Funding Social Services: an historical analysis of responsibility for citizens’ welfare in New Zealand

Carolyn Cordery* and Shasa Halford


*Corresponding author: Dr Carolyn Cordery, School of Accounting and Commercial Law, Victoria University of Wellington, P O Box 600, Wellington. Phone: 644463-5761, Email: Carolyn.Cordery@vuw.ac.nz.

We acknowledge the support of Associate Professor Rachel Baskerville and research assistance of Wan Nur Faaizah Wan Ali.
Abstract
Funding and delivery of social services is increasingly under pressure. One theory is that charities alleviate this pressure by delivering supplementary services (Weisbrod, 1988), seeking public donation to augment fees for services when the market and state fail to meet beneficiaries’ needs. Alternatively, charities may deliver, or partner with government to deliver complementary services (Salamon, 1987). The question of how citizens’ welfare is funded is a structural one that is contextually and historically informed and against which policy choices can be analysed.

This paper analyses New Zealand’s welfare state from 1935 onwards to understand relationship changes between the government and citizens in social services funding. While the state has been a major funder, this does not indicate a partnership between government and charities as Salamon (1987) would suggest. Indeed, this research finds that increasingly the government emphasises competitive practices that were previously not identified in supplementary or complementary theories.
Funding Social Services: an historical analysis of responsibility for citizens’ welfare in New Zealand

The ever-increasing demand for social services raises the question of how these demands can be funded and delivered. In a market-based economy, such quasi-public goods\(^1\) are an anathema, as those who need the goods most, cannot afford to pay. The market fails to provide those goods which are not commercially profitable, yet the need for social services remains. States respond to this market failure by funding the provision of some social services and thus define the level of state welfare available.

The resource constraints brought about by the cost of state welfare and the consequent limiting of state funded social services, generates unmet demand and state failure (Weisbrod, 1988). Weisbrod (1988) hypothesises that it is in this space that charities form, in order to fulfill social demands and deliver social services that are supplementary to those of the state. Contrary to this supplementary notion based on failures, Salamon (1987) argues that charities arise independently, and that the state and charities enjoy complementary partnering relationships, as they jointly deliver and fund social services to improve citizens’ welfare in an almost seamless manner.

The objective of this paper is to analyse these relationships between the state and charities. This question of how citizens’ welfare is funded (publicly or privately) is a structural one that is contextually and historically informed. Further, nations’ structures are subject to changing ideologies. Consequently, history can inform the framework against which policy choices can be analysed. These supplementary and complementary relationships have been analysed in the context of the United States of America (US) (Salamon, 1987) and Nordic countries (Kildal & Kuhnle, 2005). However, there has been little analysis of other countries’ empirical data, nor of policies the state and charities might follow in order to share responsibility for citizens’ welfare.

This paper uses New Zealand data to analyse the relationship between the government and citizens in funding social services delivered to citizens. It is informed theoretically by understandings that charities fund supplementary or complementary services to government. The paper describes main phases of the welfare state in New Zealand with specific emphasis on the state’s social services expenditure from 1986 onwards. This study also analyses historical trends in charities’ income, both generally, as well as through case studies of specific charities. It finds that the New Zealand government has maintained a

\(^{1}\) Quasi-public goods have public and private goods characteristics. It is difficult to prevent all free-riders from benefitting from these goods, and increases in costs of supply can be smaller than the increases in benefits obtained from them.
major role in funding social services, although this does not indicate a partnership between government and charities. Given different roles for charities within this society over time, this paper analyses the impact of the government’s recent ‘Third Way’ policies on the benign concepts of sharing and partnership in public welfare. The research reported in this paper finds that increasingly the government emphasises competitive practices that were previously not highlighted in the theories of supplementary and complementary funding and delivery of social services.

1. Theoretical frame:
The establishment of a welfare state is an expression of a country’s norms, values and social goals (Kildal & Kuhnle, 2005). Therefore, the funding of welfare is a normative issue that not only asks what the state should do, but also what it can do. In analysing these issues in the US context, Weisbrod (1988) posits a strong state, while Salamon (1987) argues for state-charity partnerships. As potential users cannot be excluded from using public goods (Falk, 1992), government typically provides such goods, because for-profit firms cannot charge sufficient fees for services to assist them in meeting their objectives. Charities also fund (and provide) services that may be supplementary responses to state failure (Weisbrod, 1988), or alternatively, work in partnership with government to provide social services which are complementary (Salamon, 1987).

Greater consumer choice, specialisation, advocacy (both public and political) and cost-effectiveness are charity strengths that provide justification for and underpin their role in social services (Hayes, 1996). While state resources can be obtained through coercive taxes and fees, charities raise funds from the general public, philanthropic trusts and, if possible, charging for some services. Those who fund charities’ work typically do not receive a direct benefit, but their donations resource charities’ provision of social services which are quasi-public goods. There is also a sense that donating to a charity now, may well provide some safety net for the future (Falk, 1992). In this respect, charitable institutions enable citizens to “contribute to the public good on their own initiative” (Fries, 2001, p.8). Therefore, Gassler (1998) theorises that a Kantian ethic and altruistic motives are important in explaining the rise of charities.

