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A SOCIAL CONTRACT FOR GOVERNMENT

Increasingly, social and human services are paid for by governments but delivered by not-for-profit organizations. It's time to manage the process better.

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One of the most important innovations in government in recent years emerged from one of the most mundane aspects of public administration: the procurement of goods and services. Changes in the standard models of public procurement have transformed Western liberal democracies in the last generation by introducing public-private partnerships that have brought governments new sources of funding and expertise. These partnerships are the cornerstone of the contract state.

The contract state first emerged when governments, eager to reduce or defer borrowing requirements for infrastructure projects, forged partnerships with private-sector players to build toll roads, ports, transit systems, and other complex, big-ticket projects. Under these arrangements, the private-sector partner was assigned a long-term flow of funds (sometimes from users, often directly from taxpayers)—as well as the risk. To make the arrangement attractive to private investors, governments often agreed to tax breaks and guaranteed annual revenues or taxpayer subsidies. Now the contract state has evolved to another level, with partnerships formed for the delivery of social and human services, though in this instance the partner is usually a not-for-profit (NFP) organization.

In many developed democracies, and at all tiers of government, NFPs are now routinely contracted to deliver public services. The welfare goals of the state are increasingly delivered through market mechanisms on the basis of competitive tendering and service agreements. Both secular and faith-based nongovernmental organizations are paid to deliver government activity. They deliver

UNLEASHING SOCIAL SERVICES The Cape York Australian Aboriginal Academy in Queensland, a not-for-profit organization, provides educational services to indigenous children.

support in areas such as health, aged care, disability, social housing, out-of-home child care, unemployment services, and education. In large measure, these outsourced arrangements have been driven by economics. There is no doubt that delivery through NFPs has generally been more cost-effective than provision by public servants. In part this is because salaries are generally lower for community workers than public servants. A second advantage of outsourcing is that service quality—or "customer service"—has been enhanced. NFPs offer value for money. This is to some degree a result of community workers having a natural empathy for the people to whom they deliver services.

There are challenges, however, that governments need to address if they are to realize the full potential of the new contract state. NFPs are able to deliver services more cheaply than governments partially because their social mission attracts charitable donations of time (volunteering or pro bono assistance) and money (philanthropy or social investment). Too often that means that the commitment and goodwill of community organizations are negotiated into service agreements that do not represent the full cost of delivery. In effect, although it is rarely transparent, NFPs subsidize the delivery of government services, which is an inherently unstable and unsustainable proposition. That detrimental result may be offset to some extent by the state providing "charities" with beneficial tax statuses relative either to the private or public sector.

The rise of the new contract state is at least in part a response to inflexible bureaucracies. Horizontal demarcations continue to bedevil whole-of-government approaches, particularly when administrative and financial responsibility is shared among different federal jurisdictions. Outsourcing the function to an NFP is a way to sidestep that silo mentality. It is often only NFP organizations, funded to deliver a diversity of services by a range of government agencies, that are able to truly put the citizen-client at the center. Indeed, much of their time is spent applying for multiple grants and contracts and then integrating them in a way that responds to the various disadvantages that face the clients they serve.

Unfortunately, the most significant potential benefit of outsourcing has seldom been realized. Creating a competitive market for public services should have driven innovation. Different community organizations should have been encouraged to develop their own distinctive approaches. That aspiration has been stymied by the public administrators who oversee contract management and narrowly construe public accountability for expenditure of public funds. They have tended to focus on process compliance rather than performance in assessing the outcomes, imposing an unnecessary burden of red-tape on NFP deliverers. Rather than being actively encouraged to demonstrate differentiation, NFPs find themselves constrained by procedural guidelines designed to minimize political risk. Outsourced providers are pressured to become quasi-government agencies delivering services in standardized ways determined by the government contracting departments.

The irony is that a process that should have encouraged NFPs to operate along commercial lines, earn income, and accumulate surpluses through contractual delivery of government services, has actually made these organizations increasingly dependent on government. Their important advocacy role has been undermined, either by explicit contract conditions or self-imposed censorship. The rich expertise born of their community experience remains largely unappreciated and untapped. In short, the transformative potential of public-community partnership has been held back by governmental risk aversion, bureaucratic managerialism, and lack of vision. Outsourcing continues to be governed by contract instead of collaboration.

