies now headed by CEOs—complete with a raft of comprehensive risk management, data protection, and brand promotion policies—were formed by parents of people with disabilities who knew they needed to create, from scratch, the supports and services needed by their sons and daughters. They usually began around a kitchen table. Everyone was a volunteer. Consultants were unheard of. The only resources on tap were goodwill and a willingness to work together for no reward apart from securing something in the future for their loved ones.

Today, many such parents now find themselves referred to, in the annual reports of the bodies they created, as 'stakeholders' in the welfare of their sons and daughters, alongside either key stakeholders such as local governments, suppliers, and corporate partners. Many shake their heads in disbelief at the entity they unknowingly created. 'We gave birth to a monster,' some say.

Managerialism—in public, private and community sectors—is the prevailing ideology of our time. It has trumped entrepreneurialism in the private sector, and perverted notions of service in the public sector. But in the third sector it has swept all before it. A deathly silence in the public arena has accompanied this clean and quiet strangulation.

The dynamics of this process have been clear enough. The mass output of social science professionals from universities in the 1970s in a range of new human service disciplines was the driver for an expansion of services in fields such as health, welfare, employment and training, housing, education, child and family services, aged care, child care, youth services, drug and alcohol services, disability, and mental health. With a proliferation of service and program types that were built around new disciplines and new client groups, a service system emerged characterised by a bewildering complexity in organisational and regulatory structure. Providers of services were required to 'professionalise' their operations and adopt 'standards' imposed by funders and regulators who, in turn, were prevented from differentiating between the public, private or community status or the identity of diverse and competing providers. Many formerly voluntary, charitable, and mutual forms of social support were absorbed into this emergent service system. Most found it easier to seek and obtain public contracts for their operations and to tailor their mission to the delivery of these contracts than to rely solely on private fundraising or commercial income generation. In the process, their programs and operations reflected the silo structure of government. Their internal cultures mirrored the risk-averse culture of government. They became accountable not to their clients, and certainly not to their founders, but to their funding departments. And they were run by an emergent class of managers whose career paths wound between government, community and private sectors. The march of the managers' feet across sectoral boundaries soon trampled any residual notions of sectoral differentiation between the 'public,' 'private,' and 'voluntary.'

The question is: Does any of this matter?

It certainly doesn't matter to the generation of non-profit managers who have ridden this wave. Yes, some will complain about their hands being tied by contractual restrictions on their ability to criticise government policy decisions. But these restrictions can usually be loosened to their satisfaction, and the Rudd government has undertaken to make these adjustments. Having found their place in the contractual state, most managers have proven willing to tailor their organisation's mission to secure their place.

Nor does it matter to politicians on either side of politics. Since the electoral contest in Australia is about claiming credit (or assigning blame) for the adequacy of government service delivery, no politician willingly seeks to widen the operational gap between the public funding of services and their delivery on the ground. That makes it too difficult to play the credit blame game. Most large non-profits now have communications and public relations departments whose focus is to cultivate political support on both sides of politics so that future ministers will always understand that the issue is never the method or quality or structure of service delivery—it is always about the volume of spending, and more money always means more and better services (or so they say). This merry dance between politicians and service providers works for both sides.

Nor does it matter to policy makers, who have inherited a highly instrumentalist approach to social policy. Voluntary, charitable, self-help, and mutual forms of association are now typically deemed by policy makers to be simply instruments for the achievement of policy objectives. These objectives are usually prescribed in terms of the transfer of units of service or care or knowledge to a specified client group. The instruments of the transfer are not assigned any intrinsic value. Social capital—the capacity of people to voluntarily associate with each other for mutual benefit or service to others—has no intrinsic worth or place in this policy instrumentalism.

What then is to be done? A line needs to be drawn under the instrumentalism that has shaped social policy over the last three decades, and a new page that began with the cultivation of social capital and individual responsibility as the two primary social processes to which good social policy should be attuned.