---

2 Third Way policies aim to include communities in policy-making and delivery. Third Way governments seek to network with not-for-profit organisations to institute consumer trust, increase government legitimacy and collaboration (Giddens, 2000).

3 Lord Beveridge in 1948 commented “the philanthropic motive is in practice a specialist motive; it drives men to combat a particular evil, to meet a particular need that rouses their interest” (Hayes, 1996).

4 Social service charities may also be contracted by government to provide services. This paper considers total social services resourcing rather than this provision per se.

5 ‘so act that you could will the maxim of your action to be a universal law’ or simply, ‘act like you think everyone should.’ (Collard and elsewhere, as noted in Gassler, 1998, p.179).
Weisbrod (1988) argues that charities have grown because they provide supplementary services to offer institutional choice for beneficiaries for whom government will not, or cannot, provide certain quasi-public goods. Young (2006) notes that private donors fund these services. Such funding is expected to be inversely related to government expenditure so that, as government funding increases in a particular area, the need for supplementary funding should diminish. Hayes (1996) suggests that supplementary services may also be delivered in a buffer zone, mitigating tension between state and society in politically awkward areas (for example, in the funding of abortions).

Rather than supplementary funding and delivery, Young (2006) suggests that charities also respond to the failure of governments to provide social services by funding services that are complementary to those of the state. This notion of complementary services was first mooted by Salamon (1987) who argued that Hansmann’s (1987) theory of public goods cannot explain government support for the charity sector. In this model, government is the main funder of social services, however Salamon’s (1987) complementary model suggests that the charity sector could deliver most public goods subject to sufficient private and state funding. The complementary model recognizes that, as government expenditure rises, so too does that of charities as they increasingly deliver services in partnership with the state. Salamon (2006) extends this concept of complementary services through analysis of international data through the Johns Hopkins Comparative Nonprofit Sector Project. He notes that “sizable nonprofit sectors seem to be highly consistent with large-scale government social welfare activity” (Salamon, 2006, p.406). Governments often partially fund charities’ social services in order to draw on altruistic citizens, access volunteer or cheaper labour, and beneficiary ‘self-help’ to reduce the overall cost of the service (James, 1987). This is because economic scarcity means that neither the state, nor charities, can satisfy all social service needs.

The balance of funding must therefore come from private donors. Tax policies have been shown to influence private resourcing inflows to charities. Abramson, Salamon and Steurle (2006) note that policies and tax rates influence individuals’ giving. These policies and rates define the income that taxpayers have from which to make those gifts, as well as the net cost to the individual of a charitable gift. For example, while the US government and charities have functioned as partners and provided complementary services to those in need, US tax policies from the 1980s to 2005 have since “weakened the financial incentive for charitable giving” (Abramson, et al., 2006, p. 128). Young (2006) agrees that the 21st century has resulted in less philanthropy, a more passive government and cost cutting which brings into

---

6 As they did “centuries ago before the existence of income taxation” (Weisbrod as cited by Falk, 1992, p.475).
question the continued role of the government and charitable sectors in social services. Steurle and Hodgkinson (2006) confirm that the percentage of private giving in the US has reduced by comparison to government’s funding of the charitable sector, suggesting a move from complementary to supplementary services.

Notwithstanding tax policy implications, the relationship between the state and charitable sectors is complex. Abramson et al. (2006) note that government and charitable funding relationships for the delivery of social services have been both supplementary and complementary. This paper attempts to determine the relationship between the government and citizens in funding social services delivered to others in the New Zealand context through analysis of available reports.

2. Social services in New Zealand
New Zealand was colonised by the British, and may share similarities to other colonial countries. Lee (2005) comments (from a Hong Kong perspective) that although British colonization promoted private rather than government activity in principle, it frequently practised selective and strategic intervention into the economy in order to maintain colonial society.7 The historic narrative from New Zealand shares some of these features. This section focuses on four main periods from 1935 to 2008, with a brief explanation of the pre-1935 context.

2.1 Government-charity interaction until 1965.
The history of the relationship between public and private funding of social services in New Zealand has been long and complex, as well as important (Tennant, 2007). The early settlers were not, on the whole, wealthy. The lack of philanthropists with large reserves of private wealth meant that the state performed a funding role from the early 1840s at the inception of the colony. Tennant (2007) further notes the interaction between the state and charities in funding social services reflected the “smallness and intimacy of New Zealand society” (p.9). She reports that charities worked through their Members of Parliament to argue for more funds that would help them to achieve the aims government had set (Tennant, 2007). As this funding was typically by government grants, charities were able to pursue their own aims with the benefit of private and public funding (O’Brien, Sanders, & Tennant, 2009) utilising their good relationship with government both to obtain funds for themselves and to spur the government to action on beneficiaries’ behalf.