What can be done to reinvigorate the NFP partnership and realize the full potential of these arrangements? The first requirement is for governments to get serious about promoting partnership. Many governments have now set out principles of cross-sectoral cooperation, based on mutual respect and trust. However well-meaning, such "compact" documents are inconsequential unless mechanisms exist for their monitoring, evaluation, and public scrutiny. Collaboration needs to be built into the structures of public service. The NFPs that deliver government services should be empowered to influence the policy parameters, administrative guidelines, and contractual conditions under which they operate. The attitude on the government side should be one of building a relationship, not managing a contract.

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The second requirement is for governments actively to promote public innovation, which will require a greater tolerance for risk. Funding pilot projects and providing grants for social innovation are necessary but not sufficient. Inventiveness must be extolled. Creating "design laboratories" may uncover new approaches to the wicked problems of public policy, but they must focus on more than the pet projects of one or two internal champions. A far better solution is to place community organizations within the structures of government, engaging them in discussions of public policy. NFPs should be participating members of the task forces and interdepartmental committees through which public services do business. NFPs cannot be partners from the outside.

The third need is to develop better metrics by which to measure the public returns on investment in human services. Too frequently government treasuries regard spending on welfare as mere expenditure. The longer-term benefits of government intervention are poorly understood and rarely identified, undermining the incentive for funding preventative interventions. The "success" of unemployment services, for example, is judged by the number of job seekers who are placed into work. The beneficial impact is generally calculated in terms of increased workforce participation and workplace productivity, expressed very often as a reduction in welfare costs and increase in tax revenues.

NFPs know better. Taking as their focus individuals in need of assistance, they appreciate the multiple barriers that their clients need to overcome to join the workforce. They also understand the manifold benefits that can be derived from effective intervention. People in employment are more likely to have stable family structures, better health, improved access to housing, and higher levels of civic participation. They are more likely to contribute to the creation of social capital and display more pro-social behaviors. Their children are likely to be better educated, more effectively nurtured, and less likely to become welfare dependents as adults.

The oft-espoused commitment of governments to evidence-based policy needs to be informed by all the parties involved in program delivery. Collaboration between the public and community sectors must be based upon a calculation of the *full* returns on investment, not a slice of short-term benefits based on the functional and jurisdictional barriers by which public bureaucracies are still organized. The growing expertise of mission-driven NFPs in undertaking social audits of their activity and assessing (even monetizing) social returns on investment (SROI) needs to be harnessed. SROI methodologies often present a more persuasive assessment of impact than traditional government evaluations, which compare the (full) costs and (limited) benefits on a program-by-program basis.

Finally, governments need to find new vehicles to bring together the private and NFP sectors in ways that reduce the rising costs of publicly funded human services. Governments can encourage private-sector social investments by providing a supportive tax and regulatory regime for NFPs. Better still, they can facilitate the creation of private capital to support social enterprises that can deliver public benefit. The new financial instruments variously called Social Impact Bonds (United Kingdom), Pay-for-Success Bonds (United States), or Social Benefit Bonds (Australia) are good examples of the kinds of innovation that are required. In these cases, the government enters into an agreement with an NFP to deliver public services in a manner that reduces overall expenditure, for example, by lowering the rate of prisoner recidivism. The NFP can offer bonds to investors in which returns consist of government payments based on the extent to which the venture meets agreed-upon government targets.

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Properly structured, bonds offer a win-win-win solution. Governments benefit from an injection of private capital into human-services programs and are able to transfer risk to the NFP ventures. The NFP is able to attract sufficient funding for it to scale up its mission-driven activities and to deliver services without public micromanagement. Finally, the socially responsible investor has a means for seeking both social and financial returns.

Until now the transformative potential of public-community relationships and the contract state has been constrained. NFPs have too often been thought of merely as outsourced providers rather than collaborative partners. If governments and their public services can move from contract managers to innovation facilitators, bold new forms of democratic governance will become possible. ■