Government Funding and the Voluntary Sector

In the US contracting between the government and the voluntary sector has been a feature of social policy for three decades. At the end of the 1960s the country was in a state of disorder, fueled by unrest created by the Vietnam War, the Civil Rights Movement and the Feminist Movement. Riots occurred in Chicago, Illinois; Harlem, New York; Watts, California; Detroit, Michigan; and Philadelphia, Pennsylvania (Padilla, 1987). US policy makers used social welfare to head off social unrest and federal legislation, ushered in by President Johnson’s War on Poverty during the 1960s, transformed the nature of social service delivery across the nation. For Piven and Cloward (1971), government policies at this time served to control and regulate the poor by muting any potential disorder through social welfare spending. More funds were allocated to urban social programmes. But, as government increased spending on social welfare, it became more concerned with regulating that money. As the government greatly expanded its purchase of service from independent sources, voluntary organisations used these increased public dollars to broaden their programmes (Skocpol, 1992). As they shifted from private to public dollars, voluntary agencies often “became service contractors circumscribed by the specifications of their sponsors, rather than innovators and pioneers.” The nature of services changed from one that “enhanced human development and general quality of life” into services that aimed to “emphasize primarily the reduction of dependency” (Katz, 1986, p.270). Contracting became the tool used by the government to ensure the appropriate nature of services, and numerous concerns have since been voiced about the impact that this is having on the nature and role of voluntary action. In particular, key issues have included the fear that government funding will reduce the independence of voluntary organisations, restrict their advocacy role and overburden them with increased scrutiny of their activities (Gutch, 1992), gradually eroding the boundaries between voluntary and state agencies. This process has been described as one of ‘coerced isomorphism’ (Di Maggio and Powell, 1983), in which reliance on government funding can distort the distinctive features of the voluntary sector and cause individual agencies to move away from their original organisational mission.

In the UK, the process of contracting between government and the voluntary sector is much more recently established than in the US. Although partnership working with central and local government has a longer history than is often recognised (Macadam, 1934; Kendall and Knapp, 1996), the British ‘contract culture’ is essentially the product of the quasi-market reforms of the Thatcher governments (1979-1990). In particular, contracting is associated with the 1990 NHS and Community Care Act (Department of Health, 1989, 1990), which placed greater emphasis on the need to promote a mixed economy of care and transformed local authority social services departments from direct service providers into purchasers, regulators and enablers. After 1993, social workers were to become care managers (Department of Health/Social Services Inspectorate, 1991a, 1991b, 1991c), contracting with the private and voluntary sectors in order to obtain effective and economical services that met the needs of ‘clients’ or ‘service users’ (that is, recipients of social services) (Means and Smith, 1998). To increase the pace of change, the then Conservative government stipulated that at least 85 per cent of the funding introduced to finance these changes should be spent in the independent sector (i.e. the voluntary and private sectors) (Walsh et al, 1997).

For voluntary organisations, the growth of contracting has raised several major dilemmas. At face value, government funding can be attractive, providing a much needed and relatively secure source of revenue (Alcock, 1996). Despite this, there are also drawbacks, and a number of
commentators have begun to identify major shortcomings with the new ‘contract culture’ (see, for example, Kendall and Knapp, 1996; Lewis, 1996; Scott and Russell, 2001). In 1992, for example, Richard Gutch drew on a series of lessons from the US experience to warn of the dangers that contracting entailed:

‘The development of contracting is likely to change the nature of the voluntary sector – making it more like the private sector, increasing the size of big organisations, squeezing out many smaller organisations, reducing lobbying activity, increasing the influence of professionals and reducing the role of volunteers.’

(Gutch, 1992, p.83)

Unfortunately, Gutch’s warnings appear to have been borne out by subsequent events, with many voluntary agencies struggling to come to terms with increased scrutiny and regulation, rapid organisational growth and a loss of flexibility and autonomy (Harris, 1998, 2000). For one commentator (Prochaska, 1999), the UK voluntary sector is ‘swimming into the mouth of Leviathan’, rendering attempts to distinguish between the public and voluntary sectors increasingly meaningless. Of course, the contract culture has had a number of benefits for some voluntary agencies and there are many examples of positive working relationships between the public and voluntary sectors (see below and Department of Health/Social Services Inspectorate, 2000). Despite this, however, concerns about the implications of contracting for voluntary action remain high on many agencies’ agendas and fears about a loss of independence persist.