Following the election of the first Labour Government in 1935, Armstrong (1994) describes the social policies in New Zealand as being developed under a Social Democratic

---

7 It could be argued that Hong Kong was a colony of occupation for trade purposes as Hong Kong was handed back to China. However similarities in British practises between Hong Kong and New Zealand are evident.
consensus. The government was committed to regulating the economy as well as the funding and provision of state services. This was a reaction to the failure of the market during the Great Depression to recognise the inequalities between owners and workers. While social democrats believe it is necessary for the state to intervene to overcome market excesses (Cheyne, O’Brien, & Belgrave, 2008), in New Zealand’s case, the welfare was paternalistic: few benefits were universal and they were founded on the notion that the male head of the household deserved a living wage. Armstrong (1994) notes that Keynesian economics, combined with those calling for greater state contributions to welfare, led to a consensus that settled between equality and efficiency. To fund such a consensus required economic growth and a consequent increase in the tax-take. Fries (2001) stated that the government’s policies effectively nationalised parts of the charity sector. It appeared that policies were underpinned by the intention that the state would control and direct welfare (Cheyne, et al., 2008) and in this case had strong similarities to the Hong Kong experience as reported by Lee (2005). In this era, few taxation rebates were offered to philanthropists, a policy likely to suppress private philanthropy in a colony that already lacked a strong philanthropic culture (Fries, 2001).

Total government funding to social services charities by the end of this ‘Social Democratic consensus’ in 1967 was estimated at $3.9 million (Driver Robinson Partnership & Robinson, 1986). This figure was 0.68% of government’s spending on social services at that time (the government’s social services spending overall in 1967 was 16.8% of GDP), hence total government funding to charities was a small percentage of government spending. However, there were low levels of philanthropy, signaling that citizens expected the state would meet social welfare needs with charities performing a supporting role only. This period aligns with that described by Weisbrod (1988) as one when charities were supplementary service providers.

From 1966 to 1983, Armstrong (1994) notes that New Zealand endured a period of transition. She labels this the ‘crisis of consensus’ marked by the rise of feminist and Māori activism, and the arguments by the Libertarian right that entrepreneurship would free the economy from state interference. New Zealand was by now described as a ‘reluctant’ welfare state (Shirley, 1994). Joining it were the UK, Ireland, Canada, the United States and Australia. The defining feature is the pattern already highlighted in this paper: the separation of economic and social policy with pressure for the state to do less and therefore to allow government failure in favour of private funding.

---

8 Government expenditure on social services for the year ended 31 March 1967 was obtained from the New Zealand Appendix to the Journals of the House of Representatives, 1968, Volume 1 A-B.
At this time, Nordic countries, along with the Netherlands, Belgium and Austria were conversely described as Social Democratic welfare states (Kildal & Kuhnle, 2005). Here the absence of boundaries between social and democratic policy and high quality public provision discouraged private alternatives. Kildal and Kuhnle (2005) confirm that these states’ ethos was broad public participation that, expected state-funded welfare to include the entire population. Government welfare provision was relatively high, and without state failure, there was a minor role only for charitable funding of services which were supplementary to those of the state.

A largely European block (Switzerland, Finland, Germany, France, Japan and Italy) are described as being between New Zealand and these Nordic and European countries during this period. They were Conservative welfare states (Shirley, 1994) that managed social and economic policies closely and wielded strong social controls in order to bring about stability. Stability was understood as being related to the continuance of constitutional rights and ‘traditional’ values (such as families and morals). Outside of these values, conservatives are suspicious of state intervention (Cheyne, et al., 2008). However, in the countries holding these core values, charitable activities were supplementary to state activity.

As the reluctant welfare state, through the 1970s, New Zealand moved away from a pure welfare state to demand a greater role for private funded social services (Wilson, Hendricks, Smithies, & Knowledge Management Group Ministry of Social Development, 2001). Charities that had historically enjoyed both private and government support reviewed their service delivery, cutting back in order to be sustainable. As New Zealand’s welfare state matured, “existing voluntary organisations had to position themselves in relation to the state, meeting needs that it could not, but also facilitating access to state services” (Tennant, 2007, p.10). Government spoke of ‘partnership’ indicating complementary funding of services, yet contracting added complexity to the relationship between government and charities; increasing accountability reporting demands, and increasing professionalisation of service delivery. Further, government contracted with a more diverse set of service providers, therefore increasing charity competition (O’Brien, et al., 2009).

2.3 Government-charity interaction 1984 to 2009
1984 marked the beginning of New Zealand’s economic reforms. Social services policies emphasised neo-liberal theories and drew on rationalist principles, agency theory and managerialism (O’Brien, et al., 2009). These changes reflected welfare state reforms in other

---

9 However, Kildal and Kuhnle (2005) also note, that since 1990, these countries have introduced user fees, diminishing the ethos of equitable access for all.

