Community Service Organizations at Risk

LYNN EAKIN
Consultant, Toronto, Ontario

TED RICHMOND
Coordinator, Inclusive Communities for Children, Youth and Families, Laidlaw Foundation, Toronto, Ontario

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Introduction

Community service organizations are at risk – of failing their mandates, failing their communities, betraying the public trust, and fading away as viable organizations.

We now have a significant body of Canadian research that documents the vulnerability of community social service organizations. New funding practices, widely adopted by governments and others in the early 1990s, have had a devastating impact on the capacity of many Canadian charities and nonprofit organizations to meet the needs in their own communities. We now know unequivocally that community social service organizations are in serious distress as a direct result of changes in government funding and accountability practices (Scott, 2003; Eakin, 2004; Statistics Canada, 2004a; Statistics Canada, 2004b; City of Toronto, 2004; Saunders, 2004).

This article explores the circumstances that have led to the current crisis and seeks to understand why there has been so little action by government to correct problematic funding and accountability practices. What is it that funders in particular and concerned Canadians in general do not yet understand about this growing crisis? And why are government funders not yet moving to make significant changes in their relationships with the community nonprofit organizations that provide essential social services for so many Canadians?

Our Community Organizations

When community organizations are doing their jobs, many people may not notice. But because of the work of these organizations, new immigrants get that all-important first job in Canada; people with developmental disabilities have a safe place to live when their parents are no longer able to care for them; and abused youth find safe shelter and the support they require to make something of themselves. Community service organizations go quietly about their work to make Canada one of the best places in the world in which to live. It is not until a family member needs, but cannot find, a community service (e.g., a day program for an elderly parent with Alzheimer's or a drop-in program for an isolated young mother and her baby) that community residents miss their local community organizations. By then it may be too late.

Community service organizations deliver a wide variety of services that are primarily categorized under the International Classification of Nonprofit Organizations (ICNPO) as social services, with subcategories such as child services, youth services, family services, services for the elderly, services for the disabled, temporary shelters, refugee assistance, and material assistance such as food banks and clothing distribution centres. By using the ICNPO social service category, we are able to employ the new Statistics Canada survey information to better understand the profile of community service organizations and why the sector is in trouble.[1]

Overview of the Nonprofit Sector

The recent publication of the first-ever *Satellite Account of Nonprofit Institutions and Volunteering* (Statistics Canada, 2004a) and the first survey to collect comprehensive information on the nonprofit sector, *Cornerstones of Community: Highlights of the National Survey of Nonprofit and Voluntary Organizations* (Statistics Canada, 2004b), provides invaluable information about the nonprofit sector as a whole and about its various sub-sectors. In these publications Canadians now have data that confirms the qualitative information provided in the groundbreaking study *Funding Matters* (Scott, 2003), which documented the negative impacts of the new funding regime on Canada's nonprofit service providers.

Sector Value

Through the Satellite Account, we now know the impact of the nonprofit sector on the economy of Canada. Many people were surprised to find out how large the sector is. The nonprofit sector provides 6.8% of Canada's gross domestic product (GDP). This rises to 8.6% when the value of volunteer work is included. To put this in perspective, the nonprofit sector is four times larger than the agricultural sector, twice as large as the mining and oil and gas extraction sector, and eleven times larger than the automotive sector. Hospitals and universities account for 63.1% of nonprofit GDP and over 80% of nonprofit revenues. The data on the remaining 37% of the nonprofit GDP was reported separately. Social services is the largest sub-sector in this latter group, followed by culture and recreation.

Sector Revenue Sources

The Satellite Account also provides a profile of the nonprofit sector's sources of revenue. Government transfers were the most important source of revenue for the nonprofit sector as a whole, accounting for 51.2% of total revenues. The second most important source of revenue was the sale of goods and services (30.6%). Together these two sources accounted for more than 80% of the sector's revenues. Other revenue sources were comparatively small: 7.4% from membership fees, 6.8% from donations from households, 2.9% from investments, and 1.2% from business corporations. Eighty percent of government funding went to hospitals and universities.

