
Setting the Agenda: Moving Forward on Financing

A Report by the Working Group on Financing

October 2002

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Message From the Working Group on Financing

In mid-2000, the Voluntary Sector Initiative (VSI) was established to examine new ways of working together and strengthening the relationship between the voluntary sector and the federal government for the benefit of all Canadians. Various aspects of the relationship were examined through a “Joint Table” process, others, including financing of the sector, were examined by sector working groups.

A report on the processes and projects undertaken by the working group is included in the VSI Secretariat’s final report; it includes a list of products and meetings, a summary of activities, and an accounting of funding, as part of the Secretariat’s financial reports. This report is intended to identify specific recommendations coming from that work, including the context in which it was developed, and an explanation for its inclusion. The Working Group on Financing worked in collaboration with VSI Joint Tables and mechanisms, other sector groups and funders to move financing issues forward.

We are honoured to have been a part of this important initiative and thank all those who contributed to our work.

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Background:

How voluntary sector organizations receive money, as well as how much they receive, is of major importance to meeting their missions. This was recognized in a report prepared by joint working groups of federal government officials and voluntary sector leaders in 2000. This report, entitled *Working Together*, highlighted funding as a fundamental issue in the relationship between government and the sector, and as a necessary condition of capacity building.

When this report led to the Voluntary Sector Initiative, later in 2000, joint deliberating bodies were created, but the government chose not to address financing in this "Joint Table" format. Instead, the Treasury Board Secretariat (TBS) undertook a study on federal funding of the sector, and a sector-only working group was created to move the financing agenda forward.

A report on the processes and projects undertaken by the working group is included in the VSI Secretariat's final report; it includes a list of products and meetings, a summary of activities, and an accounting of funding, as part of the Secretariat's financial reports. This report is intended to identify specific recommendations coming from that work, including the context in which it was developed, and an explanation for its inclusion. Its audiences include the Government of Canada; the voluntary sector in general; the Voluntary Sector Forum (an interim leadership body for the sector, responsible with government for

the remaining three years of the VSI); and those voluntary sector organizations that have a funding relationship with the Government of Canada, or anticipate such a relationship.

It is written in a context of increasing pressure on voluntary organizations to diversify their funding sources; to deliver services as agents of governments; to fill gaps left by government departure from some service areas; to account in more formal and diverse ways for the funding they do receive; to comply with increasingly complex application and bidding processes; to establish partnerships and consortia to qualify for certain sources of funding; and to build a base to sustain their operations in between funding for short-term and specific projects. As a part of this diversification of funding sources, the government can help the sector by strengthening and broadening its support of tax treatment of donations to charities.

In addition to these new pressures, not-for-profit organizations are facing increasing competition for funds from others in the sector; growing challenges in recruiting, training and retaining paid staff and volunteers; fewer funders willing to pay for the core operations, e.g., phone, office space, managing staff and volunteers, and computers; and increasingly complex and changing demands from communities for services. Maintaining sustainable capacity is critical for organizations to be able to continue to respond to needs today while finding sustainable solutions to root causes in their communities.

The voluntary sector has, from its earliest days, been an innovator in service delivery, trail-blazer in identifying needs and opportunities in communities, and magician in stretching limited resources. Not-for-profit organizations are often where people first learn how to make their case in a group, how to mobilize support for an issue, and how to approach staff and elected officials in governments to put an issue on the public agenda. The voluntary sector is also where people learn the skills necessary for active citizenship and meaningful democracy. These tasks and responsibilities have not diminished in the face of the growing financial and administrative pressures on these organizations.

