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THE DRAINING OF COMMUNITY-CAPACITY: THE IMPACT OF FUNDING STRUCTURES

The report "Community Capacity Draining: The Impact of Current Funding Practices on Nonprofit Community" (2004) authored by Lynn Eakin for the Community Social Planning Council of Toronto outlines the effects of the funding changes in the nonprofit sector through an analysis of 155 programs provided by 10 organizations and funded at $36.5 million dollars. The findings raise serious questions about the suitability of current funding regimes and identify an urgent need to reform funding structures to meet the needs of the community. In an effort to contribute to the dialogue on Funding Matters in Halton, this issue of Community Dispatch shares with you this study's findings and important recommendations. They resonate with the experience of Halton nonprofit agencies.

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Context

Community organizations perform an important role in society. Community organizations are among the most diverse of our voluntary organizations. They provide services to seniors and the homeless, daycare and parent drop-in services for young children, after school programs, youth programs, mental health services, newcomer settlement services, supports for people with disabilities and more. They are vital to the engagement and supports of a wider array of individuals through provision of a myriad of services. Despite this important role, community-based organizations are experiencing financial distress which is manifest through staff streamlining and issues of program quality. It is clear from these research project findings that current funding practices cannot be sustained much longer for community organizations.

Since community organizations have multiple sources of funding, no single funder has an overview of agency funding and it is difficult for agencies to obtain a consistent analysis of their financial circumstance. Moreover, this fragmented funding and the disengagement of agencies from one another has meant that an overview for how the sector is faring does not exist. As a result of this disconnect each agency has been struggling in isolation.

This study used a structured framework to analyze data from ten agencies, both large and small, operating 155 funded programs totalling 36.5 million dollars. This research was undertaken by the Community Social Planning Council of Toronto for the City/Community Working Group on Stable Core Funding, funded by the United Way of Greater Toronto. The study's purpose is to better understand the agency-level impacts of current funding practices, pinpoint the areas of concern, and inform recommendations for funding reform so that they may better address the structural challenges agencies face.

Findings

The detailed data analysis undertaken in this project provides information that enhances and alters current understanding of the financing of nonprofit community organizations, and suggests clear directions for the reform of funding practices. The majority of government funding for community agencies is not covering the entire cost of program operation and, therefore, agencies are relying on their discretionary fund to cover the balance of what government funding does not. Using discretionary revenues (i.e. revenues not intended for programs), limits resources available to respond to emerging community needs.

Employee benefits, front line supervision and core organizational functions (including human resource functions and financial management) are three areas that are also suffering in particular as a result of systemic government under-funding. There is a lack of willingness among funders to recognize the real costs of employee benefits. On a related note, nonprofit sector wages are far below those in the private, education and hospital sector.

Program funding is, by definition, funding which an agency receives to deliver a service. That service is specified, often in great detail, by the funder. Agencies seldom have discretion over the content or structure of these programs or in determining who is eligible to receive the service. By applying all of their discretionary revenues to cover shortfalls in programs under contract to a funder, agencies have little or no capacity to respond to emerging community needs or develop innovative service models.

In this context, agencies are fundraising to stay afloat. Since agencies are responsible for program deficits, (surpluses are recovered by the funder but deficits belong to the community organization) they have to apply the greater part of, if not all of, their non-government revenues to cover the shortfall in program funding.

Over the years we have become confused about the use and purpose of community-raised funds and the role of community organizations as providers of social services. Community Organizations have two functions:

- To build strong, caring and compassionate communities
- To deliver government funded services in local communities

These functions are compatible, mutually enhancing, but distinct activities. Locally raised funds should be deployed toward building strong resilient communities, while government funds should fully support social service delivery.

In contrast, this research concludes that community agencies are operating government funded programs at a significant loss. The most significant areas of systemic government under funding are:

- Employee benefits;
- Front line supervision, and;
- Core organizational functions.

As costs keep rising and funding remains inadequate, flat-lined community agencies are slipping away. Their staffing costs comprise 71% of total spending. Typically staffing costs in the human services are well over 80% and often in the 90% range.