Against this background of growing discontent with government contracting, this paper reviews the funding experiences of two case study organisations: Association House (Chicago, US) and the Birmingham Settlement (Birmingham, UK). Both are multi-purpose voluntary agencies working in the inner city, and both celebrated their one hundredth anniversaries in 1999. However, Association House is much more dependent upon government funding and has much more experience of the contract culture as a result of the social policy differences outlined above. After highlighting the advantages and disadvantages which contracting has entailed, the paper identifies practical steps which the two agencies are taking to overcome the more negative aspects of the contract culture. Unless otherwise stated, the empirical material cited in this paper is taken from two studies commissioned to mark the centenaries of the case study organisations. Both studies were based on documentary analysis of the respective Settlement’s archives, oral history from Settlement staff, supporters and service users, and secondary social policy and local history literature (see Glasby, 1999 and Rogers, 2000 for more details).

**Association House**

Founded on 8th June 1899, Association House is a community-based organisation serving the multicultural population of West Town, Chicago. Closely linked to local church groups and social elites, the House funded the majority of its work from donations and other charitable sources until well into the second half of the twentieth century. During the 1960s, however, greater state spending and a decline in private giving combined to increase the house’s reliance on public funding. On a national level, individual donations to charity (as a proportion of personal income) dropped 13 per cent between 1960 and 1976. At Association House, the expansion of outreach programmes in response to increased social needs in the 1960s made it increasingly difficult to make ends meet, even with an extensive network of private funders and volunteers. By the time of Johnson’s Great Society in the mid-1960s, therefore, the House was ready for some help and was able to benefit considerably from increased government support. By 1969, the Association House budget had increased to more than $180,000 from less than $50,000 ten years earlier. Between the late 1960s and the 1990s, moreover, increased government funding expanded the budget of Association House at an even more dramatic rate, growing from $180,000 to more than $12 million. While this provided much needed revenue, the growth of government funding was accompanied by a new set of challenges:

1. The nature of government contracts emphasised cost over care through bureaucratic accountability. Staff evaluations
at Association House in the 1970s commented on the challenges of having time to ‘really talk to clients’ and complete the excessive amount of paper work. The organisation is held accountable to a bureaucratic system less concerned with wellbeing and overall quality of life than with the reduction of service and cost efficiency. The shifts in labour during the 1970s and the ‘economic boom’ of the 1980s and 1990s further exaggerated the emphasis on cost efficiency.

‘We are both enabled and limited by government dollars. You struggle not to bite the hand that feeds you while at the same time remaining centered on what the community needs.’

(Personal communication, Miguel Palacios, Association House Associate Director)

2. A continual challenge for Association House is not to become a service contractor, circumscribed by the specifications of their sponsors, but rather to remain an innovative programmer. One example illustrating this challenge is state funding of a programme to counsel people addicted to drugs. Since the state will only pay for 20 sessions of addiction counselling, relapse is common and Association House is able to provide additional education and support services to compensate for gaps in public provision. Often, this is a difficult balancing act, and the House finds itself occupying ‘a position on the margins of what government requires and what the community needs’ (personal communication, Miguel Palacios, Association House Associate Director).

3. As well as providing basic services and educational opportunities, Association House is concerned about the ongoing power of community members. The restrictions and regulations of government contracts concerning lobbying challenge the House to find new ways of advocating for the community.

Association House addresses these concerns while complying with government regulations in three ways: maintaining a government-free space, membership of advocacy organisations and taking part in indirect political activities or coalition politics:

1. Despite its massive growth over the past thirty years, Association House has maintained spaces within the organisation free from government regulation. As much as $10 million of Association House’s $12 million budget derives from government contracts and only a small fraction is raised privately. Nevertheless, the organisation creates government-free spaces that are unrestricted by the control and regulation that often accompany public funding. Thus, the Community Center, the name given to the building erected in 1905, provides government-free space, with programmes funded through grants and private donations. These include projects which seek to provide food and clothing to those in need, teach parenting skills and run an alternative high school for young people excluded from mainstream education.