This requires a brave new leadership in social policy thinking. It is akin to the shift in economic policy thinking that took place in the 1980s when both sides of politics agreed that financial regulation and protectionism had run their course. A new leadership emerged then to chart the new territory. A new leadership is needed now in social policy and innovation.

New technology makes it feasible to direct government funding across jurisdictions and portfolios into individual budgets—managed by a variety of agents—for the acquisition of individually tailored, person- and family-centred suites of services that fit the unique needs of each individual and family. This is increasingly being done on the quiet in several Australian states in the areas of disability, aged care, and chronic and mental illnesses. It is not publicised, by and large, for fear of alienating the powerful provider peak bodies who remain implacably opposed to the funding of consumers, but it is proceeding steadily in all jurisdictions.

Innovative service providers need not fear a shift in the funding paradigm from providers to consumers. Consumers will still require support, information, brokerage, and a myriad of specialist interventions—and responsive service providers will prosper if they meet these needs creatively.

But the principal advantage of funding individuals and not providers is that it makes possible a reinvention of the third sector. The instinct for, and the practice of, voluntary association has been smothered by the managerial blanket for a long period. Voluntary association is an art, and if not practised, is lost. Cultivating the capacity of people to associate with each other along horizontal rather than vertical axes is a task that can only be undertaken with, and between, individuals. It cannot be delivered by a service provider.

Voluntary association gave birth to the third sector; managerialism has all but killed it. Funding consumers, individuals and families but not providers clears the deck for reinvestment in people and their capacity for association. It allows for a new generation of third sector activity to begin afresh.

What might that look like?

In 1908, residents in Altona, then an outer suburb of Melbourne, created a bush nursing hospital in their community, funded by subscription from their own pockets. In 1960, the Victorian Health Department absorbed the small hospital into the public system (it seemed like good public practice at the time). In 1996, the Kennett government tried to sell the hospital site to property developers (even as a survey was dutifully being conducted on local health needs by a lowly department official). But deep in the psyche of the older residents were some residual memories: beds and equipment bought with donations from locals did, perhaps, belong in Altona; something funded by subscription shouldn't easily be dismantled and the assets transferred to the other side of Port Phillip Bay.

In 1999, Altona residents signed a contract (through an old-fashioned co-op they cobbled together) to purchase the hospital and site for redevelopment as a health and community centre, through a mix of commercial loans, corporate support, philanthropic investment, and yes, a local subscription.

The capacity for voluntary association can be regenerated for unexpected output. We shouldn't mistake the service delivery corporates of today for the third sector of tomorrow.

Conclusion:

Maybe the End of the Road is a Good Place to Start Again

Martin Stewart-Weeks[1]

Reading these essays, I formed several clear impressions:

- There is a disconnect between the rhetoric of innovation and social investment on one hand and, on the other, the experiences of many in the third sector who have to live with the consequences of the dysfunctional practices of an increasingly narrow and centralised contracting state.
- Only a few of the things we say we want to achieve in social policy are achievable unless new sources of innovation, energy and efficiency are unleashed within a better network of service delivery.
- We are at a critical point as the evidence of past failure, and the mounting rhetoric in favour of a new approach to social policy, demands a new approach to the relationship between the state and the third sector.
- Finding the sweet spot around which to construct that new approach demands that we dismantle many of the unhelpful elements of the political and bureaucratic management of the contract state.
- We have to forge a more collaborative relationship between the various parties engaged in what should be a process of open negotiation based on respect and understanding.
- Third sector organisations have to confront the perils and pitfalls of accepting funding from the state under conditions that may erode the values on which they were founded and that sustain them.
- If we are going to make the changes we need, we are going to have to call for a level of sustained political leadership, which will be tough in a culture addicted to caution and control.

