2018

Exploring Shared Services in Non-Profit Housing Sector

BC HOUSING

BCNPHA

BC Non-Profit Housing Association

This report has been adapted from its original version which was researched and prepared by CitySpaces Consulting Ltd in 2015.

Introduction

The purpose of this study was to identify models of shared services in the non-profit housing sector and share findings with organizations interested in exploring these options.

Context

The non-profit housing sector in British Columbia and across Canada has experienced major changes in recent years. One of these challenges includes the expiry of operating agreements. Across Canada, a significant number of social housing projects will face expiry of their operating agreements as their mortgages mature. In BC, expiring operating agreements are expected to affect upwards of 29,000 units by 2030.

A widespread concern for expiring operating agreements is that some societies may not be financially viable to continue operating without a government subsidy. Preliminary studies have indicated that non-viable housing projects may result in a loss of affordable housing units and negatively affect the capacity of the non-profit sector to deliver affordable housing to vulnerable populations.

In response to this situation, BC Non-Profit Housing Association (BCNPHA) and BC Housing have led several research initiatives to identify potential tools to assist societies with transitioning through the end of their agreements. This study explores the option of shared services.

What are Shared Services?

Shared services occur when two or more organizations share resources to reduce their overall operational costs. Examples of shared services include sharing administration, information technologies (IT), accounting, human resources and office space. Shared services between non-profit organizations is increasingly common, with new innovations and models being tested. However, there are few examples of non-profit housing societies that share services.

Purpose of this briefing paper

BCNPHA and BC Housing initiated this research on shared services in the non-profit housing sector. They retained CitySpaces Consulting to undertake the research, primarily consisting of interviews with non-profit organizations that have experienced or attempt a shared service arrangement.

The interviews were designed to gain insights and identify lessons learned on the process, benefits and challenges of shared services, and identify examples of shared services in the non-profit housing sector. This briefing paper highlights the findings from these interviews. A full list of study participants can be found in Appendix A. Note: Select components of this briefing paper are written generally, and do not specifically refer to named organizations to respect privacy requests.

Shared Services

This section includes two parts. The first part provides examples of two organizations that entered into a shared services arrangement. The second part identifies reasons for entering into a shared services arrangement, benefits, risks, different models, and key steps to implement this approach.

Shared Services – Examples

Example 1. PosAbilities

PosAbilities is a non-profit organization and registered charity that offers a variety of services to children and adults with developmental disabilities throughout British Columbia. Their housing services include shared living, semi-independent residences, supportive housing with 24-hour care and respite.

Early into their operations (1991), PosAbilities (which had a different name at that time) shared space with two other organizations in Burnaby. The shared space arrangement was compatible given all three organizations served the same client group and delivered similar services. The shared space arrangement included:

- ***Sharing staff, including reception, administration, accounting and human resource management;***
- ***Office space, including meeting space, boardroom and kitchen;***
- ***Office equipment/tools; and,***
- ***Portfolio management.***

An agreement was created to outline the fair share calculations for financial contributions each organization was to make for the shared space. This was determined by organization size and space/amenity utilization. The formula was re-evaluated on a regular basis to ensure financial contributions were adequate and fair.

Under this arrangement, each organization had its own Executive Director and managerial oversight. Each organization managed its own day-to-day expenses, and pursued funding opportunities separate from the other two organizations. The Executive Directors worked collaboratively to pool resources to make the shared service arrangement successful.

The shared service arrangement performed well for several years. Adaptation and efficiencies surfaced, such as moving all administrative, financial and human resource functions into one organization to serve all three organizations. Key benefits of the shared arrangement included improved organizational capacity and economies of scale, ability to jointly purchase professional services, and collaboration between organizations such as sharing information and working together on projects of mutual interest.

The years of sharing services and collaboration created a natural synergy between all three organizations. So when a significant funding and contract change occurred in the Community Living sector (1997), the organizations re-envisioned their arrangement and decided to permanently join forces by merging.

The organizations strategically planned for the merger and ultimately created a new entity (now known as posAbilities). The merger took place over a one-year period, with all contracts transferred to the new entity.