2. Association House is a member of several advocacy organisations including the Child Care Association of Illinois and the Mental Health Association of Illinois. Under government contract regulations, the House is restricted from direct lobbying or advocacy. A conversation with elected officials can be considered lobby efforts and threatens the cancellation of contracts. Through the membership of an advocacy organisation, individual agencies such as Association House are able to fight for the rights and dignity of their participants while complying with the regulatory restrictions of the government.

3. Urban displacement as a result of urban redevelopment or urban cleansing are some of the more pressing issues for Association House and the community of West Town where the organisation has been located for one hundred years. To address community concerns such as these, Association House is involved in coalition politics through its membership of the Humboldt Park Empowerment Project, which monitors and challenges gentrification in the community. The Project is a coalition
and partnership of organisations including churches, schools, private social service providers and businesses. The organisation is focused on the economic and educational developments in the community that benefit older community members. The Community Center and its government-free space is used for organisational meetings (including political forums to talk about development issues). The intention is to create a base of community members and community leaders large enough so that politicians have to pay attention.

Birmingham Settlement

Founded on 29th September 1899, the Birmingham Settlement is a locally-based, multi-purpose voluntary organisation located in the heart of Birmingham’s inner city. With 24 different projects, 120 members of staff, 250 volunteers and an annual budget of nearly £3 million, the Settlement is believed to be the largest surviving Settlement in the UK and is a major player in the Birmingham voluntary sector. Although the Birmingham Settlement has a long history of partnership working (Glasby, 1999), it has received an increasing amount of funding from central and local government since the late 1980s. This is particularly the case with regard to community care services (see above) and community development (which has been made possible by the existence of a number of publicly-funded regeneration schemes in the local area). In March 2000, the Settlement had an annual income of £2,960,012, 47 per cent of which derived from local authority and government funding (Birmingham Settlement, 2000, p.15). Other sources of income included grant funding from commercial organisations, charges to service users, donations and income from the Settlement’s five charity shops.

In Birmingham, the availability of public funding has been something of a mixed blessing for agencies like the Birmingham Settlement. On the one hand, this revenue has enabled the Settlement to expand its work considerably, nearly doubling in size during the early 1990s. While such organisational growth has increased the Settlement’s capacity to support local people in need, it has also created a series of challenges:

1. Although the Settlement grew extremely quickly in the early the 1990s, it was some time before its financial and managerial systems were developed sufficiently to be able to take stock of this rapid growth. For several years, therefore, the Settlement was effectively playing ‘catch up’, seeking to develop additional financial, legal, personnel and information technology skills in order to administer the revenue it was now receiving. On occasions, this was a far from comfortable experience, and it was only with the advent of the Settlement’s centenary appeal in 1999 that the agency acquired sufficient reserves and financial stability to be able to look beyond current managerial and organisational issues to plan for the future. For Settlement Chief Executive, Susan Spencer, this was a common occurrence in many voluntary agencies, who found the temptation of government contracts too much to resist:

‘Chasing the money was a key mistake of voluntary organisations in the late 1980s – seeing a role, seeing a source of income, chasing the money and blundering into a new area without the business skills to survive.’
(Personal communication, Susan Spencer, Birmingham Settlement Chief Executive)

2. A key feature of the Settlement movement as a whole has been its ability to use its community-base and its knowledge of local conditions to pioneer new responses to unmet need (Attlee, 1920). On many occasions, Settlement innovations were later to become part of mainstream service provision, making a lasting contribution to British social welfare. Examples of such innovations in the UK include legal aid, old age pensions, money advice, support for infertile couples and education for children with disabilities (Gilbert, 1966; Glasby, 1999; Picht, 1914; Reason, 1898; Sutherland, n.d.). In a contract culture, however, funding is based on the payment of fees in return for a certain level of service provision, with very little scope to finance the experimental work which Settlement’s have traditionally championed. This is of major concern to current Settlement workers and supporters:
’[It is important that we retain] the ability to adapt to new problems... and come up with initiatives which will in some way help to overcome them... To do that kind of work we need appropriate funding... The majority of the Settlement’s income is based on outputs, on projects which somebody finances, but that doesn’t leave anything over for working on new ideas.’
(Personal communication, Birmingham Settlement supporter)

’It worries me that there is no surplus money in the voluntary sector. The sector needs the resources to develop new projects and produce innovative solutions to difficult problems so that the local authority can learn from and take on the services that work well.’
(Personal communication, Birmingham Settlement supporter)