As I read these essays and talk to the authors, many of whom I have known for a long time and whose credibility in these debates is well-established and widely recognised, I feel uneasy. We seem to know what's wrong with the current system. And we know, at least in some measure, how to make it better. We have a sense of what we need to preserve in terms of accountability and transparency, and we know the elements we need to discard to create a more useful system. But the gap that lies between where we are and where we want to go keeps growing.

For me, these essays offer three blunt messages :

1. The relationship between government and the third sector of non-profit community organisations is not working and is in urgent need of repair, especially in the context of the widespread adoption of contracting for the delivery of public services.
2. Embarking on that endeavour demands dramatic changes in the culture and performance of both government and the third sector.
3. The larger policy canvas on which those changes will be wrought is itself changing—reflecting a shift from traditional institutional models of service design and delivery to a 'relational' model. This model, with its animating commitment to consumer empowerment and new models of direct funding, reflects a major, unresolved contest for power and control.

Let me make a couple of other observations. All the essays start from the proposition that a vibrant, resilient, and even resurgent third sector is an important part of the institutional ecosystem on which we rely to confront many of the difficult social, economic and environmental challenges we face. The virtues commonly associated with the third sector—mutualism and social capital formation, responsiveness to local conditions and the needs of consumers, and an instinct for risk and innovation—feature prominently when people talk about improving our public services and achieving our national social and economic goals. But all these essays seem to agree that far from being an anachronism, third sector organisations should be very much a part of the mix from which we derive sustainable solutions to realise our pressing social and economic ambitions.

The second observation, though, is less positive. There is a sense that, at least to the extent that the attitudes and processes from which the current models of contracting persist, the problem we're trying to solve confronts an irreducible tension, perhaps even contradiction.

Without exception, the essays all call for a greater sense of trust and mutual respect, fuelling a genuine collaboration, which should be the hallmark of a new relationship between government and the third sector. But given the way the game is currently set up, and certainly the way it is being played, especially from within government, it is difficult to see how that is going to happen.

The problem essentially is that we don't seem to be capable of designing a regime that secures legitimate accountability for public funds and, at the same time, protects the opportunity for organisations to determine service models that reflect their own values and are fashioned around user needs and empowerment. An exception comes from Rob Simon's essay that describes The Smith Family's limited, focused and strategic use of public funding to augment its programs around its core *Learning for Life* model. By all accounts, the public money it has invested to support its existing initiatives has achieved clear outcomes without compromising the underlying intent of the program or the values on which it is based. Using public funding in limited, strategic ways to reinforce an already strong sense of identity and values are two obvious lessons that emerge from this example.

This is not, of course, an exclusively Australian debate. I recently read a new report from the United Kingdom that examines the scope and potential of what the British describe as the 'public services industry' or PSI.[2] This is a label increasingly being attached to the mix of private and third sector enterprises providing services to the public on behalf of government or, in some cases, to government itself. A couple of recommendations from the report struck me.

One deals with the need for 'clear and consistent objectives.' The report suggests that contracts should be less prescriptive to leave room for innovation, and payment incentives should be symmetrical so that quality improvement is rewarded as well as under-performance penalised. Sounds very sensible—and I suspect all the writers in our collection would wholeheartedly agree with both the call for flexibility and room to innovate as well as the notion that you can be flexible 'up' as well as 'down' to reward great performance.

A second recommendation deals with 'partnerships.' The report argues that partnership approaches between contractor and provider should be encouraged, especially in the post-contract monitoring stage when both parties have the common objectives of delivering better public services. You get the feeling from our contributors that, too often, contracting in Australia is characterised not so much by a sense of mutual commitment to a common public service outcome but rather by a narrow and instrumental notion of control and risk minimisation.

Judging by the essays in this collection, though, we remain hostage to a combination of political timidity, bureaucratic intransigence, and operational inflexibility. They have conspired to create a set of conditions that have made it impossible to play the game differently, despite an overwhelming sense that the way it is currently being played is delivering outcomes that are, to coin the dismal bureaucratic lexicon, sub-optimal. It seems hard to imagine how the current system, given its political and institutional settings, can come to grips with Vern Hughes' exhortation, for example, to 'draw the line' under the current system and shift to a 'new narrative' based on individual responsibility and the generation of sustainable social capital.