10 Shirley (1994, p.139) adapted this terminology from a de-commodification study by Esping-Anderson, 1990. The data is derived from composite scores from 1980 standard of living indices emphasising citizenship and society.
countries that were also described as being reluctant welfare states, including the UK and the US. Neo-liberal reformers argued that the state had failed (Cheyne, et al., 2008), and that greater consumer control of social services was required. Their normative position was that government cannot make decisions in the best interests of individuals. Consequently, these market-based arguments were evidenced by an increased focus on private funding of social services through fees for service and charitable donations. Wilson (2001) argues that these policies redefined the government-charity relationship and that social service charities were alternative (supplementary) rather than complementary service providers.

This swing from complementary to supplementary was not destined to be permanent as, from the mid-1980s, social policy change became “a dominant feature of political life in New Zealand” (Cheyne, et al., 2008, p.1). Following the Royal Commission on Social Policy which reported in 1988, economic and social policy changes continued through the 1990s. Change was exacerbated by electoral reform to a proportional representative system [Mixed Member Proportional (MMP)] which reduced the strength of any one particular party and required coalition agreements to be negotiated (Cheyne, et al., 2008). Subsequently, policies moved away from neo-liberalism, government expenditure on social policy rose, and the state increased direct provision of public housing as well as public funding of health care. It also made concerted attempts to retain universal superannuation and increase welfare assistance.

With the formation of a Labour-led coalition in 2000, a number of key social democratic policies were again adopted, perhaps because, as noted by Dollery and Wallis (2002, p.2): “Social commentators throughout the advanced English-speaking world have become increasingly dismayed at the persistence of deprivation, poverty and unemployment, despite almost a decade of economic prosperity”. The electorate demanded change and the influence of MMP was felt in a “new pragmatic social conservatism and Third Way Social Democracy” (Cheyne, et al., 2008, p.234). Such ‘Third Way’ political trends were also evident in the UK, USA, and Europe (Denhardt & Denhardt, 2000).

While the Third Way’s overarching policies remain undefined, in respect of social services, the Third Way emphasises communitarian ideals within the market-place. That is, individuals and organisations should partner with communities for the greater common good, rather than for their own personal profit (Adams & Hess, 2001). However, Third Way policies prefer a market-based answer to social policy problems, as competition can reduce the price (cost) for public goods and create efficiencies. There is a recognition that market failure means quasi-public goods are less likely to be delivered by for-profit organisations, and therefore Third Way policies encourage communities to fund and support charitable efforts to deliver such goods. The terminology of the market and that of community therefore are expected to
co-exist harmoniously. Governments may enact policies to encourage charities to increase their supply of public goods. For example, as will be seen in the following section, following Third Way reforms, the New Zealand government increased the use of charities for service delivery. It also increased the tax exemptions on philanthropy marginally in 2004 and then dramatically as a result of the newly-elected National coalition in 2008. The National Party pre-election promise was to “turbo-charge” charities. Signalling a withdrawal from earlier positions, the soon-to-be Minister for Social Development stated:

… more government involvement is not the solution to every social problem. We will get behind and support the community and voluntary groups that are making a real difference in our communities. National wants to promote a culture of generosity and giving, and by doing so support the community groups which benefit from this. We also want to encourage people to volunteer their time to community groups.11

Brinkerhoff (2003) and Powell (2000) take such examples to show that Third Way policies are an extension of government withdrawing from the funding of social services in order to reduce the cost of the welfare state. Such policies portend increasing government failure and a stronger charity sector from increased “supplementary” services (Weisbrod, 1988). On the contrary, O’Brien et al. (2009) note that there is evidence in New Zealand of the state seeking to work collaboratively in areas such as capacity building and capability development and that this requires more community involvement. Matheson, Howden-Chapman and Dew (2005, pp., p.3) agree, noting that, since 1999:

The landscape of Government-community relationships has… significantly changed. The arms-length, outputs-focused, prescriptive contracting environment of the 1990s has been replaced, in many policy areas, by the rhetoric of partnership as a means of delivering social goals.

Their experience suggests a stronger complementary role for charities and an emphasis on partnering and sharing responsibility for social welfare.

It appears therefore, that commentators do not agree as to whether Third Way reforms in New Zealand have led to communities funding supplementary or complementary services. The following section analyses available data as to whether it can shed light on this dichotomy.

3. Quantitative analysis of government and charity funding of social services

While it would be helpful to ‘map’ the contrasting inputs of the not-for-profit sector in social services spending, the overall expenditure on social services by both government and the charitable sector in New Zealand has not been assessed robustly. An increasing demand for

---

statistical data led to New Zealand being involved in the Johns Hopkins International comparative study of the not-for-profit sector (J. Sanders, M. O'Brien, M. Tennant, S. W. Sokolowski, & L. M. Salamon, 2008) which also built on prior research (for example, Driver Robinson Partnership & Robinson, 1986; Robinson & Hanley, 2002; Slack & Leung-Wai, 2007). This section will analyse the available data in broad terms and also presents case studies of four charities' revenue streams.

