

# **Submission to the Legislative Committee on Bill C-2: The Federal Accountability Act**

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Voluntary Sector Forum  
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## Table of Contents

Executive Summary.....	pp. i - iii
Introduction.....	p.1
I. The Community Nonprofit Sector.....	p.3
II. Part I of the Act - Grants and Contributions.....	p.5
III. Part III of the Act - Procurement.....	p.9
IV. Sector Infrastructure.....	p.10
V. A Government Accountability Framework for the Sector .....	p.11
Conclusion.....	p.14
Recommendations.....	p.15
Bibliography .....	p.17

# Executive Summary

## **The Community Nonprofit Sector**

In this Submission, Imagine Canada, in collaboration with other national, regional and local organizations within the community nonprofit sector, is bringing forward sector views to the Legislative Committee on the impact of Part I of the Federal Accountability Act, Public Sector Reform and, in particular, the administration of Grants and Contributions, and of Part III of the Act, Procurement, on Canada's community nonprofit sector. The Sector consists of 161,000 incorporated nonprofit organizations, of which 80,000 are registered charities, as well as approximately 750,000 unincorporated organizations, together with Canada's 6.5 million volunteers. Canada's community nonprofit sector engages more than 2 million Canadians in paid employment and accounts for 7.8 percent of GDP. With approximately 1200 members, Imagine Canada is the largest intermediary organization working on behalf of groups doing public benefit work in Canada

## **Grants and Contributions**

Under Part I of the Act, the sector wishes to underscore the extent to which Grants and Contributions are an issue of paramount importance to a vibrant community nonprofit sector. The federal government is the single largest source of funding for many Canadian sector organizations and accounts for 7%<sup>1</sup> of funding of Canada's 161,000 registered charities and not-for-profit corporations. The 'web of rules' associated with application, compliance and audit obligations under federal 'G&Cs' unduly strains the capacity of these organizations and imposes an administrative burden that is often disproportionate to the amount of the grant or contribution or the capacity of a typical recipient organization to comply. We support the Government's commitment to re-calibrate the administrative demands under federal Grants and Contributions processes relative to outcomes, through the establishment of the Blue Ribbon Task Force under the Accountability Action Plan, through its Task Force on Community Investments, through the recommendations of the Auditor General's Report on Grants and Contributions of May 2006<sup>2</sup> and through related measures highlighted below.

## **Procurement**

Under Part III of the Act, Procurement, the sector wishes to echo and build on the views of umbrella groups representing small- and medium-sized enterprises (SMEs) in expressing concern about how proposed consolidation of federal procurement activities and the government's purchasing power will tend to result in contracting practices that greatly favour large enterprises over small and medium enterprises (SMEs) and organizations (SMOs). We support the enshrining of 'fairness, openness and transparency' under Part III of the Act but are concerned that the consolidation of government purchasing power is inconsistent with the fairness principle.

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<sup>1</sup> Canadian Centre for Philanthropy, *The Capacity to Serve, The National Survey of Nonprofit and Voluntary Organizations* (NSNVO, 2003).

<sup>2</sup> Report of the Auditor General of Canada, Chapter 6. Management of Voted Grants and Contributions, May 16, 2006.

## **Sector Infrastructure**

More broadly, we support initiatives that build strong communities through a vibrant and sustainable community nonprofit sector. In this regard, we applaud the measures to eliminate Capital Gains tax on donations of listed stock and certain lands to registered charities, which had received all-Party support and were included in Budget 2006. Such tax measures, together with more streamlined grants and contributions processes and procurement practices that are fair to small and medium enterprises and organizations as advocated above, are important building blocks. However, Canada's community nonprofit sector lacks infrastructure.

One example is the inability of many community groups to access or afford liability, especially where their program delivery involves potentially risky elements such as outdoor activities for children with disabilities. Others groups face difficulty recruiting Board members and meeting their governance obligations because they cannot obtain Directors and Officers liability and errors and omissions insurance and because the liability provisions within Canada's Not-for-Profit Corporations Act governing liability of Directors require updating<sup>3</sup>.

Grants, contributions, service delivery contracts and donations do not always allow for insurance costs. These short-term and constrained funding models also diminish sector capacity to invest in long-range planning, human resource management and information technologies that are often presumed to exist and are not included in the funding models.

Therefore, while we applaud the effort to fix the existing instruments by which government contributes to the community nonprofit sector, success on the broader objective of ensuring a viable and sustainable sector that can meet its human resource, governance, insurance and other basic infrastructure obligations, will also require an examination of longer-term and more stable funding models that improve sector infrastructure and address these national barriers. We recognize that this examination may be beyond the scope of this Act or Action Plan and therefore we encourage the Committee to recommend the establishment of a Parliamentary Committee or other measures aimed at addressing this broader funding imperative.