These essays suggest that, in pursuit of a regime adhering to the principle of 'no nasty surprises' and hobbled by a political culture with an unhappy tendency to privilege spin over substance, contracts try to inoculate the system against the possibility of failure or embarrassment. The prevailing ethos of micromanagement seems to have become 'leave nothing to chance.' The trouble, as Lisa Fowkes suggests, is that this approach has driven the instinct for innovation, which by definition is about trying new things and therefore taking risks, right out of the very system that was established to nurture it and capture its results. As many others have noted before, the system is basically killing the goose that lays the golden egg.

So we seem trapped in this uncomfortable Mexican stand-off, inspired by an increasingly clear vision of changes we could make to improve the situation and, at the same time, unable to transcend the circumstances we have created over the past 20 years. When Peter

Shergold describes his position as the head of the department that brought in the Job Network: 'I did not wish to see the voice of social enterprises neutered but nor was I willing to see the policy intentions of governments subverted by the organisations contracted to deliver their services'—he is summing up the dilemma.

On a more positive note, these essays sketch an exciting agenda for change, including at least these proposals:

- Bring in a regime of more direct funding to individuals and service brokers, shift the focus away from producers and organisations, and create a system based around individual responsibility and social capital
- Create a more open and collaborative approach to defining both social policy outcomes and the means by which they could be achieved, craft new contracting regimes that leave more room for risk, innovation and diverse values
- Sustain a conversation between third sector organisations and governments to clear away some of the myths and plain ignorance that either side harbours about the other, and to find new ground for reform rather than continuing what Mark Lyons calls 'the current confusing and inefficient status quo'
- A more concerted effort to usher in the world of 'networked governance' in which people and community groups are invited to engage their values and commitment more fully in the design and delivery of public policy.

These ideas seem to offer some promising new directions. What then is the prescription for change? Where should we start? Here are a few ideas that might help:

- An *independent and open review of the current system of contracting* that will take a hard look at the good, the bad, and the plain ugly of the contracting model and catalogue of challenges it has created. Let's get the story told, once and for all, as straight as we can so we can at least give ourselves a common starting point.
- Governments need to accept the need for more explicit and purposeful *experimentation with 'relational' models of service design*

and delivery that focuses resources and service delivery design away from producers and towards consumers and their agents.

- Commission a project to develop *a new taxonomy of relationships between government and the third sector* depending on (a) the nature of the work involved and (b) the size and significance of the funding levels.
- Look at new ways to define social policy outcomes that engage third sector organisations, as well as a wider range of community based entrepreneurs and innovators earlier in the process of shaping social policy. Let's get more serious about looking at the possibilities of what Peter Shergold calls the 'shared power world of networked governance.'
- Invite the involvement of a range of non-profit service providers in a limited change program that allocates funding on a range of *different models of accountability*, including accountability to consumers and communities as well as to funding agencies.

On this last point, I suspect there is huge pent up demand for some experimenting with new approaches to contracting that give effect to 'the reciprocity that generally characterises long term contracting relationships' to quote Myles McGregor-Lowndes in Lisa Fowkes' essay.

At its most unvarnished, this deceptively simple precept is an invitation to fail. It's not as if the public sector doesn't fail now, of course. We all know that it does from time to time. But it's about discovering in the public realm something akin to the ethos in at least some progressive private sector organisations that favours risk and failure because it is an inescapable part of learning. In the world of open innovation thriving on serial experimentation, many companies are trying to live up to Thomas Edison's exacting standards. 'I have not failed,' he explained, 'I have just found 10,000 ways that won't work.'

