Submission to the Commission of Inquiry into the Sponsorship Program and Advertising Activities

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Canadian Federation of Voluntary Sector Networks
Community Foundations of Canada
Human Resources Council for the Voluntary/Nonprofit Sector
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Voluntary Sector Portal
Executive Summary

The Commission of Inquiry into the Sponsorship Program and Advertising Activities has invited public input on what can be done to improve accountability in the Government of Canada. This brief has been prepared to provide a voluntary sector perspective on this important topic.

Nonprofit and charitable organizations recognize the seriousness of the issues the Commission was established to study, and we support its concern with ensuring strong and effective public accountability structures. Moreover, we appreciate the need to strengthen certain aspects of the Government of Canada’s accountability processes in order to safeguard the public interest. However, previous experience has taught us to be cautious. Well-intentioned changes in one area can create serious challenges in another. The law of unintended consequences frequently applies, and voluntary sector organizations have often found themselves seriously hampered by adjustments that were intended to correct challenges in other areas of concern.

The nonprofit and charitable sector is no stranger to the importance of accountability. Our work and our ability to finance our organizations are driven by our capacity to raise funds for the causes in which we believe. Therefore, our survival depends on strong accountability to our many stakeholders and funders, and on our ability to demonstrate that their investments are money well spent. The nature of our funding is also complex: a single funding source is rare. Most organizations support their activities through a variety of funders, all of whom have different, and sometimes conflicting, accountability requirements.

Our experience with highly varied accountability structures has demonstrated that these structures can have a serious effect on the work we do and the ways in which we do it. Some accountability practices enable our efforts, while others restrict them. Unfortunately, our recent experience with funding from the Government of Canada has shifted to the latter category. We are concerned that the Commission’s recommendations may unintentionally further exacerbate this situation.

Over the last few years, accountability practices within the federal government have emphasized inputs and controls, rather than results. Risk assessments have also become an issue, with little differentiation between high- and low-risk initiatives, and micro-scrutiny disproportionate to the dollars involved. Consequently, administrative responsibilities required to manage these accountability structures have increased severely. Organizations now find themselves struggling to meet onerous reporting requirements – the costs of which are rarely recognized in funding agreements. The costs of compliance have become an additional burden for nonprofit and charitable organizations, diverting significant resources away from organizational mandates. In addition, staff and volunteers have found themselves literally counting photocopies and pencils, rather than focussing on the primary task of programme and service delivery in their communities. They question whether this is the best use of public funds, and whether the right balance has been struck between the need for accountability on the one hand and the need for effective and efficient services on the other.
Canada’s nonprofit and voluntary sector greatly values its relationship with the Government of Canada and recognizes the importance of this relationship in ensuring a strong and prosperous country. Not only is the nonprofit and charitable sector a key partner in service delivery, it also supports policy development and, more generally, provides a critical link between citizens and their government.

In its final report, the Commission will have an opportunity to significantly influence the direction of government accountability practices. It is our hope that the Commission will put forward recommendations that will help recalibrate the federal government’s accountability structures, and offer a measured approach that balances the need for financial controls with a focus on achieving results – demanding prudent stewardship to produce value and effective outcomes for Canadians. The Commission also has the opportunity to support and reinforce positive initiatives currently underway in government. For the nonprofit and charitable sector, the most important of these are the implementation of the *Accord Between the Government of Canada and the Voluntary Sector* and the *Codes of Good Practice on Funding and Policy Dialogue*.

**Recommendations**

We urge the Commission to present recommendations that:

- refocus accountability practices to better balance the need for financial controls and risk-management with the need for measurement of results;
- improve the processes by which the Government of Canada is accountable to Canadians; and
- entrench the *Accord Between the Government of Canada and the Voluntary Sector* and the *Codes of Good Practice on Funding and Policy Dialogue* in all relationships with the voluntary sector.
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Prepared by Imagine Canada, the Canadian Council on Social Development, and Canadian Policy Research Networks, and endorsed by the Voluntary Sector Forum

Introduction

As the Commission of Inquiry into the Sponsorship Program and Advertising Activities prepares its recommendations on government accountability, it has asked for public input on ways to promote greater accountability for the management and use of public funds. This brief has been prepared to provide a voluntary sector perspective on this important topic. Although the nonprofit and voluntary sector was not involved in the sponsorship programme, we are concerned that actions taken to address some of the issues raised could have unintended and negative consequences for the relationship between the Government of Canada and the voluntary sector.