The Agenda:

The following recommendations are based on activities and initiatives related to financing necessary for the voluntary sector to continue to meet its broad social, cultural, environmental, and recreational goals, therefore strengthening communities as a means and an end. They are offered as the cumulative wisdom of the Working Group on Financing, based on research, discussion and consultation, brought to the attention of government and the voluntary sector as important building blocks of both the funding relationship between the sector and the government; and the capacity of organizations and the sector itself. The recommendations recognize the importance of the Code of Good Practice on Funding, developed jointly as a means of putting the Accord between the government and the sector into action; and the valuable programs and products emerging from other parts of the Voluntary Sector Initiative. Taken together, these recommendations are intended to set the agenda for further progress in the area of financing of the voluntary sector and its organizations.

The recommendations are divided into two sections: recommendations to the Government of Canada and recommendations to voluntary sector organizations, including those that have or anticipate a funding relationship with the federal government. The voluntary sector also has a fundamental role to play in the implementation of recommendations to government; without our vigilance as monitors and advocates, these recommendations may not be implemented.

Recommendations to the Government of Canada:

1. **Make joint deliberation and action on financing the sector a high priority for the remaining portion of the Voluntary Sector Initiative.**

The Capacity Joint Table has been supportive of the work of the Working Group on Financing, and has taken the research and wisdom of the group into account in developing its programs. However, the issue of financing is so fundamental to the relationship between government and the sector, and to building and sustaining capacity in voluntary sector organizations, that ongoing joint attention to this issue and these recommendations in particular, remains a necessary step to achieving the fullest possible results from the VSI.

2. **Acknowledge responsibility for appropriately funding and supporting the voluntary sector as service delivery agents for what were previously government services.**

Through privatization of service delivery, the federal government relies more and more on voluntary organizations. Even where they are contracted service providers, their stability and survival depend on more than per-client fees, or funding based on outcomes of the services provided. Voluntary organizations reach and serve those who are unable to purchase services from for-profit providers; and funding levels must be adequate and sustainable to support organizations carrying out these responsibilities.

3. **Encourage individual and corporate financial support for voluntary organizations with tax measures that provide incentives to donors.**

The federal government has a role to play in encouraging citizens and corporations to participate in and contribute to building stronger communities by creating and supporting an enabling environment through its regulatory policies. While many voluntary sector organizations receive no federal funding, they could benefit from modifications to other federal policies. For example, recent changes to the tax treatment of donations of gifts of securities have resulted in increased resources to the sector.

A number of voluntary organizations with particular expertise in the tax treatment of charities and charitable donations have made recommendations on specific approaches to improving tax treatment to encourage generous private giving. We support the implementation of recommendations made by organizations including, the Canadian Centre for Philanthropy, the Association of Fundraising Professionals, Canadian Association of Gift Planners, Community Foundations Canada and Philanthropic Foundations Canada.

4. **Account for and report on government financial contributions to the voluntary sector on a regular basis.**

Such accounting is necessary and will permit analysis of whether public funds are being disbursed in the equitable and inclusive ways described in the Accord and the Code of Good Practice on Funding. It will also increase transparency, a commitment made by both government and the sector in the Code.

5. Adopt consistent, manageable accountability requirements.

The voluntary sector recognizes the needs that led to the creation of new accountability measures in the past several years, however, the way in which they are being applied constitutes a major impediment to organizations. Increasing and changing accountability guidelines continue to place an onerous administrative burden on frontline organizations. Since the revised guidelines, organizations are expected to do more detailed reporting for which they are given no additional resources. Many are organizations with longstanding and positive relationships with funding departments. The work of organizations, in partnership with, or with support from the federal government, is being impeded and sometimes prevented by the way in which these new accountability measures are being applied.

6. Designate a staff person within each department to act as a primary contact for voluntary organizations that are seeking funding, or are receiving funds from that department.

Seen as a “help desk”, a contact would be independent of those making decisions on funding, so that processes and decisions could be reviewed and any confusion or challenges resolved. Short of an appeal process, or an “ombudsperson”, this staff contact would have sufficient authority to explore a situation, and to convene a meeting of those involved in a decision or process that is unclear or unsatisfactory to an organization seeking or managing departmental funds.

7. Implement Strategic Investment throughout government departments and agencies and support its implementation through education and training.