People argue that it's easier for the private sector to adopt this kind of radical tolerance of failure, with largely private investors and a profit-and-loss regime that will quickly reward or kill an innovation. But don't we need something akin to this spirit in the public sector? As far as I am aware, we are yet to find a public policy regime prepared to live by a similar impulse and to accept the truth, universally acknowledged in every other realm, that you must expect to fail if you have ambitions to succeed.

So, where does this leave us?

Judging by the tone and insights from these essays, I wonder whether we've reached the end of the road when it comes to our current efforts to to improve the relationship between government and the third sector.

If that sounds a little melodramatic, perhaps we could settle for the less ambitious, but equally unsettling, conclusion that we have arrived at one of those forks in the road that demand a clear choice. We can either persist with the current system and pretty much go on playing the game the way we have over the past 15 years or so, making some incremental improvements along the way but without impacting the underlying structure, processes and attitudes.

Or we can, collectively, take a deep breath and say to ourselves that enough is enough. We could accept that pressing on regardless is not going to deliver the kind of innovation and responsiveness that, we keep being told, are increasingly the hallmarks of good policy solutions in so many of the areas, especially social policy, where the government–third sector relationship is so crucial.

Perhaps a little unfairly, I might characterise the first choice as the 'low' road and the second as the 'high' road.

But the trouble is that, according to these essays at any rate, opting for the 'low' road solution seems to lead, almost literally, nowhere. If we just keep on going, the result is inevitable—a growing disillusionment within the third sector, mounting frustration within government, and consumers left feeling even more disempowered and disengaged than they do at the moment. As the saying goes, if you keep on doing what you've always been doing, you will end up where you've always ended up.

Opting to travel the 'high' road will draw on a concerted, sustained level of leadership for reform. It will be energised by new levels of collaboration and trust within and between government and the third sector. The mixed results of the last 20 years may have conspired to put this necessary ambition beyond our reach.

My conclusion? We seem stuck between a status quo that is unacceptable and a future that is unachievable.

One thing I am pretty sure about—things have reached a stage where we can't rely on calls for a 'compact' between government and the third sector as a viable way forward. We have some experience of that approach in both the United Kingdom and Canada, for example, and there has been some discussion in Australia of these kinds of agreements. The problem, I suspect, with the compact idea is that, well intentioned as it might be, it inevitably masks the deeper structural problems it is designed to ameliorate, which actually make those problems much harder to deal with.

Perhaps we shouldn't worry too much about a compact. What the people who wrote the essays in this collection suggest is that we are in urgent need of a much tougher and more fundamental process of honest and open analysis of the problems. That will give us the only sure foundation on which the reconciliation between what should be equal partners in a powerful relationship for better policy can be built.

I think we're at an historic point where we have both the chance, and perhaps the obligation, to rediscover the animating virtues of self-directed mutualism, whose only chance of flourishing is to dismantle significantly the corporatist apparatus of state-directed social policy in whose grip we still seem firmly stuck.

We need a new agreement to pursue a policy, funding and delivery regime whose hallmarks will increasingly be individual empowerment and responsibility, social capital, and to quote Lisa Fowkes, 'the courage to defend the diverse, brilliant, lateral and occasionally misguided ways' in which we attempt to reach for the social and economic outcomes to which we all aspire.

On the evidence of these essays, it's hard to be too optimistic about the chances of that kind of venture succeeding. But it's just as hard to see any other way to break out of the dispiriting stalemate that, for all its apparent resilience, appears to be offering equal shares of frustration and disappointment.

Maybe we're reaching the point at which doing something about this unhappy state of affairs is gradually becoming more attractive than putting up with it. I hope so.

Endnotes

1. This essay is written in the private capacity of the author.
2. DeAnne Julies CBE, *Public Services Industry Review: Understanding the Public Services Industry—How Big, How Good, Where Next* (London: Department of Business, Enterprise and Regulatory Reform (BERR), July 2008), www.berr.gov.uk/files/file46965.pdf (Accessed 24 February 2009).