The voluntary sector respects and values the need for accountability. Our ability to finance our work is directly dependent upon our capacity to convince funders that their investment is money well spent. We are also accountable to many different stakeholders\(^1\) with complex, sometimes conflicting, accountability structures. Public opinion research indicates that we have been largely successful in our accountability relationships. For example, a recent Ipsos Reid Survey\(^2\) on the opinions of Canadians related to charities and the issues affecting them 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%) feels that charities understand the needs of Canadians better than government and 72% think they do a better job of meeting those needs.” It is this level of public trust that gives 161,000 nonprofit and charitable organizations the ability to mobilize and harness the resources, volunteers and community spirit needed to make Canada one of the best places in the world to live.

\(^1\) Drawing support from so many sources, voluntary sector organizations are accountable to multiple stakeholders: the general public, program participants, charitable donors, partners, members, volunteers, and funders, including government. The voluntary sector has to master multiple accountabilities that occur simultaneously, each according to the stakeholders’ needs.

The Voluntary Sector’s Place in Canadian Life

Canada’s nonprofit and voluntary organizations are the engine for engaged, active communities. They are community anchors and key community partners in building a high quality of life. The National Survey of Nonprofit and Voluntary Organizations (NSNVO)\(^3\) reports that almost two-thirds of the 161,000 nonprofit and voluntary 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 institutes. In other words, they create communities where people want to live, work and play.

Canada’s nonprofit and voluntary 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, six and a half million volunteers provide two billion hours of donated time. When these volunteer hours are included, they raise the voluntary sector’s share of the GDP to 8.6%.

In addition, the nonprofit and charitable 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 - connections that help build social capital and sustain a healthy democracy.

Canada’s nonprofit and charitable sector is also the preferred government delivery agent for a wide variety of programmes and services. The recent *Satellite Account of Nonprofit Institutions and Volunteering*, undertaken by Statistics Canada\(^4\) reveals that government funding provided slightly more than half (51.2%) of total revenues received by the voluntary sector. In specific sub-sectors such as hospitals, colleges and universities, and the social services sector,\(^5\) government revenues were even more significant at 70%, 56% and 66% respectively. Government funding for smaller community-based organizations has tended to take the form of relatively smaller grants, with many under $100,000. And, 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. Given the critical role of government funding to our sector, we are vitally concerned that government be accountable for funding wisely and well.

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\(^3\) Canadian Centre for Philanthropy, *Cornerstones of Community: Highlights of the National Survey of Nonprofit and Voluntary Organizations* (2004).


\(^5\) 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.
The Challenging Accountability Relationship between Government and the Voluntary Sector

The current demands of federal accountability measures for the voluntary sector must be seen in the context of a decade-long trend towards the off-loading of services and cutbacks to funding that have greatly reduced the capacity of voluntary organizations. In the early 1990s, the relationship between the voluntary 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” through service contribution agreements. This shift — undertaken at a time when the government was preoccupied with expenditure reduction — lost sight of the elements needed to ensure sustainable organizations. The result was a granting system focused on cost reduction, with little appreciation for or discussion of the broader social outcomes to be achieved. Voluntary 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 programme operations. Nonprofit and charitable organizations faced the difficult choice of accepting inadequate funding and programme design, or withdrawing from the programme and leaving their community without the needed services. Overwhelmingly, they chose to continue to serve their communities and to struggle on.

Over the past few years, it has become increasingly clear that this new funding regime is not working. By every measure and in every study, voluntary sector organizations that provide community services under contract to government are faring poorly. 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 in an effort to provide stable employment for their staff and adapt their essential services in the face of continually declining resources. Inappropriate costing structures by the federal government have meant that the true costs of the services they are buying are not fully covered.

This is only one of the factors challenging the relationship between the Government of Canada and the nonprofit and charitable sector. In 2000, the federal government faced significant criticism over Human Resources Development Canada’s management of several of its programmes. Although a thorough examination eventually revealed that the amounts of money either missing or misused were actually quite small, the damage was done. In response to this crisis, the Government of Canada imposed strict and stringent financial controls on all government contracts, including contribution agreements with the voluntary sector. This rigid,

8 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.
9 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.
rules-based approach resulted in excessive risk-aversion and fear of experimentation within the public service.

Outside the public service, it left the voluntary 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, organizations are left with significant additional costs in order to ensure compliance.