What This Means for Community Service Organizations

Although separating hospitals and colleges and universities from the remainder of the nonprofit sector in the Satellite Account (Statistics Canada, 2004a) is useful for the analysis of funding to the smaller sub-sectors, it also masks the plight of the community services sector. The Satellite Account identifies hospitals and universities as large recipients of government funding, but does not identify social services in the same way. However, the *Cornerstones of Community* survey (Statistics Canada, 2004b) notes that social services, along with hospitals, and colleges and universities, rely primarily on government funding. Social service organizations receive an average of 66% of their revenues from government.[2] Furthermore, this same survey reveals that community service organizations have a limited ability to raise funds from memberships, fees, or sales (they derive only 17% of their revenues from these sources)[3] and that the social services sector raises only 11% of its revenues from gifts and donations.[4]

Some types of nonprofit organizations receive little or no government funding. For example, many sports and recreation organizations operate largely on fees and membership dues, while faith-based organizations and trade unions rely primarily on member contributions. In the analysis of revenue in remaining sectors once hospitals and colleges and universities are removed, government transfers make up only 21% of revenues. Since social services have been included in this analysis, this might give the impression that government funding is only one of many funding sources for social services and is therefore relatively unimportant. However, as noted previously, the majority of funding for community-based social service providers continues to come from government sources. Furthermore, the conditions of government funding have a major impact on the capacity and long-term vitality of these organizations, including their ability to secure additional funds and to devote adequate resources to program management. The issue of how government provides funding to community service providers is therefore of the greatest importance.

Of the three sub-sectors of the nonprofit sector that are funded mainly by government (i.e., hospitals, colleges and universities, and social services), the social services sub-sector is composed of the smallest organizations and is more diverse and fragmented. Politically, it may be the easiest of the three to ignore. Nevertheless, the social services sub-sector provides enormous value for minimal investment. Social service organizations represent 7.7% of the total nonprofit sector GDP yet they receive only 5.8% of total nonprofit sector revenues and mobilize $3 billion annually in volunteer contributions, which represents more than one fifth (21.3%) of the value of all volunteer contributions[5] to nonprofit organizations (Statistics Canada, 2004a).

In summary, Canada's community service organizations receive most of their funding from government. In return, they provide a broad array of important services that include a huge volunteer component. The balance is delicate. If government does not provide appropriate and adequate funding, community service organizations have found that they are as vulnerable as the people they serve.

Funding Challenges

A Brief History

Government funding was not always a problem. In the 1970s and 1980s, community service organizations in the developed industrial democracies experienced significant growth and received funding that covered the cost of service provision. Starting in the 1980s, however, the New Zealand government shifted from “grant-based funding” (funding voluntary sector organizations to deliver programs) to a “contract funding” model (purchasing defined services from voluntary sector organizations). The British soon followed.

By the early 1990s, Canadian government funders were moving quickly to “contract for services” that were defined and closely monitored by government. This move to contract funding took place at a time of overall reductions in government expenditures, when the focus of government was more on reducing public expenditures than on designing a new method of funding services provided by the nonprofit sector (Eakin, 2001).

A Policy Shift Gone Terribly Wrong

By the end of the decade it was clear that the nonprofit sector in Canada was in trouble. In a landmark study of the new funding regime, Katherine Scott describes the impact that “contract funding” has had on the nonprofit sector. She describes how many organizations are financially fragile because they are now dependent on a complex web of unpredictable, short-term, targeted project funding. Nonprofit organizations struggle with funding volatility. The short-term nature of most contracts and grants means that organizations are unstable – they are always in the process of mounting and disassembling programs. In a City of Toronto survey (2004), 58% of funding in community organizations was identified as unstable. Scott describes organizations struggling with mission drift as they chase project-based funding that does not quite meet their mission but that is better than the alternative (i.e., receiving nothing). Organizations lost much of their infrastructure as administration became a “dirty” word and project funding was redefined to include only direct service costs. The City of Toronto survey confirms Scott’s findings, with agencies reporting that only 13% of new funding includes funding for organization administration. Advocacy chill has resulted because organizations perceive themselves as vulnerable if they speak out about this new funding regime.

The toll in human resources is evident as people, both paid staff and volunteers, are stretched to the limit. In a separate series of studies, the Canadian Policy Research Networks (Saunders, 2004) has documented the falling wage rates in the nonprofit sector and the growing gap in working conditions between the nonprofit sector and quasi-government sector (i.e., the education, hospital, and colleges and university sector), the private sector, and the government sector. The human resource problems that these studies forecast for the sector are already evident in community organizations, which are losing staff to other sectors. Low wages and the unstable employment provided by contract funding are having a serious, negative impact on the capacity of nonprofit service providers.