## **A Government Accountability Framework for the Sector**

Finally, community nonprofit organizations support the need to strengthen some aspects of the Government of Canada's accountability processes in order to safeguard the public interest. In 2001, the Government of Canada and the Sector entered into *the Accord Between the Government of Canada and the Voluntary Sector*. The signing of the Accord led to the adoption by the Government and the Sector of the *Code of Good Practice on Funding*, and the *Code of Good Practice on Policy Dialogue*. While there has been some reference to the Accord and the Codes by some departments some of the time, we believe that both government and sector organizations would benefit from government re-asserting its commitment to the Accord and Codes, updating them if required, and re-issuing or reasserting them Government-wide as part of the Accountability Action Plan. This recommendation applies particularly to the *Code of Good Practice on Funding* which deals most squarely with the issue of financial accountability within government and the sector.

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<sup>3</sup> Bill C-21 updating Canada's Not-for-Profit Corporations Act was not yet enacted at the time of Election 2006 and the sector broadly supports its re-introduction.

## Summary of Recommendations

We recommend that the Government of Canada:

### 1. **Grants and Contributions:**

Re-calibrate the burdensome impact on the community nonprofit sector of the ‘web of rules’ embedded in federal Grants and Contributions practices and re-focus on outcomes that are consistent with the sector’s mandate to its donors, volunteers, and the communities that depend on them,

In particular, execute the recommendations in Part 6 of the Auditor General’s Report on Grants and Contributions of May 2006 and empower the Blue Ribbon Task Force and the Task Force on Community Investments to address the burdensome impact on the community nonprofit sector of the ‘web of rules’ embedded in Grants and Contributions processes,

### 2. **Procurement:**

Enshrine ‘fairness, openness and transparency’ under Part III of the Act but recognize that the consolidation of government purchasing power is inconsistent with the fairness principle to be enshrined in the Act insofar as it results in contracting practices that greatly favour large enterprises over small and medium enterprises (SMEs) and organizations (SMOs),

### 3. **Sector Infrastructure:**

Identify complementary measures - such as an endowed fund to supplement current G&Cs and contract funding, or a dedicated Parliamentary Committee – to address the broader policy objective of investing in a strong community nonprofit sector in Canada through longer-term and more stable funding models to improve sector infrastructure and organizational capacity, and

### 4. **Government Accountability Framework for the Sector:**

Adopt a Government Accountability Framework for the Community Nonprofit Sector by updating the Government’s commitment to the *Accord Between the Government of Canada and the Voluntary Sector* and the *Code of Good Practice on Policy Dialogue* and, in particular, the *Code of Good Practice on Funding*.

Duly submitted this 25<sup>th</sup> day of May, 2006, by Imagine Canada:

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# Submission to the Legislative Committee on Bill C-2- The Federal Accountability Act.

## Introduction

The Legislative Committee on Bill C-2, The Federal Accountability Act, has asked for public input on the Bill and its measures to promote greater accountability for the management and use of public funds.

This Submission provides a perspective from Canada's community nonprofit sector to the Committee. It has been endorsed by a number of large national organizations that, in turn, promote the interests of small community-based organizations and the sector as a whole.

The community nonprofit sector respects and values the need for financial accountability. Our ability to finance our work is directly dependent upon our capacity to convince and demonstrate to individual, corporate and public funders that their investment is money well spent.

Public opinion research indicates that we have been largely successful in our accountability relationships. For example, a recent Ipsos Reid Survey found that "there is a near universal belief among Canadians that charities have an important role to play in society in improving our quality of life. The vast majority (79%) feel that charities understand the needs of Canadians better than government and 72% think they do a better job of meeting those needs."<sup>4</sup>

It is this level of public trust that gives the sector's 161,000 nonprofit and charitable organizations the ability to mobilize and harness over \$6.9B<sup>5</sup> in donations and 6.5 million volunteers.

Accordingly, the Sector's perspective in respect of the Federal Accountability Act is that the government must:

### Grants and Contributions:

- Re-calibrate the burdensome impact on the community nonprofit sector of the 'web of rules' embedded in federal Grants and Contributions practices and re-focus on outcomes that are consistent with the sector's mandate to its donors, volunteers, and the communities that depend on them,
- In particular, execute the recommendations in Part 6 of the Auditor General's Report on Grants and Contributions of May 2006 and empower the Blue Ribbon Task Force and the Task Force on Community Investments to address the burdensome impact on the community nonprofit sector of the 'web of rules' embedded in Grants and Contributions processes,

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<sup>4</sup> Muttart Foundation, *Talking About Charities 2004* (2004).