In addition, significant resources have been diverted away from realizing the organizational mandates. Excessive concerns about financial accountability have shifted the focus of voluntary sector service providers from delivering their critical programmes and services to tracking minor expenditures – even down to the number of pencils and photocopies used by employees. The burden this imposes becomes clearer when one considers that 42% of organizations have budgets of less than $30,000.11 In many organizations, the people filling out the forms are the same people hired to deliver services. It is often difficult to do both at the same time.

In December 2004, HRSDC received the Capgemini report that reviewed the management and accountability of Grants and Contributions (G&Cs) delivery. This internal departmental review confirmed what the voluntary sector had been saying: “The focus on controls has superseded the focus on the achievement of the intended purposes of the programmes…in many instances, the study found evidence where the financial controls and elimination of risk were the over-riding consideration, with insufficient concern for delivering on programme objectives.”12

In May 2005, Eunice Grayson of the Canadian Economic Development Network addressed the Standing Committee on Human Resources, Skills Development, Social Development and the Status of Persons with Disabilities.13 She spoke for the nonprofit and charitable sector when she said: “We desperately want to be accountable, but we don’t want to be accountable through a forensic audit. We want the criteria for government funding to be the results expected from the use of the funds, the results being closely monitored, not the silo-isolated, line-by-line forensic accounting.”

The Challenge of Government Accountability in an Increasingly Complex World

There are two forms of government accountability: one that holds the party receiving funds accountable, and one that holds the government accountable to its citizens. While there have been obvious and very visible exceptions, third-party accountability processes in government are well developed and, when implemented well, have proven reasonably effective. Government accountability processes for transfer payments to third parties include: financial monitoring

appropriate for the level of risk involved, as well as service contract monitoring and accountability for service deliverables.

It is the third facet of government accountability – that is, public accountability, or the responsibility of government itself to be accountable to the people of Canada for achieving government programme and policy objectives – that needs to be strengthened.

The challenges of improved public accountability can be significantly addressed through effective collaborative relationships such as those described by Donald Savoie. He calls on government to open itself to outsiders and to provide a shared policy and administrative space.\(^\text{14}\) In addition, government must also answer to the public on how it is serving Canadians. In his book, *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.”\(^\text{15}\)

### Supporting Collaborative Relationships between Government and Its Service Partners

While shifts in accountability processes within the federal government have strained its relationship with the voluntary sector, a number of important government initiatives currently underway are intended to help rebuild this relationship and effect positive change.

In September 2005, the newly created Service Canada began to test its partnership with the voluntary sector by seeking collaborative solutions to some of these issues. Service Canada is trying to streamline and improve funding to sector organizations and has created a Joint Service Canada Voluntary Sector Work Group. At the same time, Social Development Canada – which has lead responsibility for relationships with the sector – has established a Task Force on Community Investments to examine federal policies and practices related to the use of transfer payments, as well as the funding of horizontal initiatives to support community investments.

In addition, a joint steering committee of senior government officials and voluntary sector representatives has been established to coordinate and oversee implementation of the Accord and Codes, and to prepare an annual public report on the results. Entrenching the *Accord Between the Government of Canada and the Voluntary Sector* and the *Codes of Good Practice on Funding and Policy Dialogue* as part of the government’s standard accountability practices would provide the framework for an accountable, productive, responsive, and fair working relationship between the government and the voluntary sector.

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\(^{15}\) David A. Good (2003).
The Components of Effective Public Accountability by Government

Public accountability by government requires the government to demonstrate that its programmes are not only well managed, but that they are also achieving the public policy objectives established by government. Successful monitoring and administration of third party grants and contribution agreements are important components of that broader accountability, but they are insufficient by themselves. To be accountable for achieving programme and policy objectives, government must ensure that the following components are part of its accountability processes:

*Transparency – timely and relevant information broadly available.* The public needs the right information available in a timely fashion in order to participate in a system of public accountability. A lack of opportunities to participate in the development of policies, programmes, and evaluations has left the public focussed on financial details, rather than on the broader questions of programme effectiveness.

*Management policies that support innovation.* Good government in changing times requires a continuous search for improvements and innovations. Historically, the voluntary sector has been a significant source of service innovation, but the sector needs some flexibility in order to continue to be innovative and develop new responses to existing or emerging social needs. Support for innovation requires a greater degree of risk tolerance by government; creativity is too-often stifled when there is a preoccupation with the micro-details of financial accountability.