A recent study undertaken by the Community Social Planning Council of Toronto (Eakin, 2004) examined how the revenues available for providing services compared to the actual costs of delivering these services. Government funders were found to be consistently under-funding their contracts by an average of 14%. Chronic under-funding is draining local communities of the few funds the organizations can raise. Dollars that should have gone into undertaking local community initiatives or developing innovative services are instead subsidizing the maintenance of services delivered under contract to government funders.

It was not supposed to be this way. The theory in moving to contracted services was that “others” would step up to fill the void left by government. However, the data on giving in the Satellite Account (Statistics Canada, 2004a) tell a different story. Corporations have not stepped in (they provide only 1% of revenues to the nonprofit sector) and individual giving, which accounts for 7% of total sector revenues, cannot begin to replace the shortfall in government funding. Canadians expect government to provide key essential services, whether directly or through the funding of community service providers. The recent focus on hospitals and colleges and universities in federal and provincial budgets indicates that governments are getting the message and responding to pressure to maintain these services.

Unfortunately, the community social service sector has seen no corresponding increase in funding support, nor any serious reconsideration of the way that government provides funding. Service providers in community service organizations report that they are inadequately funded to begin with and have faced budget freezes year after year. Unable to keep up with rising costs and wages, organizations have cut their infrastructure beyond what can be sustained (Eakin & Thelander, 2005). Scott describes how nonprofit organizations are being transformed into a series of programs around a hollow core.

The Evidence of Funding Failure is Clear

By every measure, in every study, community-based service providers are faring poorly. They have serious financing problems, reduced organizational capacity, and problems with staff and volunteer recruitment and retention. They struggle to meet reporting requirements, juggle short-term contracts, and improvise essential services in the face of the continual decline of necessary resources.

It is hard to imagine how government funding for community organizations could do more damage. The slow bleeding of capacity, the steady deterioration of service quality, and the perpetual crisis mode of operations exhaust and dishearten even the most dedicated staff and volunteers. We are losing organizational capacity in our communities due to chronic neglect. Government funders have imposed for too long on the dedication, expertise, and adaptive capacity of the community-based social service sector. Short-term political expediency may make it easy to ignore the legitimate needs of the sector, but long-term considerations of its vital role will demand an accounting. A major shift in funding practice was undertaken, but funders, especially government funders, have not evaluated, monitored, or managed the impact of this funding shift. What has happened to principles of good government?

Communities Cannot Care for Their Citizens

The community services that underpin healthy communities are at risk. Recent studies indicate that new immigrants are having a harder time making a life in Canada, with far more of them living in poverty in communities that risk becoming immigrant ghettoes (United Way of Greater Toronto, 2004). Parents of autistic children have gone to court in British Columbia and Ontario to obtain services for their children. The campaign to eliminate child poverty in Canada by the year 2000 saw that year come and go with unacceptable numbers of Canadian children still living in poverty.

Government Policies Affect Other Funders

Government funding policies that deliberately and systematically under-fund and weaken community organizations leave funding gaps that affect other funders, such as United Ways, private and community foundations, and corporate donors. These funders find themselves shoring up organizational capacity in the organizations they help to fund and paying for more than their fair share of organizational infrastructure to enable organizations to survive. This "backfilling" of government funding prevents these funders from accomplishing their objectives as funders of innovation and emerging needs.

Even the Most Resilient Leadership is Daunted

The voluntary sector is known for its inventiveness, resilience, and determination. The research on community service organizations partnering with government, however, shows that these capacities cannot compensate for the systemic under-funding of government-funded programs. In fact, the government funding process prevents community service organizations from demonstrating these qualities.

Accountability Challenges

A Brief History

As governments shifted to contract funding and became ever more specific and prescriptive about the services they contracted for delivery, they also showed a renewed interest in accountability, specifically financial accountability. Financial reporting requirements were increased as financial and spending rules were tightened. Every funder developed its own system, its own forms, and its own reporting periods. Special audits in addition to the regular annual audit were employed with greater frequency (Scott, 2003).

The shift to contract funding also meant that organizations now had to write many more grant proposals, which became increasingly more detailed over the years. Multiple grant requests and annual budget applications of more than 100 pages were not unusual. In addition to increased financial reporting, risk-adverse funders required more compliance reporting, serious incident reports, health inspections, water quality reporting, service reports, increases in staff training requirements, and so on (Eakin & Thelander, 2005; Eakin, 2005; Scott, 2003).