3.1 Statistical estimates of state and charity responsibility for social welfare
The OECD (Other Economically Developed Countries) Social Expenditure database found that public social spending across the OECD has outpaced GDP growth in real terms from the 1980s to the current day. The two key drivers have been increased retirement benefits (to an aging population) and increased health expenditure (Adema & Ladaique, 2009). The OECD report shows that the commitment of the New Zealand Government to social services spending fluctuated against the OECD average during the 1980-2005 years. This relationship is shown in Figure 1. Some of this spending is for direct provision of services, while much is also spent to purchase services from the charitable sector.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>New Zealand</th>
<th>OECD - Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>17.2</td>
<td>16.0</td>
</tr>
<tr>
<td>1985</td>
<td>17.9</td>
<td>17.7</td>
</tr>
<tr>
<td>1990</td>
<td>21.8</td>
<td>18.1</td>
</tr>
<tr>
<td>1995</td>
<td>18.9</td>
<td>19.9</td>
</tr>
<tr>
<td>2000</td>
<td>19.4</td>
<td>19.3</td>
</tr>
<tr>
<td>2001</td>
<td>18.6</td>
<td>19.7</td>
</tr>
<tr>
<td>2002</td>
<td>18.7</td>
<td>20.3</td>
</tr>
<tr>
<td>2003</td>
<td>18.2</td>
<td>20.8</td>
</tr>
<tr>
<td>2004</td>
<td>18.0</td>
<td>20.6</td>
</tr>
<tr>
<td>2005</td>
<td>18.5</td>
<td>20.6</td>
</tr>
</tbody>
</table>

It can be seen from Figure 1 that New Zealand’s public spending-to-GDP ratio has varied considerably compared to the OECD average. While it was similar to the OECD average from 1980-1985, it was greater than the average until 1993 and has continued at or below the OECD average, particularly since 2002 (Adema & Ladaique, 2009). The OECD average was at 20.5% of GDP in 2005 when New Zealand’s expenditure on social services stood at 18.5%. Although the government’s spending on social services has increased over time in line with other OECD countries, its relationship compared to the OECD average continues to worsen.
While the overall data for government social services spending has been tracked by external parties such as the OECD, there is no comparable data for the charitable sector’s financial contribution to social services. The Driver Robinson Partnership and Robinson (1986), Robinson and Hanley (2002) and Slack and Leung-Wai (2007) produced reports that measured the input of donations and philanthropic gifts to the private sector. However, similarly to the Johns Hopkins International studies, these studies considered the not-for-profit sector as a whole, rather than charities specifically. The estimates were derived from analysis of statistical data, public funding reports and surveys of philanthropists. However, the assessment of sources of not-for-profit sector funding by the Driver Robinson Partnership and Robinson (1986) and Robinson and Hanley (2002) excluded fees for service and investment income. Comparisons of the two studies’ findings are shown in Figure 2.

Figure 2: Funding into the New Zealand not-for-profit sector (extrapolated from Driver Robinson Partnership and Robinson (1986) and Robinson and Hanley (2002, p11)

The Driver Robinson Partnership and Robinson (1986) report conservatively estimated government funding of the voluntary welfare sector at $NZ75.4 million, or 0.13% of GDP. The later report (Robinson & Hanley, 2002) extrapolated data from other countries’ Johns Hopkins International studies of the not-for-profit sector to estimate a fees and services component of funding into that sector. They estimated that in 2002, the relative proportion of total funding to be Government 31%, Fees and Services 42% and Philanthropy 27%. Philanthropy in 2002 dollars was estimated to total $713 million. Extrapolating this against GDP means government funding had grown to 0.69% of GDP, although its contribution to the sector as a whole declined in percentage terms. Individuals’ donations and bequests also declined in percentage terms, as can be seen in Figure 2.

12 At the time, New Zealand government funding of social services overall was 17.91% of GDP.
Not-for-profit sector funding growth can therefore be attributed to increased support from philanthropic trusts and other private sector grants. The rise of gaming machine societies as a contributor to the grant-making scene during this period is one reason for the increase in grant-making. This source of funds (philanthropic trusts and grants) continued to increase following 1986, as shown by a survey for the 2005/2006 year in which Slack and Leung-Wai (2007) estimated total philanthropy into the sector at $1.27 billion.

Similarly to Gassler (1998), Robinson and Hanley (2002) found that philanthropy was strongly influenced by state intervention. Fries (2001) also supported this finding (as noted above). The maximum individual tax rebate in 2004 was limited to $630 (on total donations of $1890 or more). Prior to this it was limited to $500. Nevertheless, Slack and Leung-Wai (2007) ranked private philanthropy in New Zealand at 0.81% of GDP compared with Australia at 0.68% and the United Kingdom at 0.9% of GDP, while philanthropy in the US was estimated at 2.2% of GDP. Therefore, while tax rebates could be considered meagre, philanthropic giving was higher than New Zealand’s closest neighbour, Australia.