*Risk management strategies tailored to different levels of risk.* Not all contribution agreements present the same level of risk. Indeed, many are very low risk, yet strict risk management practices have still been applied. By tailoring controls to be commensurate with the level of risk, organizations will have more flexibility to deliver effective programmes.

*Clearly articulated goals and objectives.* Government programmes can only be accountable if the objectives are clearly articulated. In working with the voluntary sector, it is vital that government programme goals and objectives be clearly identified so that results can be measured and the respective parties held accountable for their responsibilities.

*Designated decision-making responsibility.* While decentralized and collaborative relationships among governments, departments, and other organizations and groups are required to address complex issues, government needs to clearly identify who in government has responsibility for decision-making. Knowing who is responsible is an important component of accountability. The voluntary sector has found collaborative relationships with government to be an excellent way of sharing expertise and information, but it can be difficult to identify who is responsible for making decisions.

*Ongoing engagement with service partners is needed to receive feedback, track changing needs, and identify programme improvements.* Ongoing relationships with the voluntary sector are necessary to keep government programmes responsive and flexible. A good start in this regard would be for the government to fully implement the *Accord between the Government of*
Canada and the Voluntary Sector as well as the Codes of Good Practice on Funding and Policy Dialogue. The resulting collaborative relationships would, we believe, yield excellent returns for government, the nonprofit and charitable sector, and, ultimately, the people of Canada.

**Increased opportunities for participation by all Canadians.** Canadians need opportunities to re-engage with government. They need to help shape programmes and provide feedback on changing needs. The voluntary sector is ideally positioned to help this engagement occur. The Broadbent Panel on Accountability and Governance in the Voluntary Sector found that Canada’s voluntary sector plays a central role in building vibrant communities from coast to coast and helping to engage citizens in the democratic life of the country. This view was reiterated in a recent survey, *National Overview of Findings from a National Survey on the Quality of Life in Canadian Communities.* In the survey, Canadians viewed volunteer groups as having “the biggest impact on the quality of life in their communities.”

**Conclusion**

Previous experience has shown that changes to accountability structures within government have the potential to seriously affect relationships between government and the voluntary sector and, most importantly, to profoundly affect the work that they do. We hope the Commission will put forward recommendations to help recalibrate the federal government’s accountability structures, and offer a measured approach that balances the need for financial controls with a focus on achieving results – demanding prudent stewardship to produce value and effective outcomes for Canadians.

The Commission also has the ability to support and reinforce the positive initiatives currently underway in government. For the nonprofit and charitable sector, the most important of these initiatives is the implementation of the *Accord Between the Government of Canada and the Voluntary Sector* and the *Codes of Good Practice on Funding and Policy Dialogue.*

We appreciate the opportunity to offer our thoughts on this important topic. We wish the Commission much success in its work and look forward to reading the final report.

**Recommendations**

We urge the Commission to present recommendations which:

- refocus accountability practices to better balance the need for financial controls and risk-management with the need for measurement of results;
- improve the processes by which the Government of Canada is accountable to Canadians; and,
- entrench the Accord Between the Government of Canada and the Voluntary Sector and the Codes of Good Practice on Funding and Policy Dialogue in all relationships with the voluntary sector.

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Recommendations in Detail

1. Refocus accountability practices to better balance the need for financial controls and risk-management with the need for measurement of results. In the routine management of government contribution agreements with voluntary sector organizations, financial accountability must be accompanied by an equal and parallel emphasis on accountability for programme effectiveness and learning. Management practices must therefore include:

- less onerous and more selective accountability measures and reporting;
- 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,
- the capacity to support service innovation and programme delivery that is tailored to local needs.

2. Improve the processes by which the Government of Canada is accountable to Canadians, through:

- improved transparency – timely and relevant information that is widely available;
- clear goals and programme objectives – only then can results be measured;
- designated responsibility for decision-making – a key component of accountable government;
- ongoing engagement with service partners, such as the voluntary sector – government policies and programmes can benefit from the experience, expertise, knowledge and ideas offered by the voluntary sector;
- increased opportunities for citizen engagement – the public needs to be encouraged to participate in democratic life. The voluntary sector can play a leadership role in building civic involvement and facilitating Canadians’ participation in public policy dialogues.

3. Entrench the Accord Between the Government of Canada and the Voluntary Sector and the Codes of Good Practice on Funding and Policy Dialogue in all relationships with the voluntary sector. In 2001, the Government of Canada and the voluntary 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.

It 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.

It commits the voluntary 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 Investment Approach to strengthen the capacity of voluntary organizations over the longer term.
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