<sup>5</sup> Statistics Canada, Tax Filings data for 2004.

**Procurement:**

- Enshrine ‘fairness, openness and transparency’ under Part III of the Act but recognize that a consolidation of government’s multi-billion dollar annual purchasing power would unduly favour large enterprises over small and medium enterprises (SMEs) and organizations (SMOs),

**Sector Infrastructure:**

- Identify complementary measures - such as an endowed fund to supplement current G&Cs and contract funding, or a dedicated Parliamentary Committee – to address the broader policy objective of investing in a strong community nonprofit sector in Canada through longer-term and more stable funding models to improve sector infrastructure and organizational capacity, and

**Government Accountability Framework for the Sector:**

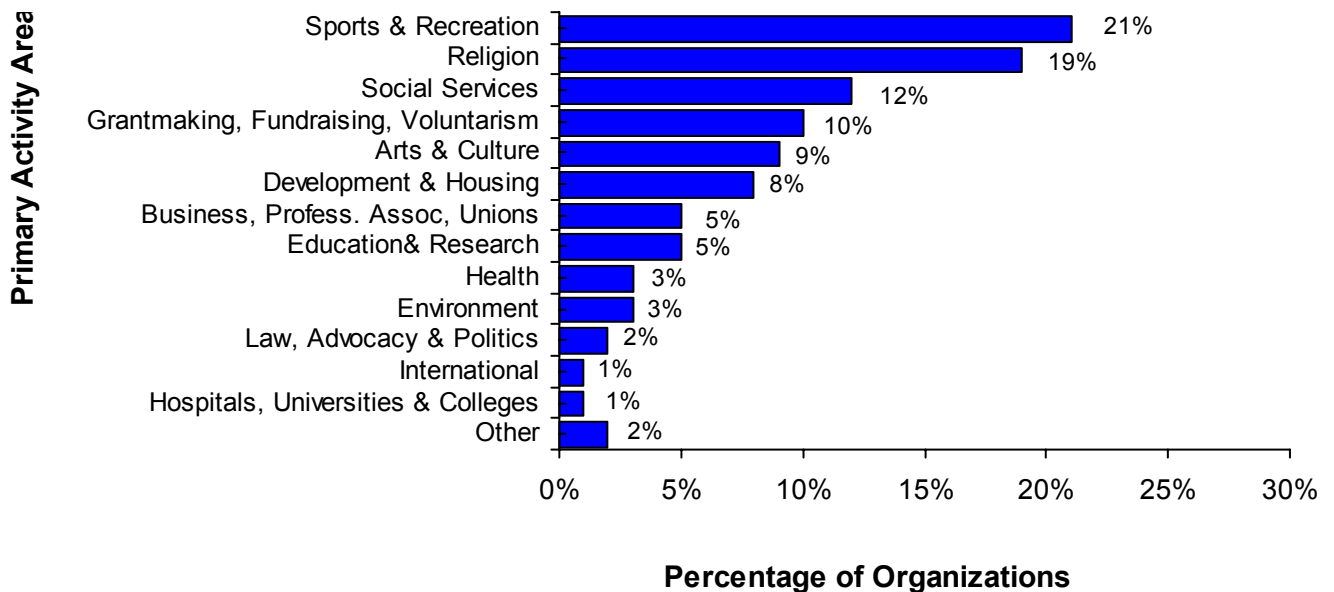
- Adopt a Government Accountability Framework for the Community Nonprofit Sector by updating the Government’s commitment to the *Accord Between the Government of Canada and the Voluntary Sector* and the *Codes of Good Practice on Funding and on Policy Dialogue*.

## I. The Community Nonprofit Sector

Canada’s community nonprofit organizations are an engine for engaged, active communities. They are community anchors and key community partners in building the quality of life for which Canada is respected around the world. The National Survey of Nonprofit and Voluntary Organizations (NSNVO)<sup>6</sup> reports that almost two-thirds of the sector’s 161,000 community nonprofit organizations are focused at the local level. Employees and volunteers build bike paths, organize hockey programmes, help clean rivers, run theatres, welcome newcomers, manage help lines, coach our children, and operate our hospitals, universities and research and development institutes. In other words, they create communities where people want to live, work and play.

Canada’s community nonprofit sector is also a critical contributor to our national economy. Representing 6.8% of the gross domestic product (GDP), it is a significant economic force, with more than two million full-time equivalent workers. In addition, 6.5 million volunteers provide 2 billion hours of donated time. When these volunteer hours are included, the sector accounts for 8.6% of GDP.