In addition to philanthropic funding and fees for services, government funding of the charitable sector through contracting remained a significant contributor to charities being able to deliver social services. Again, data to elucidate this position is limited. A survey by the Local Government and Community Branch of the Department of Internal Affairs (2007) extracted information from the government departments for the year ending 30 June 2006 which fed into the Johns Hopkins Report. It found that government grants and contracts comprise 25% of not-for-profit organisations’ revenues (Jackie Sanders, et al., 2008). The 25% estimated as the lower figure compares with the estimation of 31% input by government from Robinson and Hanley (2002). However, the Local Government and Community Branch (2007) acknowledged that government funding of the not-for-profit sector could be as high as 45% when health funding through regional bodies (District Health Boards13) is taken into account. The DHBs have numerous contracts with not-for-profit entities, for the delivery of mental health and aged care, but these contracts were not part of the Local Government and Community Branch (2007) survey. Total government funding represented (taking the 25% statistic) was NZ$1.25bn, or 0.83% of GDP.14 If the upper level of 45% of funds to charities was used, this would show that, in 2006, government was spending 1.5% of GDP on such funding. This is a dramatic increase on the 0.13% of funding from the 1986 estimate of Driver Robinson Partnership and Robinson (1986).

13 District Health Boards (DHBs) are independent Crown Entities which are funded by the Ministry of Health to improve the health of their geographical communities.
14 As per Figure 1, the total government funding for social services was 18.5% of GDP at this time.
Except for the data from 1986 (Driver Robinson Partnership & Robinson, 1986), the estimations for government expenditure into the not-for-profit sector as a whole have shown a steady increase. It is most marked in the period between 2002 and 2007 – as summarised in Table 1.

### Table 1: Summary of government expenditure on social services

<table>
<thead>
<tr>
<th>Year</th>
<th>Source</th>
<th>% of government social services expenditure to not-for-profit sector</th>
<th>Government social services spending as a % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>Driver and Robinson (1986)</td>
<td>0.68%</td>
<td>16.8%</td>
</tr>
<tr>
<td>1986</td>
<td>Driver and Robinson (1986)</td>
<td>0.13%</td>
<td>17.9%</td>
</tr>
<tr>
<td>2002</td>
<td>Robinson and Hanley (2002)</td>
<td>0.69%</td>
<td>18.7%</td>
</tr>
<tr>
<td>2007</td>
<td>Local Government and Community Branch (2007)</td>
<td>0.83%</td>
<td>18.5%</td>
</tr>
<tr>
<td>2007</td>
<td>Sanders et al (2008)</td>
<td>1.5%</td>
<td>18.5%</td>
</tr>
</tbody>
</table>

As noted above, it is likely that the estimation by the Local Government and Community Branch (2007) is under-valued and the actual funding could be two-thirds more than that. The Sanders et al. (2008) estimation therefore shows a dramatic increase in government expenditure into the social services sector since 1967. Salamon (1987) would suggest this shows that complementary services are being delivered.

Due to the difficulty with the data estimations, further research was undertaken to consider cases that would inform our historical understanding of the nexus between the welfare state and its funding of health charities. The health and social services segment of the not-for-profit sector was chosen as it accounts for around 14,000 (14%) of the not-for-profit organisations in New Zealand and employs more than 44% of the 105,000 staff in this sector. Four health charities’ annual accounts were analysed for 20 years from 1986 to 2006 and their revue streams were broken down into three major groups. There was great diversity between these organisations’ revenues as shown in the next section.

### 3.2 Case studies: method and data

Four large health charities were chosen for closer analysis, because of the impact of the sector on social services, and due to the longevity of these organisations. Annual Reports were sourced from New Zealand’s National Library, or where availability issues arose, from each organisation directly. Accounting data was extracted for these organisations for a twenty year period from 1986 to 2006. Information collected was coded into three distinct revenue sources as established by Sanders et al. (2008), enabling time series graphs to be prepared analysing the movements of funding levels over time. Robert F. Sharpe and

---

15 These revenue sources are government revenue, philanthropy revenue and private fee revenue.
Company Inc. (1991) adopted a similar research approach, utilizing historical revenue information available within two reports in order to construct his time series analysis of changes to American philanthropic giving. In order to facilitate a more comprehensive understanding of results, semi-structured interviews were carried out with members of each organisation, providing insight as to the underlying causes of revenue fluctuations, and allowing tentative conclusions surrounding the impact of governments’ policy changes on the health charities. The organisations chosen were large and long-lived. They were:

**Intuitively Handicapped Children New Zealand** ("IHC") was established in 1949. It focuses on advocating for the rights, inclusion and welfare of all people with intellectual disabilities and supporting these individuals to live satisfying lives in the community (IHC New Zealand, 2009). These services are particularly important within New Zealand as 17% of the total population has a disability (Statistics New Zealand, 2007). IHC is New Zealand’s largest charity, in 1986 its revenue was five times larger than the other charities chosen and it grew 500 per cent in nominal terms over the period analysed.