Example 2. Chimo Community Services

Chimo Community Services is a non-profit organization that provides services to individuals and families, including crisis counselling, outreach, settlement services and transitional housing for women and children fleeing violence.

Chimo currently shares space with several other tenants in a social service hub known as Richmond Caring Place located in Richmond, BC. This co-location and co-tenancy hub is home to thirteen social service agencies that share the cost of operations and space-related expenses.

The shared space arrangement allows Chimo to lease an affordable office space in an otherwise expensive real estate market. It also provides Chimo with access to building amenities at a shared cost.

As a result of sharing space, collaborating with co-tenants and creating access to multiple services in one location for clients was achieved.

Shared Services in the Non-Profit Housing Sector – Overview and Strategies for Success

This section provides information on Shared Service, benefits, risks and models and steps based on interviews with the case study key informants and those with knowledge in this area. The interviewees are listed in appendix A of this report and interview guide is available in appendix B.

Shared services is an arrangement in which two or more organizations combine and leverage their organizational resources in order to reduce their overall operational costs. Shared services can involve the sharing of one or several components of an organizations' operations, such as:

- Administration
- Accounting and legal services
- Fundraising / campaigning services
- Human resource management
- Janitorial services
- Laundry facilities and related services
- Maintenance / repairs and grounds-keeping
- Portfolio management
- Staff and volunteers
- Office space, including meeting rooms, office equipment and building-related expenses such as taxes, insurance, parking and utilities

Sharing office space is part of a concept that is evolving in the non-profit sector known as "social purpose real estate." Social Purpose Real Estate is where organizations co-locate, co-develop or establish co-tenancy arrangements to reduce operational costs related to real estate, land and buildings.

Sharing space allows non-profit organizations to co-locate services and programs in a single building location. As a result, organizations are able to leverage resources, minimize expenses, blend value of return and secure tenancy. These formations can also encourage collaboration among non-profit societies while providing a central one-stop-shop for clients.

Why Share Service

There are many reasons why non-profit societies may aspire to share services with another non-profit society. From this study, the most common reason non-profits decided to share services was to reduce operational costs and deliver services more efficiently and effectively.

Shared Service Benefits

There are many benefits to non-profit societies sharing services. From this study, common shared service benefits include:

- **Increased Organizational Capacity**: Non-profit societies sharing services can experience improved organizational efficiencies. By sharing services with other non-profits, economies of scale and streamlined processes can be achieved. This allows each society involved in the shared service arrangement to reallocate resources and staff time to high priority programs and services.

- **Collaboration**: Shared capacity and resources can allow non-profit societies to more effectively collaborate on projects of mutual interest. Sharing services can also lead to more knowledge and information exchange given the increased in-person interaction between organizations.
- **Improved Service Delivery**: Non-profit societies that share space create a convenient location for clients to access services. In addition, money saved on operations can be redirected to programs and services for clients, or towards hiring specialized staff to better meet client needs.

Shared Service Risks

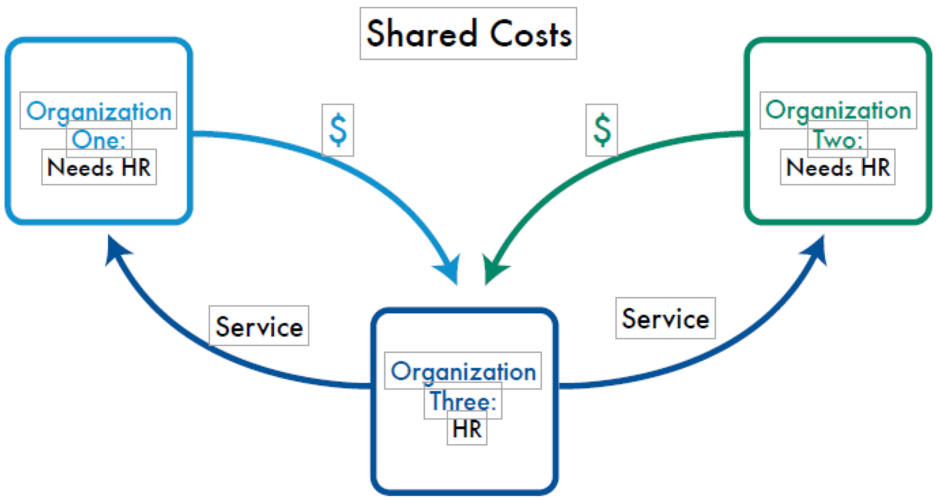
From this study, common risks to sharing services include:

- **Protecting Client Information**: Collaboration is a key element to sharing services. However, maintaining client confidentiality can be challenged when non-profits share knowledge and information. In response to this issue, some non-profit societies create information sharing agreements to protect joint clients' privacy rights.
- **Potential Friction**: Although one of the objectives to sharing services is collaboration, this is not always inherent. Non-profits that have conflicting values and mandates are more likely to work in isolation and avoidance.
- **Competing for Funding**: Non-profit societies may compete for funding, especially societies that deliver similar programs and services. Competition can create tension between the organizations and may counteract collaboration efforts. The competitive nature of limited funding has, in some cases, resulted in non-profits being reluctant to share information and resources in order to not jeopardize potential funding opportunities.

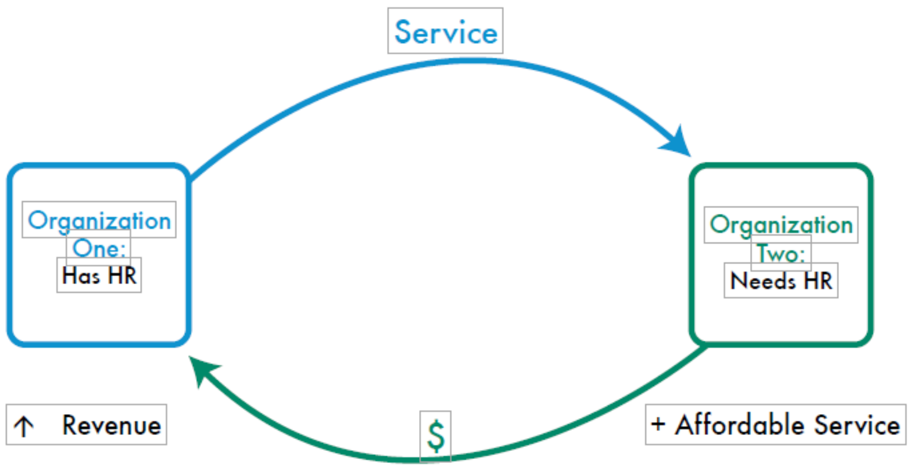
Study participants provided examples where non-profit societies sharing space competed for funding. In one case, a non-profit's long-term funding was not renewed and was transferred to a co-tenant. This resulted in one society downsizing and the other upsizing. Subsequent consequences included tension between co-tenants and less collaboration.

Models of Shared Services

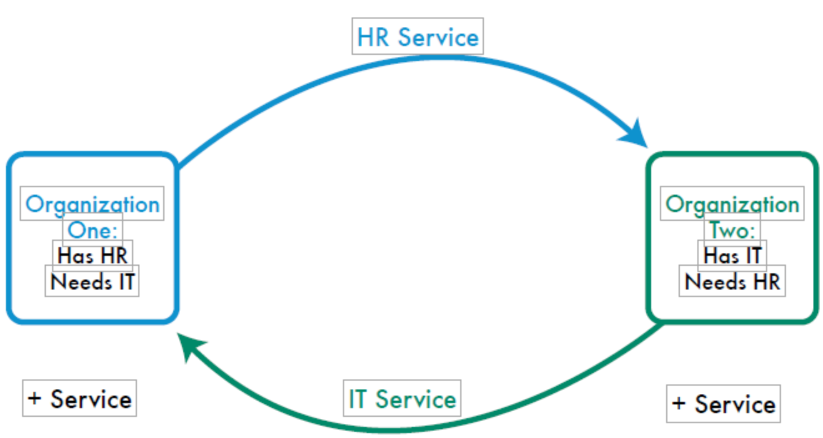
Model #1 - Shared Management Organization (SMO):
This model involves creating a third-party entity co-owned by all organizations. The new entity provides specific services for all organizations involved in the shared agreement. For example, a new entity can be created with a human resource function to serve all organizations. More than one shared service can be introduced to the SMO over time. By sharing services through the SMO, all organizations share expenses, which is cost-effective compared to contracting services individually**.**