At the same time as accountability requirements were being increased, funding for administrative and management staff was being seriously cut, leaving agencies staggering under the administrative burden (Statistics Canada, 2004b; Eakin, 2004; Scott, 2003).

The Challenge of Accountability

Accountability has become a major concern as the community-based health and social services sector undergoes restructuring. Funders generally present the need for greater accountability as something benign and inevitable, a kind of neutral, technocratic upgrading of administrative systems and reporting requirements with numerous effects that are positive and none that are negative. Any opposition to these new systems of accountability is interpreted as a refusal to comply with the Canadian public's desire to get "value for money" in return for their tax dollars.

There is one essential element of truth in this narrative: service providers must indeed be responsible to their funders for the way that funding is used. This basic truth, however, is recognized by community-based providers of essential health and social services, whose operational systems have historically incorporated many mechanisms for administrative accountability. Why then the controversy? To understand the practical challenges of accountability in the new funding regime, we need to distinguish conceptually between administrative accountability, evaluation, and public accountability.

Administrative accountability involves reporting on whether the funds an organization received were spent according to the conditions of funding. Unfortunately, however, the demands for this paper work (or computer work) continue to multiply far beyond what could be considered reasonably necessary. Some of this appears to result from blissful ignorance of the realities of human resources within the community services sector, including a naïve belief that work done with computers does not require additional resources (the "count everything while you are at it" syndrome). Another cause, however, given the current media and public attention to allegations of various government scandals, is likely the effort of bureaucrats to protect themselves from accusations that they do not know how the funds they administer are being used.

Evaluation, in simple terms, is determining whether a program or program orientation is working, e.g., whether the services funded by the government and delivered by community service organizations are producing the desired results. True evaluation, by its nature, requires a broad framework, including a macro-level analysis of service needs and demographic and labour market trends that are beyond the capacity of a single program or agency to produce. Useful evaluation also depends on an independent third party with expertise working with the parties involved, which, in turn, requires a long-term commitment of resources that are different in nature from those required for administrative accountability. Ideally, a well-designed system of administrative accountability would provide elements that are useful to evaluation, such as information on client characteristics or on changing demands for services. But it is conceptually and methodologically erroneous to equate a growing stockpile of purely administrative data with an increased capacity to evaluate whether programs are producing the desired outcomes.

Public accountability is the obligation of persons or authorities entrusted with public resources to report on the management of these resources and be answerable for the fiscal, managerial, and program responsibilities that have been conferred on them. This means that for true public accountability, elected politicians and government staff must be held responsible for providing resources, long-term planning, and an appropriate infrastructure in the delivery of essential services. Unfortunately, discussion of this aspect of accountability has almost entirely disappeared from the current discourse. In its place, burdensome and inappropriate systems of administrative accountability are substituted for genuine public accountability. The issue of public accountability therefore involves not only evaluation and administrative accountability, but also broader issues of public policy.

There are many reforms that could be implemented with respect to the growing demands for accountability in community-based delivery of social services. It would be useful, for example, for both government personnel and community agency staff to understand the distinction between administrative accountability and evaluation, and the relationship between the two. This could lead to a more selective and productive use of administrative tracking as a component of program evaluation and could foster true public accountability for both government and service providers.

The dependence of community-based service providers on multiple funding sources also makes clear that a single agency-specific system of administrative accountability and program evaluation is not only legitimate, but essential. It is simply irresponsible for funders to continue to multiply separate reporting requirements for each program and grant. Furthermore, funders who are concerned with improving administrative accountability and program evaluation must provide the resources necessary for this work, rather than simply multiplying the demands on stressed and challenged community service providers.

Fundamentally, however, the discussion of accountability will not progress until it addresses the essential issue of public accountability. Rather than finding fault with the over-stressed community service providers, we must turn our attention to creating a new funding regime that can provide the necessary resources and that puts appropriate emphasis on administrative accountability, program evaluation, and public accountability.

Some Common Questions About Funding and Accountability

In discussing these issues with concerned colleagues from outside the community service sector, we found that three questions kept coming up. We present them here, with our answers.