Our study findings on the under-funding of staff supervision and the erosion of core organizational capacity raise important policy issues of program quality and risk management that pose significant concerns for both agencies and their funders.

In addition, this study points out that:

- 85 % of study agency revenues are from program funding, 13% comes from other sources including fundraising and undesignated grants and 2% from fees (no agency covered complete program costs through user fees).
- Organizations in this study receive 14% less funding, on average, than needed to cover operational costs.
- Agencies are fundraising as a coping strategy to support programs that are under government contract. Fundraised revenues are the most precarious of all revenue sources. The amount raised requires extensive staff and volunteer support.
- Smaller, newer organizations have less capacity to access alternative revenue sources.
- Employee benefits are, on average, under funded by 22% by program funders. Agencies, therefore, have to find other revenues to pay for the benefits provided to program staff.
- Only 53% of programs are provided funds for supervision of front-line staff. The under-funding of supervision raises important policy issues of risk management and program quality standards for both agencies and

funders especially in light of recent court decisions on vicarious liability.

- Community-based organizations have reduced the number of staff in their organization to cope with rising costs and stagnant unreliable funding. Over the years, “other revenue sources” have not kept up with funding shortfalls so in addition to redirecting agency discretionary funds, agencies have cut back on staffing. Across the agencies, staffing is down to an average of 71% of budget from a norm in human service organizations, of 85-90%. Unlike staffing which is understood as an adjustable variable, audit insurance, rent and program expenses are beyond the control of the agency.
- Program funders are under-funding their share of core organizational costs by 58%. Program funders are contributing very little to common core organization expenses. Senior mangers explain that core staff is so overburdened with work that they are inefficient.
- Funding instability is a serious issue for community organizations. Indeed, in most of the agencies involved in this study one fifth or more of their programs are unstable.
- Community organizations spend a lot of time and energy applying for grants and starting up programs that are not sustainable. These grants are, in fact, costing organizations considerably more finances to implement than they actually receive in funding.

Recommendations for Funding Reform

The report identifies 5 best practices for funding that promote the maintenance of organizational capacity and deliver quality and safe services.

1. Funding the Full Cost of Programs

Funders, when contracting with a community organization to deliver a service, should pay the full costs of service provision including a proportionate share of organizational operating costs and the actual operating costs of service delivery. In an optimal situation the funder would pay a community investment premium (equal to the business profit margin) to help build local communities.

2. Moving to Global Budgeting

Funders should implement a global budgeting approach where they approve a total budget amount and let the service provider determine how best to spend the funds to achieve agreed service outcomes. Funders need to focus on accountability measures such as service outcomes and deliverables, not the day-to-day management of programs.

3. The Strategic use of Lead Funding

Governments should use a lead funding model (funding both program and organizational infrastructure) for services that further government policy objectives in a given service area, and in order to sustain long-term community capacity.

4. Providing undesignated funding to support organizational capacity and service innovation.

Funders should provide undesignated funding that agencies can spend flexibly as a preferred means to build local capacity, encourage service innovation and meet local needs.

5. Fundraised funds and donations from United Way and foundations should be used for service innovation, strengthening communities and addressing local needs.

Locally raised funds should be deployed toward community building activities while government funds should fully support social service delivery.

Conclusion: Making Changes, Moving Forward

All the necessary pieces are in place to support a process of funding renewal – a policy framework for funding nonprofit organizations, and the research on the human resource and organizational issues facing community agencies. Now, with this study, we have important data demonstrating the significant shortfalls in program funding, the key areas of under funding and have evidence of the serious pressure this is placing on community organizations. The study findings raise questions about the suitability of current funding models to accommodate the realities and capacities of community agencies.

This study has produced strong trend data on the major areas of funding shortfalls and described how agencies are coping in the short term. It is clear from the information gathered by this research that current funding practices and funding levels cannot be sustained for much longer by community organizations. The need to reform program funding to community-based organizations is urgent.

For a copy of the full document "Community Capacity Draining: The Impact of Current Funding Practices on Nonprofit Community Organizations" visit the Community Social Planning Council of Toronto website: http://www.socialplanningtoronto.org/CSPC-T%20Reports/Community%20Capacity%20Draining%20Report.pdf

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