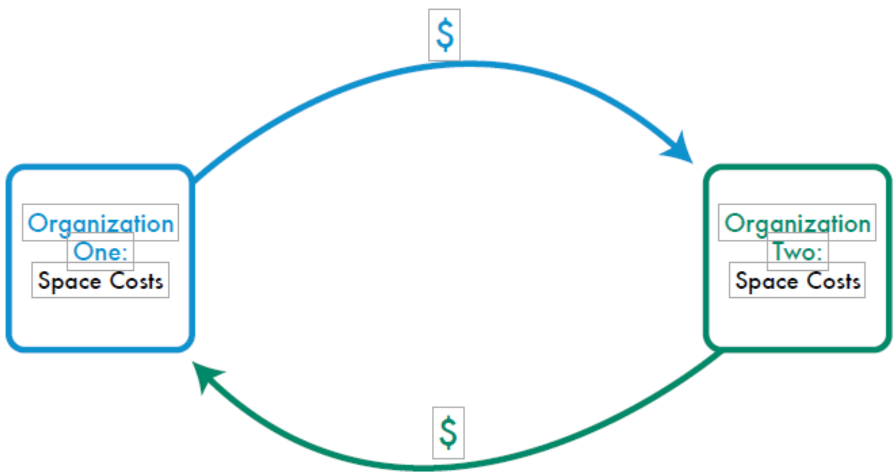
Model #2 - Management Contract Model:
This model involves contracting out services from one non-profit society to another, for a fee. This model is most appropriate when one society is significantly larger than another and has specialized in-house services. For example, one society may have a human resource function and another society does not. The society with human resources provides human resource services to the other society on a contract basis, either for a nominal or discounted rate or at-cost. The receiving society accesses an affordable human resource service, and the other society creates a revenue stream that can be reinvested into their operations.



Model #3 - Service Exchange:
This model involves two or more organizations exchanging a service for another. For example, one society has a human resource function but no IT. The other society has an IT function but no human resources. These organizations can exchange human resource services for IT services, and vice versa. This is a cost-effective approach to collaborating and sharing services.



Model #4 - Shared Space:
This model involves two or more organizations co-locating / co-tenanting in one location. Sharing space can include sharing meeting space and shared 'backend' services such as administration and bookkeeping. All organizations involved share expenses related to land and buildings.



Key Steps

(1) Preparing the Groundwork
As a starting point, non-profit societies interested in sharing services can prepare documents to support a business case for a shared service arrangement.

- **Review Organizational Goals**: Review the society's vision and long-term goals, ideally aligned with an organizational strategic plan. Goals can be referenced when exploring a shared service opportunity to ensure the opportunity aligns with the society's envisioned direction.
- **Prepare Financial Statements**: Document cash flow and, for housing societies, identify unit vacancies or other gaps in revenue streams. Document long-term capital needs and status of replacement reserve funds. Identify any shortfalls in current or future funding.
- **Resolve Outstanding Organizational Issues**: Address organizational issues prior to pursuing a shared service arrangement. This can include human resource issues, grievances and office conflicts.

(2) Aligning with Compatible Organizations
A key objective to ensuring a successful shared service arrangement is to align with a compatible non-profit society. Compatibility is measured by shared values and a shared approach to delivering services. Sharing services with organizations that you already have an established relationship with is a good starting point.

Once one (or more) compatible non-profit society has been identified, and all organizations agree to explore the opportunity of sharing services, the next step is to establish a process agreement.

- **Process Agreement**: This agreement outlines the process and conditions for non-profit societies to follow when exploring the option of sharing services. The process agreement should include privacy protection clauses, with an option to not pursue a shared service arrangement should it not be favourable for one or all organizations involved.