**Royal New Zealand Foundation of the Blind** ("Foundation of the Blind") is “New Zealand's primary provider of vision-related habilitation and rehabilitation services to blind, deafblind and vision-impaired people,” (Royal New Zealand Foundation of the Blind, 2009a). This organisation has been in existence since 1890 and provides services to approximately 11,700 members, enabling these individuals the ability to carry out every-day lives despite the vision difficulties they face (Royal New Zealand Foundation of the Blind, 2009b). The Foundation’s revenue grew 300 per cent (in nominal dollar terms) over the period analysed, but it is the smallest of the four organisations.

**Royal New Zealand Plunket Society** ("Plunket") was established in 1907. It aims to serve the needs of young families, providing core health services to children under the age of five. It also provides parenting education and support services to children’s families ((Royal New Zealand Plunket Society, 2008). Plunket’s revenue grew 500 per cent over the period analysed in nominal dollar terms.

**New Zealand Red Cross Society** ("Red Cross") delivers major social services including meals on wheels, training people in First Aid skills and providing assistance in the aftermath of natural disasters at home and overseas. It was established following the Napier earthquake in 1931.17

---

16 During 2008, Plunket saw over 90% of all babies born within New Zealand, illustrating the vital importance this organisation plays within the lives of New Zealand families and the greater New Zealand society.

Document analysis enabling a sense of the appreciation of the diverse sources from which these three organisations gain their revenues and the funding inflow ratios for 1986 and 2008 are shown in Table 2.

Table 2: Funding to four large New Zealand charities 1986-2006.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Government Funding</th>
<th>Philanthropic Funding</th>
<th>Services Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Foundation of the Blind</td>
<td>40%</td>
<td>26%</td>
<td>38%</td>
</tr>
<tr>
<td>IHC</td>
<td>46%</td>
<td>81%</td>
<td>13%</td>
</tr>
<tr>
<td>Royal New Zealand Plunket Society</td>
<td>87%</td>
<td>82%</td>
<td>4%</td>
</tr>
<tr>
<td>New Zealand Red Cross</td>
<td>5%</td>
<td>8%</td>
<td>55%</td>
</tr>
</tbody>
</table>

As can be seen from Table 2, two of the organisations began with similar levels of government funding. While the Foundation of the Blind’s government income almost halved in the 20 year period as a percentage of total income, the IHC funding almost doubled over the same period. Figure 3 shows the support also fluctuated over time.

Figure 3: Revenue from government as a percentage of total revenue: four New Zealand charities 1986-2006

The differences in government funding are marked – with two of the organisations receiving a greater percentage than the average of the sector as estimated in prior reports, one at the 25% level and one far below (Driver Robinson Partnership & Robinson, 1986; Robinson & Hanley, 2002; Jackie Sanders, et al., 2008). These differences are caused partly by organisational differences. For example, the Foundation of the Blind sold part of their business to the government in 2001, conversely IHC’s revenue increased as government-run service providers closed and they were encouraged to contract for the services to intellectually disabled clients. Further, philanthropic funding (from donations as well as grant-
makers) is very high in both the Foundation of the Blind and the Red Cross. Only the Red Cross has significant services funding, due to its provision of First Aid courses to the public.

While the explanation that specific services had been transferred between government and specific organisations has been offered, further analysis was required. To that end senior members of each organisation were invited to participate in semi-structured interviews to explain the revenue changes over the past two decades. In all, six interviews were undertaken, with these being recorded and transcribed. These interviews were analysed in respect of the changes in the level of funding from each of three sources: government, service and philanthropy.

The statistical and policy analysis chows that, during the period, the government-sector relationship moved between a supplementary model which was based on market-driven policies, through complementary relationships based on social conservatism and increasingly Third Way policies. Notwithstanding the new emphasis on charity delivery of services, organisations noted: “It’s a constant challenge to secure adequate government funding…(I1)” Plunket specifically looked for “more of a wider mix in terms of sponsorship, donation and grant funding (I2)” to replace government funding. They had been affected in 2006 by losing a government contract and required sponsorship to ensure their telephone advice centre was still able to provide its service. In addition, Red Cross noted:

We use the funds raised from our training and trading activities to pay for our administration and overhead costs as well as to contribute in offering community services. We usually do not wait until government grants funding to give services (I3).

It appears that the spread of government support for charities hides a constant struggle for increased resources that may not be ameliorated by government funding.

As well as government funding, and to insulate themselves against changes in that, organisations charged fees for services provided. As noted by the Foundation of the Blind:

We have the expertise to work with people who are not eligible for our free service, but they still want the service so we can charge for it. We can use that money to provide a source of income to fund our charitable objectives (I4).

Yet over this period, the component of fees for services reduced for all of the organisations except the Red Cross. This is indicative of the market failure that Weisbrod (1988) suggests inclines charities to form: beneficiaries cannot afford to pay for the services they need and the extent of those that can afford to pay is unlikely to be sufficient to support a for-profit organisation.