Strategic Investment is an innovative funding approach, developed as part of the TBS Federal Funding Study, that uses existing funding mechanisms to strengthen the capacity of organizations in specific areas. It will enhance their ability to work collaboratively with federal government departments and agencies on agreed-upon goals over a specified period of time. Successful implementation of this new approach will require active dissemination of this information and education of federal government staff.

8. Find ways to provide non-restrictive, multi-year funding for voluntary sector organizations, allowing them the flexibility to allocate those funds to best meet their mission. The Strategic Investment approach being proposed as a result of the Treasury Board Secretariat study is a step in the right direction, toward this goal.

Without multi-year funding, voluntary sector organizations do not have the solid base on which to innovate; reach out to new partners and funders; implement operational improvements to increase effectiveness and efficiency; and develop and retain the skilled base of paid staff, Boards of Directors, and volunteers to make their unique contribution to communities large and small across Canada. Without the flexibility to allocate these funds as needed to both provide programs and services and to sustain their organizations, these organizations cannot develop greater capacity to meet growing and new needs and opportunities.

9. Dedicate resources to the implementation of the Code of Good Practice on Funding, including for its dissemination and for training appropriate officials, to develop ways to enhance the funding relationship with the sector.

Public servants face growing numbers of “lenses” and codes of practice in their work; the Code of Good Practice on Funding and the Accord it supports could be lost among them. Without an active dissemination and training program, the Code will be a document on a shelf, rather than an interactive tool encouraging new methods and approaches in the day-to-day work of the staff in a position to implement it.

10. Create a time-limited, action-oriented task force with a mandate to explore creative and new financing instruments.

Voluntary organizations are working to diversify their funding sources, but the instruments available to them are limited. New financing instruments could serve to expand the sources and mechanisms of revenue and financing available to voluntary sector groups. A task force should be formed of experts from within the public, private and voluntary sectors; and research commissioned by the Working Group on Financing would inform the work.

11. Review existing legislation with respect to related business activity by sector organizations in order to make it better reflect the contemporary realities faced by voluntary and charitable organizations; and to create an environment that is open to social entrepreneurship.

Charities (other than private foundations) are allowed to undertake related business activities as a means of diversifying their funding sources and being more entrepreneurial. While certainly the rules on related business activity need to be clarified, as undertaken by the Joint Regulatory Table, it is the view of the Working Group on Financing that a review of the underlying legislation is also necessary. This legislation was drafted several decades ago, and while the realities faced by voluntary organizations have changed significantly, the legislation has not. We would respectfully ask that the Reference Group of Ministers refer this matter to the appropriate officials with a direction that they undertake a review that involves the voluntary sector and explores the issue from all perspectives.

Recommendations to the voluntary sector

1. **Make joint deliberation and action on financing the sector a high priority for the remaining portion of the Voluntary Sector Initiative.**

Efforts within the first phase of the VSI to address the financing issues identified in the Working Together report were made within the Capacity Joint Table, and as part of the Treasury Board Secretariat Study on Funding. It is clear to the Working Group on Financing, and to those involved in consultations and focus groups within the VSI consultations that without funding practices that contribute to stability, voluntary sector organizations cannot develop greater capacity to meet growing and new needs and opportunities. The time is right for joint deliberation between government and the sector to identify and address existing problems.

2. **Convene meetings of representatives of all levels of government, public and private foundations, and private-sector funders to discuss the impact of current funding practices, including the urgent need for financial support for operational stability and capacity building, and to determine, collectively, the best approaches to meeting this need.**

It is clear that the solution to funding the work of voluntary sector organizations, including their operational stability, does not rest with any one funder. Research commissioned by the Working Group on Financing is demonstrating that the regulatory framework, tax treatment, and practices of various funders combined can contribute to the stability needed for innovation and increased performance. Deliberation among all the stakeholders can contribute to the development of an integrated and collaborative approach to address this issue. The voluntary sector can convene a meeting with all these stakeholders, and it should do so regularly.