In challenging the new funding regime, aren't community service organizations really asking for permanent funding with no conditions attached?
Stability in funding does not mean permanence – for example, five-year contracts with mid-term reviews would go a long way toward rebuilding agency stability and redirecting management resources to programming issues. Furthermore, no one denies that there is a need to review funding for agencies that are performing poorly or to terminate funding immediately in those rare cases where funds are used inappropriately. Most agencies would, in fact, be pleased if government officials would monitor and discipline the small minority of agencies whose performance is not acceptable instead of perpetually multiplying the administrative burden on the overwhelming majority of agencies that are providing quality services at minimal cost.

Do community agencies think they don't need to be accountable?
The issue of accountability has already been addressed at some length in this article. It is worth noting, however, that the community service sector has historically been one of the main independent voices in monitoring health and social service needs in Canada and, in this regard, has played a vital role in public accountability. To the degree that the new funding regime eliminates the capacity of community service organizations to engage in community development and advocacy, it is not strengthening, but rather weakening, their capacity for accountability.

Shouldn't community service organizations just accept that the funding rules have changed and get on with adapting to the new environment?
What those who ask this question usually mean by adapting is seeking new sources of funding, operating more efficiently, and making better use of

volunteers. Research on the stresses in the community service sector, however, clearly reveals that these organizations have already reached the limits of adaptation. More importantly, the research also reveals that organizations that deliver essential health and social services continue to be dependent mainly on government funding. Unless the problems with the new regime of government funding are fixed, these organizations will be unable to make progress in other areas of capacity building.

Some Conclusions

Governments at all levels across Canada are being besieged with demands that they repair the damage caused by the cuts to social infrastructure in the 1990s. The health and education sectors have been very vocal and have overwhelmed the voices of the fragmented and diverse community services sector. The result has been that, year after year, community service organizations have received little or no funding increase for existing program contracts, and new programs have come without adequate program and administrative funding.

Everyone realizes that governments cannot meet all demands for services, but they do have a responsibility to make decisions on what services they will fund in communities and to fund those adequately. Governments cannot continue to erode the organizational capacity of community service organizations by systematically under-funding service contracts. Governments also have the responsibility to practice public accountability and work together to lessen the administrative burden on community organizations, to refocus on service evaluations, and to provide cost-recovery funding for the services it contracts with community service organizations to deliver.

Public Trust at Risk of Being Lost

Bob Wyatt, writing about an Ipsos-Reid survey commissioned by the Muttart Foundation, identifies how fragile the Canadian public’s trust in charities is and how worrisome some of the public’s attitudes are. The public currently has high levels of trust in charities and charity leaders and understands that charities have too little money to meet their objectives. Nevertheless, in a leap of logic, the majority of those surveyed also believe that charities should deliver services that government stops funding. They have faith that the charities can find a way to do so, despite all evidence to the contrary. What will the Canadian public do if charities fail them? Are the recent legal challenges by parents of autistic children (in B. C. and Ontario) and children with multiple disabilities (in Ontario) a harbinger of the future?

Risk of Harm to Civil Society

The negative impact of the new funding regime is compromising the ability of community service organizations to deliver essential public services and the long-term viability of these community organizations. The research has been done; the policy implications have been analyzed. What is needed now is action, particularly by government, to correct these dangerous trends. All concerned Canadians have a responsibility to speak out; our colleagues in the community services sector should not have to deal with these essential issues of public policy alone. The stakes are high; essential components of our civil society and of public accountability in Canada are ultimately at risk.

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NOTES

1. The International Classification of Nonprofit Organizations, modified for use in Canada, is used in all major research surveys. While not all community organizations are covered under the social services designation, most are, and the classification enables us to use the recent government Satellite Account of Nonprofit Institutions and Volunteering and the National Survey of Nonprofit and Voluntary Organizations for analysis of the sector.
2. Hospitals receive 70% of funding from government; colleges and universities receive 56%. Compared to hospitals and social service organizations, colleges and universities receive a higher proportion of their revenue from fees. Hospitals are prevented by legislation from charging fees and the social services sector cannot do so because any significant fee schedule would put services beyond the means of many recipients.
3. Only the health sector was in a similar position, deriving 10% of revenues from fees and memberships. Other sectors received in excess of 30% from these sources; sports and recreation received 56% of revenues from fees and membership, and arts and culture received 45%.
4. Arts and culture organizations received 17% of their revenues from gifts and donations; sports and recreation organizations received 20% from this source. Colleges and universities, and hospitals received 7% and 2% respectively.
5. Social service organizations contributed 21.3% of the volunteer labour identified in this survey, virtually the same as hospitals and colleges and universities combined (21.5%).