



CANADIAN CENTRE FOR PHILANTHROPY

# RESEARCH BULLETIN

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## **Funding Charities: Dependency on Government and Implications of Cutbacks**

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### **Highlights**

- Libraries & Museums, Hospitals, and Teaching Institutions depend most on government funding. 66% to 73% of their revenues come from government.
- Social Services, Health, Community Benefits and Public Foundations receive from 46% to 60% of their revenues from government but also have access to alternate sources of revenue.
- Recreation, Arts & Culture, Education and Religion charities receive from 43% to 60% of their revenues from Earned Income & Fees and have diversified revenue bases.
- Places of Worship, Other charities and Private Foundations rely primarily on Private Donations for revenues.

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Canadian charitable and voluntary organizations are currently experiencing cuts in the amount of funding they receive as governments at all levels enter a period of retrenchment. Although little data exists on the sector as a whole, we are able to examine some of the implications of government cutbacks to those organizations that are registered as charities with Revenue Canada.

As the Centre's "*A Portrait of Canada's Charities*" (Sharpe, 1994) points out, 56% of the total revenues of Canada's approximately 70,000 registered charities come from government. In 1993, government funding of registered charities represented 14% of all government spending. Charities, as a whole, are not only highly dependent on government for funds, they are also an obvious target for governments that are attempting to reduce their deficits.

Some types of charities appear to be in a stronger position than others to deal with government cutbacks, as this Bulletin will show. The ability of charities to weather cutbacks in government funding depends, to a large extent, on the degree to which their

revenue base is diversified. The survival of those charities whose revenues are highly concentrated on government sources will depend upon their ability to develop alternate revenue sources.

In the analysis that follows, I first outline four different patterns of revenue generation among registered charities. This is followed by a discussion of the implications of each pattern for the types of revenue development strategies that charities are likely to use to recoup lost government funding.

This research employs data from the 1991 Public Information Returns (Form T3010) that registered charities filed with Revenue Canada. Revenue data have been summarized into three major categories. *Government Funding* comprises all federal, provincial, or municipal grants and payments. *Earned Income & Fees* consists of income from related businesses; memberships, subscriptions and fees; investment and property income; net realized capital gains or losses; and "other" income. *Private Donations* includes donations from individuals, corporations, and others, as well as gifts from other charities (e.g., foundations).

To examine variations among different types of charities, Revenue Canada's Sector, Category, and Designation codes have been employed to classify charities into 14 categories (see **Table 1**). Over 36% of all charities are Places of Worship. Social Service organizations are the next largest group comprising 15% of all charities. Health-Related charities and Community Benefit charities each make up about seven percent of all charities. The remaining types each account for anywhere from two to five percent of charities.

Looking at the extent to which the different types of charities rely on Government Funding, Earned Income & Fees, and Private Donations, four patterns of revenue diversification (or concentration) are apparent. These are each described in more detail below:

1) *Government-Concentrated Funding*: **Figure 1** shows a pattern of heavy dependence on Government Funding for Hospitals, Teaching Institutions, and Libraries & Museums. Government accounts for more than 65% of revenues for these charities. Earned Income & Fees provide a second substantial source of income (17% to 33%). Private Donations account for only a small percentage of revenues for this group.

2) *Government-Diversified Funding*: Social Service, Health-Related, Community Benefit and Public Foundation charities are also highly dependent on government funding. These charities, however, generally show diversification in their revenue bases (see **Figure 2**). They all display a significant ability to raise funds both from Earned Income & Fees and from Private Donations. These alternate sources of income should afford these organizations greater resiliency in the face of government cutbacks than may be expected of those displaying the *Government-Concentrated* pattern of funding.

3) *Earned Income-Diversified Funding*: **Figure 3** shows a dramatically different pattern of revenues. Recreation and Religion charities rely primarily on Earned Income & Fees rather than on Government Funding. Recreation organizations, for example, obtain 60% of their funding from Earned Income & Fees. Arts & Culture and Education charities obtain roughly equivalent levels of revenue from both Earned Income & Fees and Government Funding. All four types of charities also receive more than 10% of their funding from Private Donations. This gives them a further buffer from the effect of reductions in either Government Funding or Earned Income & Fees.