3. **Advocate for an impact analysis, by the Office of the Auditor General, by 2004, to permit government and the sector to get a clearer picture of how current funding practices impact on the work and results of voluntary sector organizations who receive public funds.**

It is recognized that increasing complexity of funding application processes, reporting requirements, and evaluation and outcome measurement are putting additional pressure on already-strained voluntary organizations. What is not clear is how the pressure is being experienced, and what impact it is having on results within programs being funded, and within the organization itself. The Auditor General maintains autonomy in deciding what program areas will be reviewed. It is the responsibility of the voluntary sector to ensure that the Auditor General is aware of the sector's interest in this particular audit, and how it will serve for greater public transparency and improved service to Canadians.

4. **Make implementation of the Code of Good Practice on Funding a priority within the sector, by disseminating the Code widely, and by developing the tools organizations need to implement and expand on the practices described in the Code. Establish the means by which sector organizations can evaluate government funding practices.**

The Code of Good Practice on Funding is a practical tool that gives the Accord meaning within the voluntary sector, and will contribute to an improved and strengthened relationship between the sector and the federal government. It is the responsibility of voluntary sector organizations to be familiar with the Accord and this Code, and to cite them in their discussions with government funders. Wide dissemination of the "Guide to Improving Funding Practices", developed as part of the TBS Federal Funding Study, in collaboration with the Working Group on Financing, can

also support compliance with the spirit of the Code and the Accord.

Sector organizations are also responsible for implementing the practices described, adapting existing practices to more closely resemble those articulated in the code, and to develop and share new practices that go even further to meeting the spirit of the Accord. The Code provides a concrete opportunity for further discussion with government about how the sector is funded, and how the funding relationship can be improved to help both government and the sector improve the lives of Canadians and their communities. Periodic evaluations of sector satisfaction with current practices would inform those discussions.

5. Undertake, at an organizational level, to improve financial management and accountability practices, and the skills necessary to implement them.

While voluntary sector organizations have been facing increasing pressure to improve their practices, only some organizations have been able to develop tools to make this achievable with increasingly constrained resources. Work commissioned by the Working Group on Financing includes a “tool box” on accountability and financial management for organizations, including information about and links to a large array of existing resources.

6. Develop and implement financial planning services for voluntary sector organizations to assist them in matching their mission and goals to the most appropriate sources of funding and financing; and prepare a plan for financial sustainability.

It is clear that all funding sources are not the same. Some are targeted specifically to increasing capacity, others are interested only in the tangible outcomes of particular services; most have a range of priorities and requirements. Some organizations’ issues or campaigns are particularly well suited to private fundraising, perhaps through direct-mail solicitation, while others might lend themselves to partnerships with interested private-sector organizations. A service available to all voluntary sector organizations to assist them in assessing various funding sources and mechanisms, will help organizations secure the resources most appropriate to achieving their mission.

7. Coordinate sector voices to government and other funders on issues related to financing of the sector.

The Working Group on Financing has facilitated discussion and strategy development across the sector on tax-related and other funding issues. The momentum gained through this process creates new opportunities for the sector to develop collective positions and common strategies. This position of collective strength as a sector on tax-related and other funding issues is critical and the Voluntary Sector Forum should create a mechanism to ensure continued dialogue.

Conclusion:

There are always more demands for public funds than can be met at any moment in time by any government. The voluntary sector has a strong case to make for improved funding practices, including longer term funding, support for operational underpinnings of organizations, enhanced charitable tax incentives, and streamlined and coordinated requirements for seeking, managing and accounting for public funds. The recommendations above are some specific steps that will help move in that direction, but the sector as a whole must move the agenda they create forward.

It is up to the voluntary sector to monitor governments' commitments to fund the sector, with a view to keeping the important issue of financing on the "radar screen" of governments at all levels, and to ensuring that progress is made toward a more stable, sustainable funding regime.