The sector is diverse. The NSNVO found that Canada’s community nonprofit sector organizations fell into the following categories:



The Government of Canada relies on this diverse range of community-based organizations to provide local understanding and frontline service delivery capacity to citizens in their communities.

<sup>6</sup> Imagine Canada (formerly the Canadian Centre for Philanthropy), *Cornerstones of Community: Highlights of the National Survey of Nonprofit and Voluntary Organizations* (2004).



In addition, the community nonprofit sector is essential to maintaining and strengthening Canada's democratic system. It plays a crucial role in promoting active citizenship and establishing connections among citizens, communities and governments. In the *National Survey on the Quality of Life in Canadian Communities*, "Canadians believe that charities have the biggest impact on the quality of life in their communities".<sup>7</sup>

Imagine Canada is the former Canadian Centre of Philanthropy and National Coalition of Voluntary Organizations. It is itself a charitable federal not-for-profit corporation that supports Canada's charities, nonprofit organizations and socially conscious businesses and champions the work they do in our communities. Through our Imagine Caring Companies™ Program, we encourage Canadian corporations to commit 1% of their pre-tax earnings to charities. Imagine Canada has submitted this Brief on behalf of numerous national, regional and local organizations with a view to bringing forward a broad sector perspective.

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<sup>7</sup> Strategic Counsel, *National Overview of Findings from a National Survey on the Quality of Life in Canadian Communities* (2005).

## II. Grants and Contributions

### The Problem

The sector views the federal accountability measures in the context of a decade-long trend of cutbacks in grants and contributions funding that have greatly reduced the capacity of Canada's voluntary organizations.<sup>8</sup> In the early 1990s, the relationship between the community nonprofit sector and the federal government changed fundamentally. The Government of Canada moved away from providing funds to help support organizations deliver their programmes and services and instead began "purchasing carefully defined programmes"<sup>9</sup> through service contribution agreements. This shift from grants and contributions to contracts for services was undertaken at a time when government was undertaking significant expenditure reduction. The application of those expenditure reduction objectives to the sector resulted in the erosion of the basic infrastructure required to ensure sustainable organizations and the elimination of sector infrastructure from the policy agenda. The result was a granting system focused on cost reduction, with little understanding or support for the viability of the sector, its constituent organizations, or the outcomes beyond contract compliance that the funding was expected to achieve.

Community nonprofit sector organizations became delivery agents for services that were strictly defined and funded under restrictive terms and conditions. This left organizations with little or no capacity to tailor their services to meet local community needs, to identify or plan for emerging needs, or even to ensure that the government adequately funded the costs of the service delivery or program operations. Community nonprofit sector organizations faced the difficult choice of accepting inadequate funding and projects narrowly focused on short term measures, or withdrawing from the programme and leaving their community without the needed services. Overwhelmingly, they chose to continue to serve their communities. Basic infrastructure quickly eroded.

By every measure and in every study, community nonprofit sector organizations that provide community services under contract to government are faring poorly.<sup>10</sup> Many have serious financing problems, reduced organizational capacity, and difficulties recruiting and retaining staff and volunteers. Sustainable capacity is stretched as organizations juggle short-term contracts and have had to cut back on the very frontline activities that communities most require either because of rising program-related expenses – such as rising insurance costs – or because of increased administrative expenses related to more onerous reporting requirements that must be met within the same budget. Inappropriate costing structures by the federal government have meant that the true costs of the services they are buying are not fully covered, such as the expenses from high staff turnover associated with short-term project-based funding models, or the costs for insurance and risk-management strategies to support front line service delivery

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<sup>8</sup> Susan Phillips and Karine Levasseur, *The Snakes and Ladders of Accountability: Contradictions between Contracting and Collaboration for Canada's Voluntary Sector* (2004).

<sup>9</sup> Lynn Eakin, *An Overview of the Funding of Canada's Voluntary Sector* (2001).

<sup>10</sup> Many studies have chronicled serious problems with the new funding regime, including works by Scott, Eakin, Howarth, City of Toronto, Saunders, and Goldenberg, among others.

activities such as disaster relief, support for victims of crime, or services to children with disabilities. In short, it has become increasingly clear that this new funding regime is not working.<sup>11</sup>

These changes to the sector in response to the expenditure reduction regime were exacerbated by several accountability controversies that led to the imposition of a further layer of expenditure controls. For example, in 2000, the federal government faced significant criticism over Human Resources Development Canada (HRDC)'s management of several of its programmes. Although a thorough examination eventually revealed that the amounts of money either missing or misused were quite small,<sup>12</sup> the damage was done. In response to this controversy, the Government of Canada imposed stringent financial controls on all government contracts, including contribution agreements with the community nonprofit sector. This rigid, rules-based approach resulted in excessive risk-aversion and fear of experimentation within the public service.