4) *Donation-Concentrated Funding*: Three types of charities depend primarily on private donations for their funding: Places of Worship, the Other category of charities and, not surprisingly, Private Foundations (see **Figure 4**). Places of Worship and the other charities show little in the way of income diversification but do depend to some extent on Earned Income & Private Fees for their funding. Private Foundations, on the other hand, exhibit a very diversified revenue stream. This group, on the whole, obtains very little in the way of government funding.

**Responses to Government Cutbacks.** An organization's pattern of funding provides some indication of its strengths and weaknesses regarding revenue generation. One can expect an organization to play to its strengths when attempting to recoup revenues lost through government cutbacks. This section reviews the implications of the four revenue patterns for the types of revenue development activities that charities are likely to undertake.

The charities that show the *Government-Concentrated* pattern of revenue (i.e., Hospitals, Teaching Institutions, Libraries & Museums) rely mainly on Earned Income & Fees to provide revenues that they do not receive from Government Funding. These charities can be expected to either increase their activities in areas that generate these types of revenues (e.g., business-related activities, memberships, fees) or to increase the fees that they charge for their services.

However, governments limit the ability of Hospitals and Teaching Institutions to increase their revenues from fees and payments for services. Unless these constraints are relaxed, these organizations may be driven to attempt to increase revenues from Private Donations. Because they presently generate little revenue from these sources, they will first have to develop their capacity to raise funds in this way.

Charities with the *Government-Diversified* pattern (i.e., Social Services, Health-Related, Community Benefit, Public Foundations) already demonstrate an ability to generate revenues from both Private Donations and from Earned Income & Fees. One can therefore anticipate increased activity in these two areas. It should be noted that this group comprises almost 33% of charities. Any increase in Private Donation fundraising from this group will substantially expand competition among charities from Private Donations.

*Earned Income-Diversified* charities (i.e., Recreation, Arts & Culture, Education, and Religion) appear to be better able to obtain funding from Earned Income & Fees than from Private Donations (with the exception of Religion organizations). One can expect them to take advantage of this capacity in response to cutbacks in government funding. These organizations also have demonstrated an ability to obtain Private Donations and may also be able to draw on this strength.

Lastly, charities with the *Donation-Concentrated* revenue patterns (i.e., Places of Worship, the Other charities, Private Foundations) are relatively immune from the direct effects of government cuts in funding. However, to the extent that government cutbacks drive other types of charities to increase Private Donation fundraising, they may face competition for this important source of funds. The most likely challengers are the relatively numerous *Government-Diversified Funding* charities that have substantial fundraising abilities.

## Conclusion

Although most charities depend upon government for a substantial amount of their revenues, some appear to be better situated to weather reductions in government funding. Charities with diversified sources of revenue are better able to cope with government cutback because they have an already developed capacity to generate additional revenues. The group of charities that are the least diversified and the most financially vulnerable are Hospitals, Teaching Institutions and Libraries & Museums. On the other hand, the Recreation, Arts & Culture, Education and Religion charities are the most diversified. They also are unique among charities in their strong reliance on Earned Income & Fees. The Social Services, Health-Related, Community Benefit, and Public Foundation charities have a somewhat smaller degree of revenue diversification. Their demonstrated ability to raise funds from Private Donations can be used to attempt to generate additional revenues. Unfortunately, they will have to either convince donors to become more generous or compete more intensely with one another to do so.