---

18 Ethics approval was obtained for this data collection from the appropriate University Ethics Committee and from the Chief Executives of each organisation in addition to the interviews.
Two charities had relatively low levels of philanthropic funding. On the contrary, the Foundation of the Blind and the Red Cross received significant philanthropic funding, with this source increasing in recent years at the Foundation of the Blind. Increased competition of this source caused an organisation to reflect that: “there are many other charities that are as strong, or stronger, on the funding side” (I5). As well, another organization noted that corporate sponsorship was hard to increase when “organisations are reviewing just how much they can sponsor and what they can afford to do, and are pulling back” (I6).

4. Discussion and Conclusion
In order to analyse the relationship between the state and charities in funding social services, this research drew on secondary sources detailing the composition of organisations’ revenue and government expenditure on social services. It also reviewed historians’ reflections on the political environment in New Zealand since 1935. It is conjectured that the relationship between the government and charitable sector for funding and delivering social welfare has varied in different climates as shown in Table 3.

<table>
<thead>
<tr>
<th>Date range</th>
<th>Description of policies</th>
<th>Responsibility for welfare</th>
</tr>
</thead>
<tbody>
<tr>
<td>1935-1965</td>
<td>Social Democratic consensus</td>
<td>Charities’ services were supplementary to a strong, paternalistic government</td>
</tr>
<tr>
<td>1966-1983</td>
<td>Crisis of consensus</td>
<td>Complementary practices were developed by the reluctant welfare state which encouraged increased private funding</td>
</tr>
<tr>
<td>1984-1999</td>
<td>Economic market-based reforms</td>
<td>Charitable services became supplementary to state welfare as they were dependent on garnering sufficient market support</td>
</tr>
<tr>
<td>2000-2019</td>
<td>Third Way social democracy</td>
<td>Increasingly charities are complementary to the state. Increased government funding into the sector shows dependence on charities as service providers. Competition remains</td>
</tr>
</tbody>
</table>

As noted in Table 3, increasingly, Third Way policies mean charities are “plugging the gap" by delivering services for government and also raising funds to deliver services that are not supplied by government. However, this generalisation does not show whether government is pulling back from services to reduce the cost of welfare to the state, or utilising charities as a strategy merely to deliver efficiency through partnership arrangements. On the one hand, the data shows that the government wants to “turbo-charge" the sector to increase its resources and links with the community. Alternatively, the government has encouraged increased competition for its funding, as indicated in the case studies. In turn, this has increased competition for private philanthropic funds and heightened a desire to charge for social services where the market can allow it. In this environment, the incidence of charity failure is
likely to increase unless, as Salamon (1987) suggests, government abates the funding drought by entering complementary relationships with charities.

Notwithstanding the growing demand for such data, statistical information to analyse the state of the government charity relationship is patchy at best, with international studies being useful merely as a guideline to the level of government funding into charities. Therefore this study undertook primary analysis in the way of charity case studies. The case study data showed that some charities are increasingly dependent on government for their funding, but that the funding has become more competitive. In addition, while charities are seeking more funding from fees for services, the ability to gain these funds is severely strained by their beneficiary client base, and, in the areas where welfare is most needed, the potential income is likely to be very small. Charities that have not been successful in securing long-term government or fee funding are therefore seeking alternative funding from philanthropists. This is despite the statements by Tennant (2007) that historically New Zealand lacks philanthropists with large reserves. While Slack and Leung-Wai (2007) confirm that citizens are generous in their funding (compared to the US context), philanthropic funding is limited. This situation has been exacerbated by meagre taxation policies. Therefore, while Matheson et al. (2005) posit a partnership focus to government contracting, for many charities ‘partnership’ in government contracting remains rhetoric, rather than a reality. The case studies show that securing funding is a constant struggle. It is likely that charities will fail due to a lack of funds.

Salamon’s (1987) complementary service-provision appears to describe the current period in New Zealand’s social services sector. However, when applied to Third Way social democratic policies, Salamon’s (1987) theory fails to explain how the rhetoric of partnership can co-exist with the realities of competition. These concepts appear to be mutually exclusive. Where charities become dependent on a reducing pool of competitive government funding, it is likely that a number will fail. In the New Zealand case, taxation policies have been enacted to increase philanthropic funding for social welfare, but the success of this is as yet unmeasured.

In order to generalise responsibilities for welfare services in different political periods, this paper has used the antithetical theories posited by Weisbrod (1988) of charities providing supplementary services and Salamon (1987) of charities being supported by government to deliver complementary services. However, the generalisations provided in these theories do not elucidate the differences between specific charities’ revenue streams. A small number of case studies have assisted in this respect. It would be helpful to extend these case studies to analyse a larger body of data over two or three decades, in order to ascertain whether the findings of the limited data used in this paper can be generalised to the health sector.
specifically and the charity sector as a whole. In the interim the tentative conclusion of this research is that Third Way government promotes complementary funding and delivery of social welfare services, but that the growing expensiveness of those services means that charities will increasingly rely on other sources for their income. As these sources are also limited, the prognosis is that charity delivery of social services is likely to decrease. The growing competitive nature of charity funding will therefore be disadvantageous to those who are most in need of welfare.
References


IHC New Zealand (2009), "Understanding Intellectual Disability " Retrieved September 10, 2009