Outside the public service, the new risk-averse rules-based approach left the community nonprofit sector scrambling to meet onerous new reporting requirements, many of which are completely out of proportion to the actual risks involved. These requirements are costly to implement and they are seldom recognized in funding agreements. As a result, significant additional compliance costs are passed on to nonprofit organizations without any concomitant funding. Under these contracts, compliance 'obligations' take priority over service delivery 'objectives'.

The current preoccupation with financial accountability is by any measure excessive, counter-intuitive and out of sync with more broadly defined public accountability objectives. Government funding for smaller community nonprofit organizations tends to take the form of relatively small grants, with many under \$100,000. Although the dollar amounts may not appear to be large in the context of an overall government budget, they are extremely important to the organizations involved. The burden of tracking minor expenditures - every pencil, photocopy and subway token - becomes clearer when one acknowledges that 42% of sector organizations have budgets of less than \$30,000<sup>13</sup> - the people filling out the forms are supposed to be delivering the services. There are no lawyers, bookkeepers, or executive assistants to draw upon.

In December 2004, Capgemini reported to HRSDC in respect of Grants and Contributions (G&Cs that: "The focus on controls has superseded the focus on the achievement of the intended purposes of the programmes...In many instances...the financial controls and elimination of risk were the over-riding consideration, with insufficient concern for delivering on programme objectives."<sup>14</sup>

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<sup>11</sup> Katherine Scott, *Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Sector Organizations* (2003). CCSD provides the most comprehensive description of the impact of the shift to "project funding" on the voluntary sector.

<sup>12</sup> David A. Good, *The Politics of Public Management: The HRDC Audit of Grants and Contributions* (2003).

<sup>13</sup> Statistics Canada, *National Survey of Nonprofit and Voluntary Organizations* (2004).

And, as recently as May 2006, the Auditor General of Canada observed in the Preface to her 2006 Report, "Programs that are mired in controls and reporting requirements are not programs that focus most of their efforts and resources on improving the lives of Canadians. In many respects, the government needs fewer rules, but rules that are consistently applied."

The sector perspective was neatly articulated in a presentation by the Canadian Economic Development Network before a federal Standing Committee in May 2005: "We desperately want to be accountable, but we don't want to be accountable through a forensic audit."<sup>15</sup>

### **Size and Scope of the Problem**

The recent *Satellite Account of Nonprofit Institutions and Volunteering* undertaken by Statistics Canada<sup>16</sup> reveals that government funding, including federal, provincial and municipal funds, provides more than half (51.2%) of total revenues received by the community nonprofit sector. In certain sub-sectors such as hospitals, colleges and universities, and the social services sector,<sup>17</sup> government revenues account for 70%, 56% and 66% respectively. Federal funding accounts for 7% of funding to sector organizations and is often the single largest source of funds for these organizations.

The Auditor General notes in its Report of May 2006 at paragraph 6.36 that "while some departments are trying to respond to recipients' concerns, they could do much to streamline their procedures and reduce recipients' administrative burden".

This statement highlights that there is a need not just for streamlining but for consistency. Not only is there a web of rules, there is a web of highly inconsistent rules from department to department. Organizations are not just exposed to audits but to the prospect of multiple audits in respect of a single engagement. They are not just exposed to onerous financial reporting obligations but to a multiplicity of requirements from different organizations. Therefore, there is a need not just for individual departments to streamline their individual process but for government-wide accountability for the sector, oversight, coordination and a move to one-window policies and practices.

### **Moving to Solutions**

The sector supports the recommendations of the Auditor General's Report on Grants and Contributions of May 2006 with a view to greatly reducing the burdensome impact on the

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<sup>14</sup> Capgemini, *Human Resources and Skills Development Canada (HRSDC) Final Report – Program Management Review: Grants & Contributions* (2004).

<sup>15</sup> Government of Canada, *Government Response to the Sixth Report of the Standing Committee on Human Resources, Skills Development, Social Development and the Status of Persons with Disabilities* (2005).

<sup>16</sup> Statistics Canada, *Satellite Account of Nonprofit Institutions and Volunteering* (2004). This report contains statistics on the economic contributions of the nonprofit sector in Canada for the period 1997-1999.

