IN BRIEF

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Grants and Contributions

INTRODUCTION

In June 2000, the Treasury Board implemented a new Transfer Payment Policy in response to the Government of Canada's focus on strengthening the management of public spending. Some of the key objectives of the revised policy were to ensure the "sound management of, control over, and accountability for grants and contributions."(1)

This paper will look at the trend in grants and contributions from 2001-2002 to 2004-2005, and examine this trend within the context of recommendations by the Auditor General.

DEFINITIONS

Both grants and contributions are types of "voted transfer payments," which means that funding for these mechanisms must be approved by a vote in Parliament. Generally, this occurs three times a year: through the Main Estimates and through Supplementary Estimates A and B (A in the fall, B in the spring).

- *Grants*: A grant is an unconditional transfer payment where the eligibility criteria that are applied before payment assure that the payment objectives will be met. An individual or organization that meets the eligibility criteria for a grant can usually receive the payment without having to meet any further conditions. Grants are not subject to being accounted for or audited.

- *Contributions*: A contribution is a conditional transfer payment in which there are specific terms and conditions that must be met by a recipient before payment is given. Contributions, unlike grants, are subject to performance conditions that are specified in a contribution agreement. Before receiving a contribution, the recipient must provide a performance measurement strategy, including an explanation of the program objectives and expected results; performance indicators and targets; and internal audit and evaluation strategies. The government can audit the recipient's use of a contribution.

Voted transfer payments are distinct from statutory transfer payments. Statutory payments are those that have continuing authority by an act of Parliament, such as Old Age Security payments or transfer payments to provinces. These types of transfer payments do not require Parliament's approval each year.

GRANTS AND CONTRIBUTIONS SPENDING, 2001-2002 TO 2004-2005

The following tables provide a snapshot of how spending through voted transfer payments has changed from 2001-2002 to 2004-2005.

Table 1
Total Transfer Payments

	Total Voted Transfer Payments ($ million)	Voted Transfer Payments as % of Total Voted Appropriations
2001-2002	19.52	34.3%
2002-2003	19.76	33.6%
2003-2004	20.97	33.3%
2004-2005	25.49	38.3%

Source: Library of Parliament, from Estimates documents.

As Table 1 shows, there has been a steady increase in the amount spent over the last four years on voted transfer payments. However, the total amount spent as a percentage of total voted appropriations changed little from 2001-2002 to 2003-2004.

Table 2
Total Grants and Contributions

	2001-2002	2002-2003	2003-2004	2004-2005
Total Voted Grants ($ million)	5.80	5.89	6.39	8.62
Voted Grants as % of Total Voted Transfer Payments	29.7%	29.8%	30.5%	33.8%
Total Voted Contributions ($ million)	13.72	13.88	14.58	16.87
Voted Contributions as % of Total Voted Transfer Payments	70.3%	70.2%	69.5%	66.2%

Source: Library of Parliament, from Estimates documents.

Table 2 offers a breakdown of the total voted transfer payments into the two components: grants and contributions. As can be seen, the proportion of funding for grants has increased from 29.7% to 33.8% over four years. This corresponds with a decrease in the proportion being voted as contributions.(2) There is thus a modest trend in favour of transfers that do not involve continued monitoring of performance.

AUDITOR GENERAL REPORTS

The Office of the Auditor General has focused on the management of grants and contributions in several of its reports. In general, the Office has called for greater adherence to existing Treasury Board policies and better monitoring of transfer payment agreements. A few examples of the Office's findings are provided below.

In 2001, the Office of the Auditor General examined the management of grants and contributions across the government. This audit followed up on previous reports on the management of voted transfer payments dating from 1977, when the Office found "non-compliance with program authorities, weaknesses in program design, instances of poor controls, and insufficient measuring and reporting of performance."(3) While the Office noted that there had been some improvement in these areas over the years, it found the same types of problems in the 2001 audit.

The 2001 audit of grants and contributions noted several areas that needed to be improved, including the following:

- Program design needed attention in most programs, in particular to clarify the specific results expected from the spending of public money.

- Where they existed, program evaluations were often limited in scope and did not provide a clear picture of whether programs were achieving value for money.

- Many of the programs had not been audited in more than five years.

- Parliament had received only limited information on program performance.

- Decisions to fund projects were often based on partial or perfunctory assessments of project merits.

- Financial control over disbursements needed to improve in some programs.(4)

In its 2003 audit of Natural Resources Canada, the Office of the Auditor General found a number of weaknesses in the financial management of the department's contribution programs. Among other deficiencies, the Office noted that the Treasury Board requires the Report on Plans and Priorities (RPP) to include supplementary material describing contributions, such as stated objectives, expected results and outcomes, and targets for achievement. However, the Office found that the stated objectives, expected results, outcomes, and targets in the RPP for the 16 contribution programs audited were too vague to enable the department to be held accountable.(5)

In the 2005 Status Report, the Office of the Auditor General looked at the Canadian International Development Agency's (CIDA) management of grants and contributions. The report found that, since 2000, "CIDA has sharply increased the use of grants rather than contributions to fund aid projects."(6) The report detailed that the Office was "concerned that, without having assessed the probable impact on expected development results, by using grants CIDA may be sacrificing a degree of control and oversight over how recipients spend CIDA funding." This is problematic because grants require less accountability than contributions. By increasing its use of grants, CIDA assumed more of a risk that the grant recipient might not meet the targeted goals of the program than it would if it had used a contribution funding mechanism for the same initiative with the same recipient.

CONCLUSION

There is a government-wide trend towards greater accountability in public spending. At the same time, there continues to be a strong emphasis on controlling costs. Increasing the use of grants can result in a loss of accountability in the management of programs, because grants cannot be audited. However, grants are less expensive to manage, because once the funding has been approved and dispensed there is no need for active monitoring or auditing. Taking the concerns of the Office of the Auditor General into account, a balance must be struck between increasing accountability and reducing program management costs.

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(1) Treasury Board Secretariat, Backgrounder, "Grants and Contributions Policy," 1 June 2000, http://www.tbs-sct.gc.ca/media/nr-cp/2000/0601_e.asp.

(2) A more detailed look at the figures presented here, including an explanation for the identified trend, will be presented in another paper.

(3) Office of the Auditor General, *2001 Report of the Auditor General of Canada*, Chapter 4, "Voted Grants and Contributions – Government-Wide Management," December 2001, section 4.9, http://www.oag-bvg.gc.ca/domino/reports.nsf/html/0104ce.html.

(4) *Ibid*., section 4.31.

(5) Office of the Auditor General, *2003 Report of the Auditor General of Canada*, Chapter 10, "Other Audit Observations," November 2003, section 10.93, http://www.oag-bvg.gc.ca/domino/reports.nsf/html/20031110ce.html.

(6) Office of the Auditor General, *2005 Status Report of the Auditor General of Canada*, Chapter 5, "Canadian International Development Agency – Financial Compliance Audits and Managing Contracts and Contributions," February 2005, section 5.4, http://www.oag-bvg.gc.ca/domino/reports.nsf/html/20050205ce.html.