## References

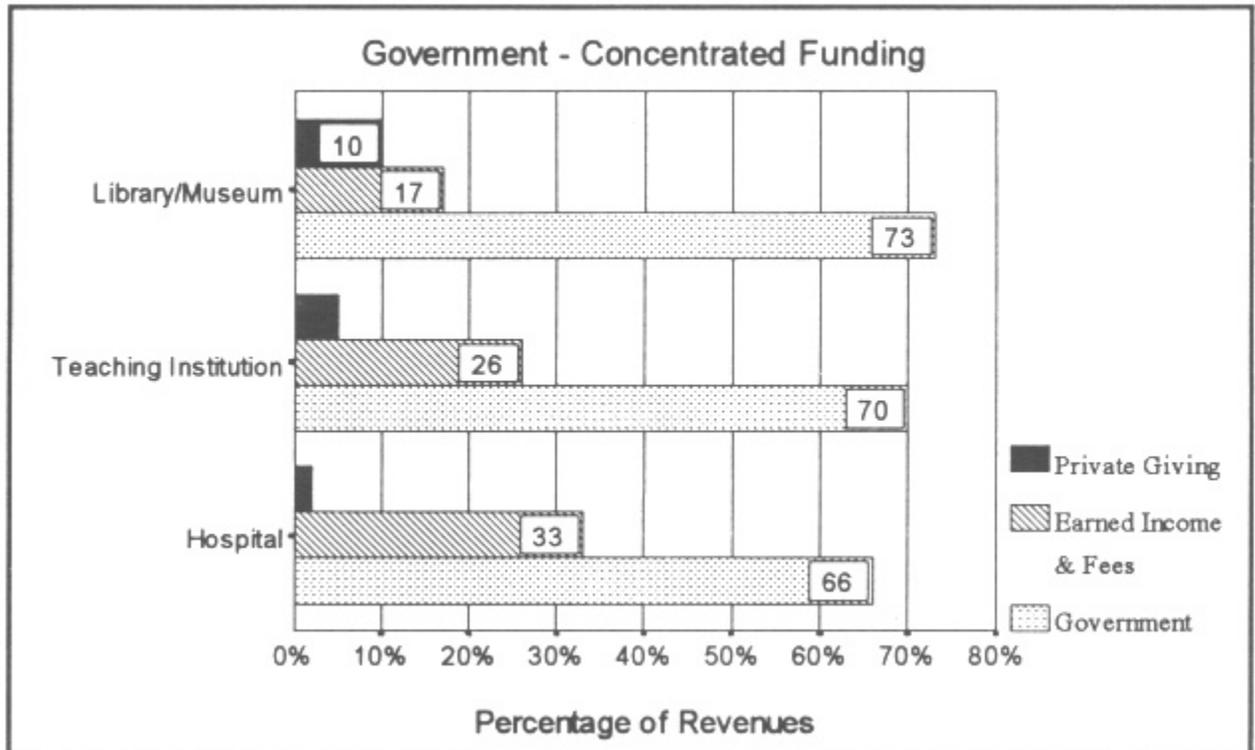
Sharpe, D. (1994). *A Portrait of Canada's Charities: The Size, Scope and Financing of Registered Charities*. Toronto: Canadian Centre for Philanthropy.

**Table 1:**

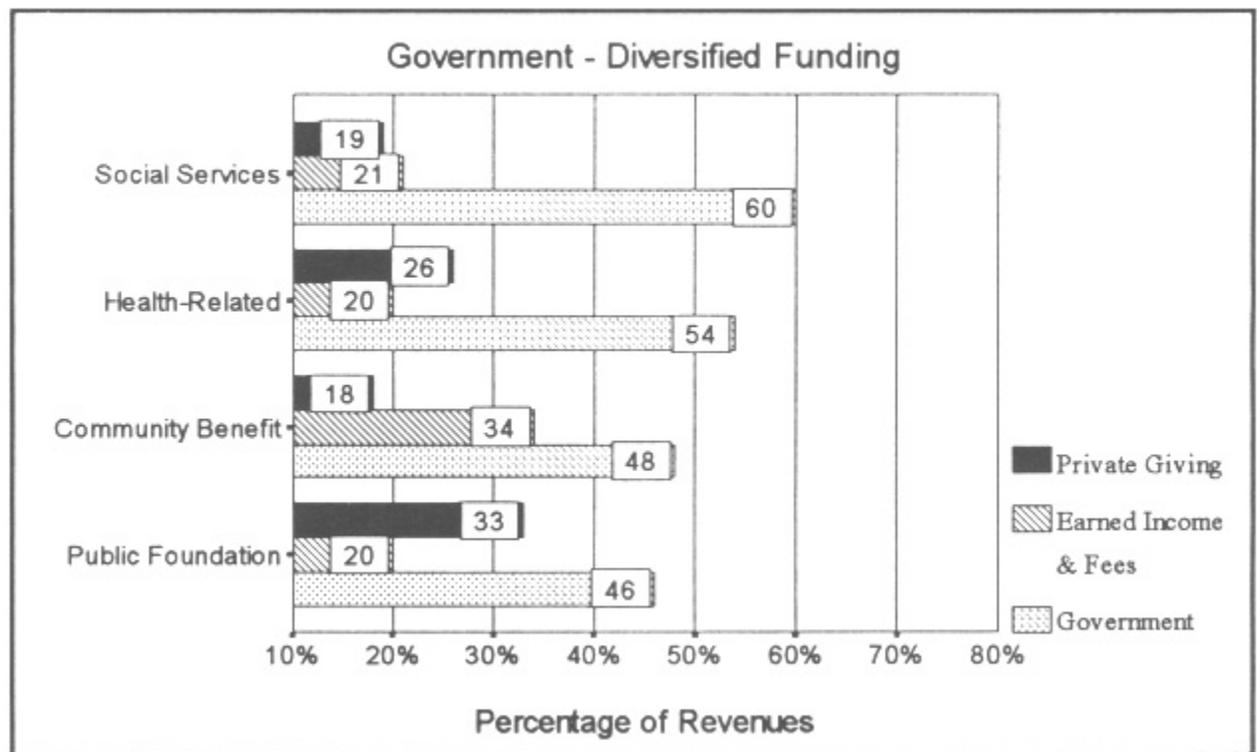
Type of Charity	Percentage of All Charities
Social Service (e.g., Canadian National Institute for the Blind, CARE Canada, Childrens' Aid Societies)	14.7
Hospitals	1.5