<sup>17</sup> The social services sector includes programs which provide services to children, youth, families, the elderly, and the disabled, as well as temporary shelters, refugee assistance, and material assistance such as food banks and clothing distribution centres.

community nonprofit sector of the 'web of rules' embedded in Grants and Contributions processes. In particular, the sector supports the Auditor General's recommendations in respect of:

- i) adopting multi-year funding practices - Section 6.61;
- ii) migrating to a "single audit process for recipients of transfer payments from federal programs" (agreed to by Treasury Board) - Section 6.64; and
- iii) streamlining "application, reporting and audit requirements" (agreed to by Treasury Board) - Section 6.68.

The implementation of MERX provides a constructive example of a national multi-jurisdictional one-stop process by which organizations and enterprises can access information on public sector contracts. It is a logical extension to post grants and contributions and move to similar one-stop application processes. The sector recommends that the mandates of the Blue Ribbon Task Force and the Task Force on Community Investments be sufficiently broad to address the size and scope of the problem and to identify far-reaching and effective solutions as illustrated by the MERX example.

### **III. Procurement**

We support the enshrining of ‘fairness, openness and transparency’ under Part III of the Act. However, the sector wishes to express its concern that the consolidation of the government’s purchasing power is inconsistent with the fairness principle to be enshrined in the Act.

The sector wishes to echo and build on the views of umbrella groups representing small- and medium-sized enterprises (SMEs) in expressing concern about how proposed consolidation of the government’s purchasing power will tend to result in contracting practices that greatly favour large enterprises over SMEs and small and medium-sized organizations (SMOs).

To the extent that the consolidation of the government’s \$13B/ year purchasing power creates an uneven playing field for Canada’s small and medium sized businesses relative to large vendors, this is particularly so for Canada’s nonprofit organizations who also rely heavily on government contracting for services in order to carry out their community-based work.

Government, too, needs to rely on these community-based organizations to provide local understanding and frontline service delivery capacity for the Government of Canada. Canada’s community nonprofit sector is the preferred government delivery agent for a wide variety of programmes and services.

The migration to large national single vendor competitive processes would undermine these community-based service delivery partnerships and would create an uneven playing field for Canada’s small and medium sized organizations that is inconsistent with the principle of fairness that is quite properly at the heart of the government’s procurement policies and practices.

## IV. Sector Infrastructure

We support initiatives that build strong communities through a vibrant and sustainable community nonprofit sector. Success on this broader policy objective will certainly require streamlining the G&Cs process and ensuring that public procurement practices do not effectively lock the sector out of that multi-billion dollar contracting environment. However, these measures will not address the fundamental erosion in sector capacity and infrastructure that has been witnessed by communities over the past decade.

In the *Capacity to Serve, A Qualitative Study of the Challenge Facing Canada's Nonprofit and Voluntary Organizations*, 2003,<sup>18</sup> these organization expressed real concern about the erosion of their organizational capacity and infrastructure and the impact of this erosion on program objectives and outcomes. They noted that organizations had trouble engaging in long-term planning, adequate insurance coverage and risk management strategies, management, accounting software and other IT resources, and human resources management strategies, to provide just a few examples, when funding was all short-term in nature. In *The Politics of Public Management*, David Good argues that government must account for “how effectively the programmes are designed, the extent to which the public expenditures are wisely made, and the degree to which programmes have achieved intended results.”<sup>19</sup>

We recognize that an examination of sector infrastructure and organizational capacity may be beyond the scope of this Act or Action Plan. We therefore encourage the Committee to consider the merits of recommending complementary processes such as:

- i) Striking of a Parliamentary Committee whose focus will be on examining ways to adequately and fairly support sector capacity and infrastructure,
- ii) Establishing an endowed program or national foundation, as has been done in Ontario and Alberta with the Trillium and Wild Rose Foundations respectively, that would invest in national infrastructure needs that complement and supplement the grants and contributions and contract regimes,
- iii) Building in long-term and stable funding and organizational infrastructure costs into the G&Cs and contracts regime, and
- iv) Ensuring that the mandates of the Blue Ribbon Tasks Force and the Task Force on Community Investments are sufficiently broad to address sector infrastructure solutions and implementing the recommendations of the Auditor General's Report on Grants and Contributions of May 2006.

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<sup>18</sup> Canadian Centre for Philanthropy, *The Capacity to Serve, The National Survey of Nonprofit and Voluntary Organizations* (NSNVO, 2003).

<sup>19</sup> David A. Good (2003).

## V. A Government Accountability Framework for the Sector

Community nonprofit organizations support the need and expectations for strong and effective public accountability structures and the need to strengthen some aspects of the Government of Canada's accountability processes in order to safeguard the public interest.