’[Contracting] constrains the development role which you can take on, because you are precluded from taking risks...And yet,... the Settlement is nothing if it isn’t a developmental organisation.... Running social services contracts for the City isn’t what the Settlement was about. The Settlement was about trying to find innovative solutions to social problems based on hands-on, grass roots experience of real life and real social problems with the people who needed it. So if we are not able to spend time, energy and inevitably money doing developmental work, then we’re betraying what we’re about.’
(Personal communication, Birmingham Settlement supporter)

3. Contracting can be said to shift risk from the state to the voluntary sector. Since many fees are paid retrospectively, organisations like the Birmingham Settlement are effectively subsidising public agencies. In addition, most contracts set out a fee for a specified level of service, and can leave the voluntary agency vulnerable if these levels are not met. A good example from the Birmingham Settlement is the Intermediate Labour Market (an innovative project that provides short-term employment opportunities so that the long-term unemployed can use this work as a base to apply for more permanent jobs). This is funded according to the number of people placed on the scheme per week and means that the Birmingham Settlement is penalised if individuals are unable to complete the programme. This may often be for reasons that are beyond the Settlement’s control (such as pregnancy or a bereavement), but reduces the agency’s income in ways that are hard to predict or budget for.

4. Government funding can limit the independence of the voluntary sector. It can often be difficult to ‘bite the hand that feeds you’, and voluntary agencies can be reluctant to jeopardise their funding by criticising government policy. Thankfully, the Birmingham Settlement recognised this danger at an early stage and took action to ensure that it did not become too reliant on public funding (see below).

Unlike Association House, the Birmingham Settlement is a relative newcomer to the issues raised by contracting and is still seeking solutions to the dilemmas that the organisation faces. However, the Settlement’s Chief Executive is able to identify three main tactics which the Settlement has adopted in order to withstand the challenges which contracting provides:

1. Central to the Settlement’s ability to overcome the limitations of the contract culture is the diversification of the organisation’s funds. In 1999, the Settlement’s 24 projects received funds from 18 different sources, including the private sector, the public sector, the European Union, trading income, fundraising and the Settlement’s shops. The centenary appeal has also sought to raise £500,000 to provide greater financial security, resource the exploration of new initiatives and extend a number of existing services. All this means that the Settlement is not reliant on any one source of funding, increasing its autonomy and flexibility.

2. Of particular importance is the income which the Settlement raises from charitable trusts and donations. By fundraising in this manner, the Settlement is able to obtain funding for
developmental work, retaining its traditional commitment to innovation.

3. Settlements have traditionally been very well connected at a local level, and often enjoy a series of formal and informal links to local leading families and political institutions. In Birmingham, close links with the City Council have enabled the Settlement to influence potential local government programmes in the conceptual stage, minimising the damage that government funding can cause. During the 1990s, for example, pioneering Settlement projects and research in the Aston and Newtown areas of Birmingham were ultimately to influence City Council plans for regeneration, ensuring that money which was spent in the local area was spent as effectively as possible and met genuine local needs. Thus, the Settlement was not just responding to a public sector agenda, but helping to form it.

Conclusion
On either side of the Atlantic, both Association House and the Birmingham Settlement have struggled to come to terms with the ambiguities of government funding. While both agencies have benefited from the additional revenue which government contracts offer, they have also found that public money can limit their independence and restrict their advocacy/campaigning role. At the same time, the contract culture can also hinder the innovation and development role of organisations like Settlements and generate a range of organisational and management challenges. To overcome these limitations, organisations like Association House and the Birmingham Settlement have begun to develop practical methods to maintain their independence. These include:

- An explicit commitment to maintaining government-free space.
- Indirect lobbying through membership of advocacy networks and coalitions of local agencies.
- A deliberate attempt to diversify funding so that the organisation is not dependent upon a single source of revenue.
- Applications to charitable trusts and individual donors to raise money for developmental work.
- Partnership working with the local authority in order to help formulate policy, rather than simply responding to an agenda imposed from above.

To date, such strategies have enabled both Settlements to take advantage of government funding whilst minimising the limitations which contracting can bring. Whether or not this is sufficient to prevent a process of ‘coercive isomorphism’ in the long-run remains to be seen.

References


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