(3) Undertaking a Due Diligence Review

Exploring the opportunity to share services with compatible organizations involves conducting research, reviewing documents, analyzing risks and participating in meetings. Assigning team members to undertake this work is a key starting point.

- **Establish a Due Diligence Committee**: A due diligence committee should include internal staff members to evaluate the benefits and risks associated with sharing services. Each non-profit society should have its own committee.
- **Identify Shared Service Model**: At this stage, both committees should meet and discuss the potential services that could be shared. Generate a list of potential shared services to inform subsequent steps. In addition, determine the shared service model most appropriate for the arrangement.
- **Calculate 'Fair Share'**: Once a shared service model is identified, the due diligence team should calculate the fair share of financial and resource contributions to be made by each organization involved in the shared service arrangement. For example, if three organizations are involved and one organization is significantly larger than the other two and requires the majority of office space, then the large organization would have to contribute more towards the shared costs. Fair share calculations should be revisited regularly as organizations scale up or scale down over time.
- **Identify Co-Benefits and Risks**: Beyond the fair share calculation, the due diligence team should investigate co-benefits and risks to sharing services. This includes the potential for information exchange, project collaboration and opportunities to jointly purchase professional services.
- **Prepare a Business Case**: The business case should include a summary of the due diligence review and recommendations to pursue or withdraw from the shared service arrangement. The business case should identify the shared service model and clearly outline the benefits, risks and anticipated outcomes of the potential shared service arrangement. Fair share calculations should be demonstrated. Ideally, the business case should include forecasts on how all organizations could perform when sharing services, and how the shared service arrangement would benefit clients/tenants and the broader community.

  The business case should be shared with all non-profit housing societies involved in the potential shared service arrangement. The due diligence committee should share the business case with their Board and receive direction on next steps. This may involve a series of discussions between the due diligence committee, executives and the Board, including follow-up risk and cost-benefit analysis. The non-profit societies involved may benefit from bringing in a professional facilitator to help guide these discussions towards making a decision to officially share services.

(4) Pursuing a Shared Service Arrangement

Should the opportunity to share services prove favourable and all non-profit societies involved agree to pursue this approach, the next step is to plan for and pursue a shared service arrangement.

- **Prepare a Shared Services Agreement**: An official agreement to share services should be prepared by a lawyer. The shared service agreement should outline key steps required to pursue the shared service arrangement, and can also describe the shared service objectives, timeline and governance. The agreement can also outline protocol for addressing organizational confidentiality issues, vulnerable clients and potential sensitive situations. A code of conduct may also be attached as a schedule, including methods to address potential conflict, competing for funding and to ensure that the shared service is amicable and fair.

(5) Managing Organizational Changes

- **Assess Shared Service Structure Regularly**: There will likely be a learning curve and a period of adjustment once organizations start sharing services. It is important to continually monitor the shared service structure to ensure it remains fair and effective.
- **Facilitate Collaborative Meetings**: Organizations involved in a shared service arrangement will need to, from time to time, participate in collaborative meetings to foster cooperation and friendly communication. This can reinforce the objective of collaboration, knowledge and information sharing and identify opportunities to continually improve the arrangement.
- **Communicate on Issues**: Organizational needs and sources of funding can change over time. It is important that trust is established and continually reinforced in the shared service arrangement, including honest communication about funding. The intention is to avoid unfriendly competition for funding and to ensure all organizations involved have sustainable operations.

APPENDIX A: List of Participants + Acknowledgements

Key informant interviews for the shared services and asset transfer reports were done at the same time. As such, many of the interviewees spoke to both shared services and asset transfer issues, though some organizations spoke to only one. Preparation of this report was made possible by the participation of the following list of key informants:

- The Bloom Group
- CHIMO Community Services
- LEDUC Foundation
- M'Akola Group of Societies
- Pacifica Housing
- posAbilities
- Society of Hope
- Toronto Community Housing Corporation
- VanCity - Community Investment
- Victoria Park Community Homes
- Windsor Essex Community Housing
- Woodgreen Community Services Society