Health-Related (e.g., Canadian Cancer Society, Canadian Red Cross, Arthritis Society)	7.1
Teaching Institutions (universities and colleges)	3.6
Education (organizations supporting schools and education)	5.1
Places of Worship (churches, synagogues, temples, etc)	36.4
Religion (e.g., convents, monasteries, missionary organizations)	5.4
Community Benefit (e.g., Meals on Wheels, the John Howard Society, humane societies, historical associations)	6.5
Arts & Culture	4.1
Libraries & Museums	2.1
Recreation Organizations	3.8
Other Charitable (e.g., service clubs)	0.8
Public Foundations (e.g., United Way, Centraide, foundations supporting hospitals)	4.4
Private Foundations (organizations disbursing private funds)	4.5
<b>Total</b>	<b>100%</b>

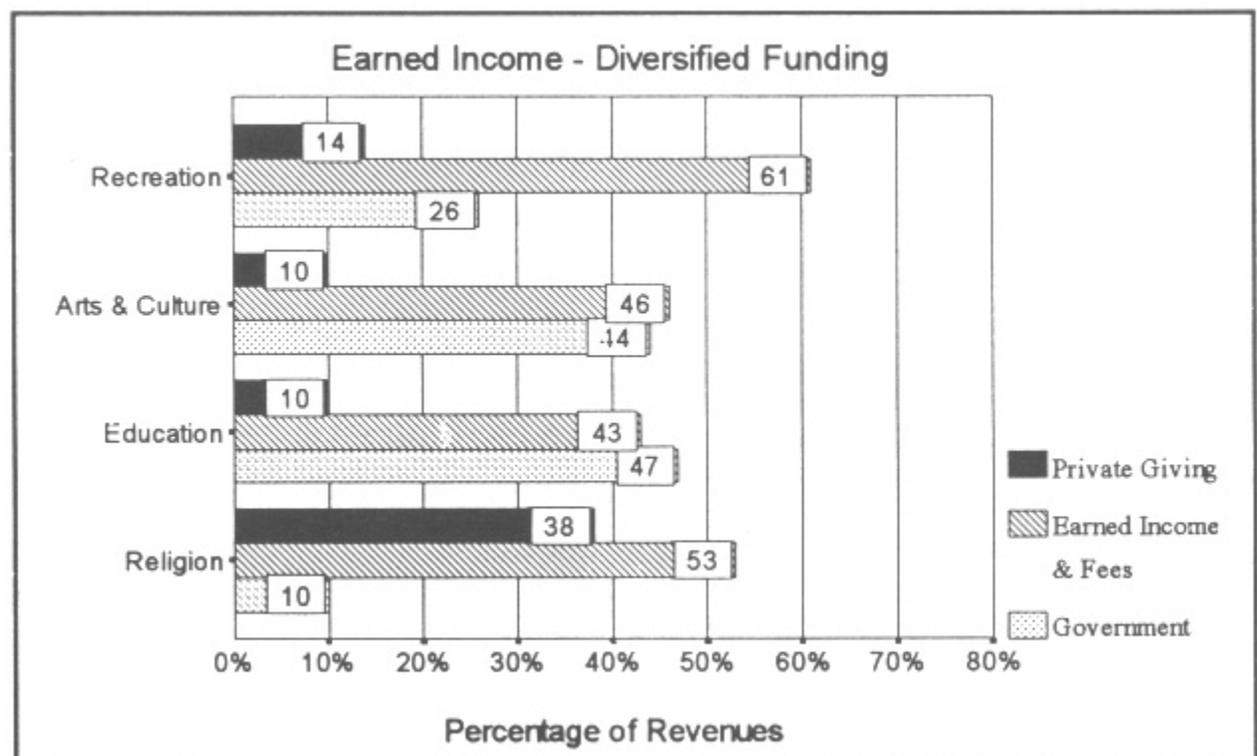
**Figure 1**



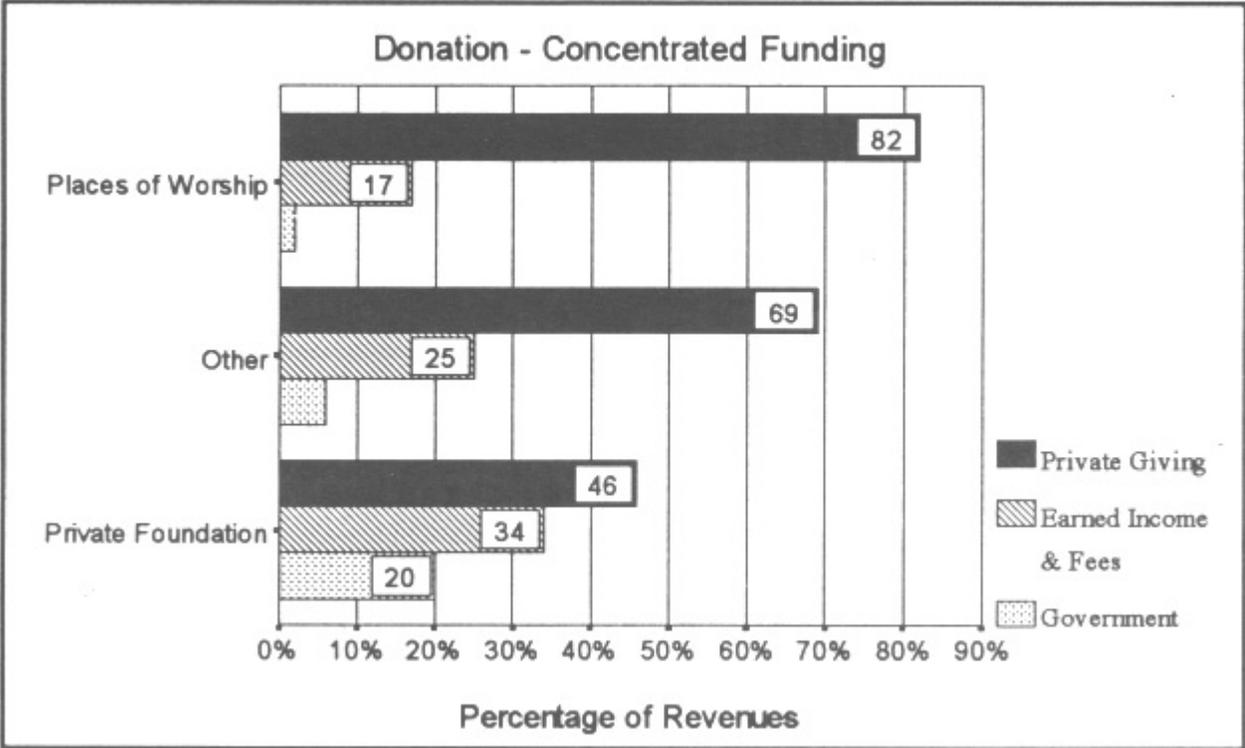
**Figure 2**



**Figure 3**



**Figure 4**



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