In 2001, the Government of Canada and the community nonprofit sector signed the *Accord* to strengthen their shared ability to serve Canadians. The *Codes of Good Practice on Funding and Policy Dialogue* were subsequently developed as practical tools to help implement the *Accord*.

The *Code of Good Practice on Funding* contains a section on accountability that identifies specific measures to improve the flexibility, responsiveness and consistency of funding arrangements. This document holds enormous promise for reshaping the contracting accountability regime.

The *Code of Good Practice on Funding* commits the **federal government** to:

1. make accountability standards and procedures flexible enough to accommodate a variety of approaches and the limited capacity of smaller organizations while ensuring effective protection of, and proper accountability for, public money;
2. take into account the monitoring arrangements already agreed to by other funders of a voluntary organization, as well as the quality assurance systems the organization may already have in place;
3. agree on well-defined, measurable results and clear roles and responsibilities; and
4. recognize that different community groups can manage their resources in different ways and still meet the government's accountability requirements.

The *Code of Good Practice on Funding* commits the **community nonprofit sector** to:

1. ensure sound financial management, including accounting procedures in accordance with generally accepted accounting principles;
2. provide effective board governance;
3. adhere to ethical fundraising practices;
4. ensure that sufficient monitoring, internal management, and client and funder accountability systems are in place; and,
5. ensure that organizations have the financial expertise needed to fulfill all their financial management, recording, and reporting obligations.

In addition, the *Code of Good Practice on Funding* addresses the issue of stability of funding by reinforcing the use of multi-year funding agreements, where appropriate, and the use of a strategic and longer-term investment approach to strengthen the capacity of community nonprofit organizations over the longer term.



In her Report dated May 16, 2006, the Auditor General acknowledges the importance of the Funding Code and observes that, “Treasury Board Secretariat is committed to.... building on the lead role it played in the development of the Voluntary Sector Initiative guidance publication, *A Code of Good Practice on Funding*.<sup>20</sup>

The value of a Government Accountability Framework for the sector is being recognized by other governments in Canada. The Government of Saskatchewan has already adopted the Federal *Accord* and Alberta is currently embarking on an initiative to clarify and strengthen the relationship between the government and its community nonprofit sector in that Province.

However, ‘take-up’ of the Accord and Codes across the Government of Canada has been inconsistent at best.

Service Canada provides a positive example of the use that some organizations have made of the *Accord* and *Codes* to establish an Accountability Framework between the Department and the Sector. Service Canada oversees 55,000 contracts between the Government of Canada and community and nonprofit organizations. When it was established in September 2005, it also put in place a joint steering committee of government officials and sector representatives to ensure compliance with the *Accord* and *Codes* by both Government and the Sector on the administration and fulfillment of these contracts. The *Accord* and *Codes* established a baseline accountability framework which has led to:

- a more streamlined administrative processes under Grant and Contribution programs,
- an improved Call for Proposal (CFP) process,
- a Fairness Advisor,
- a Fair Practices Dispute Resolution mechanism,
- the joint steering committee to ensure compliance with the *Accord* and *Codes* and
- an undertaking to publish an annual public report on compliance with the *Accord* and *Codes*.

As the government has recognized in Part III of the Act in respect of Procurement, commitments to fairness, openness and transparency are important hallmarks of accountability. Yet other government organizations that work closely with the sector have little knowledge of or commitment to the *Accord* and *Codes*. While changes in Government should not in principle affect the status of the *Accord* and *Codes*, the voluntary status of these documents does in fact make them subject to disparate take-up that can be exacerbated by changes in senior personnel or a change in government.

The sector is aware that not all issues of accountability reside within the government. In *Making Change*, a 2006 Report of the Voluntary Sector Forum,<sup>21</sup> the sector recognized that there were improvements to be made to its own accountability capacities, including communications,

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<sup>20</sup> Report of the Auditor General of Canada, May 16, 2006, paragraph 6.34

<sup>21</sup> *Making Change: Ideas and Strategies Towards Better Funding for Canada’s Nonprofit and Voluntary Sector*. Report of the ‘Financing the Voluntary Sector’ Project. Voluntary Sector Forum, 2006.

knowledge, networking and financial management skills. These challenges are consistent with those identified in Part IV above, where it is proposed that sector capacities be addressed under an infrastructure funding strategy.

Accordingly the sector recommends adoption of the *Accord Between the Government of Canada and the Voluntary Sector* and the *Codes of Good Practice on Funding and Policy Dialogue* by the Treasury Board Secretariat as part of the government's standard accountability practices. These agreements, particularly the *Code of Good Practice on Funding*, would provide the framework to support a more open, fair and accountable working relationship between the government and the community nonprofit sector as the Service Canada example is intended to illustrate.

Both government and sector organizations would benefit from government re-asserting its commitment to the *Accord* and *Codes*, updating them if required, and re-issuing or reasserting them Government-wide as part of its Accountability Action Plan. This recommendation applies particularly to the *Code of Good Practice on Funding* which deals most squarely with the issue of financial accountability within government and the sector.

## Conclusion

Previous experience has shown that changes to accountability structures within government have the potential to undermine relationships between government and the community nonprofit sector and to re-direct the application of scarce sector resources from contract delivery to contract compliance.

While shifts in accountability processes within the federal government have strained its relationship with the community nonprofit sector, a number of important government initiatives currently underway are intended to help rebuild this relationship and effect positive change. The sector wishes to express its support for these initiatives. They include:

1. The striking of a Blue Ribbon Task Force on Grants and Contributions under the federal Accountability Action Plan,
2. The enshrining of the principle of fairness in respect of Procurement under the Federal Accountability Act,
3. The striking of the Task Force on Community Investments and the recommendation of the Auditor General in May 2006 that the Treasury Board Secretariat continue to monitor the Task Force's work, and
4. The recognition by government organizations, including Service Canada and Treasury Board Secretariat, of the importance of the *Accord Between the Government of Canada and Codes* and, in particular, the *Code of Good Practice on Funding*.

Nevertheless, the overall capacity of Canada's community nonprofit sector has been diminished and changes are required. As we have seen in Part I of this Submission, "Canadians believe that charities have the biggest impact on the quality of life in their communities"<sup>22</sup>. The sector's recommendations for sustaining our vibrant community nonprofit sector follow.

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<sup>22</sup> Supra at Footnote 7

## Recommendations

We recommend that the Government of Canada:

### 1. Grants and Contributions:

- Re-calibrate the burdensome impact on the community nonprofit sector of the ‘web of rules’ embedded in federal Grants and Contributions practices and re-focus on outcomes that are consistent with the sector’s mandate to its donors, volunteers, and the communities that depend on them,
- In particular, execute the recommendations in Part 6 of the Auditor General’s Report on Grants and Contributions of May 2006 the Auditor General’s recommendations in respect of:
  - i) adopting multi-year funding practices - Section 6.61,
  - ii) migrating to a "single audit process for recipients of transfer payments from federal programs" (agreed to by Treasury Board) - Section 6.64, and
  - (iii) streamlining "application, reporting and audit requirements" (agreed to by Treasury Board) - Section 6.68,
- Empower the Blue Ribbon Task Force and the Task Force on Community Investments to address the burdensome impact on the community nonprofit sector of the ‘web of rules’ embedded in Grants and Contributions processes,
- Refocus accountability practices to better balance the need for financial controls and risk-management with the need for measurement of results, and
- Adopt G&Cs management practices that include:
  - i). less onerous and more selective accountability measures and reporting,
  - ii). risk management frameworks that distinguish between high and low risk initiatives by considering important factors such as the sponsor’s history, the value of the agreement, the complexity of the project, and the percentage of sponsor funding the agreement will provide, and
  - iii). the capacity to support service innovation and program delivery that is tailored to local needs, and

### 2. Procurement:

- Enshrine ‘fairness, openness and transparency’ under Part III of the Act,
- Recognize that the consolidation of government’s multi-billion dollar annual purchasing power is inconsistent with the fairness principle to be enshrined in the Act insofar as it results in contracting practices that greatly favour large enterprises over

small and medium-sized organizations (SMEs) and small and medium-sized organizations (SMOs), and

**3. Sector Infrastructure:**

- Address the broader policy objective of investing in a strong community nonprofit sector in Canada through an examination of longer-term and more stable funding models to improve sector infrastructure and organizational capacity,
- Consider the merits of processes that would complement the work of the C-2 Committee and could address sector infrastructure and capacity such as:
  - i) Striking of a Parliamentary Committee,
  - ii) Establishing an endowed program or foundation to complement and supplement the grants and contributions and contract regimes,
  - iii) Building long-term and stable funding into the G&Cs and contracts regime, and
  - iv) Ensuring that the mandates of the Blue Ribbon Task Force and the Task Force on Community Investments are sufficiently broad to address sector infrastructure solutions, and
  - v) Implementing the recommendations of the Auditor General's Report on Grants and Contributions of May 2006.

**4. Government Accountability Framework for the Sector:**

- Adopt a Government Accountability Framework for the Community Nonprofit Sector by updating the Government's commitment to the *Accord Between the Government of Canada and the Voluntary Sector*, the *Code of Good Practice on Funding*, and the *Code of Good Practice on Policy Dialogue*.

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