



**Building prosperous and healthy communities:**

**Towards a stronger relationship with the social purpose sector**

**Pre-budget submission**

**To the House of Commons Standing Committee on Finance**

**(August, 2016)**

**Bruce MacDonald, President & CEO  
65 St. Clair Avenue East, Suite 700  
Toronto, ON M4T 2Y3**

## Introduction

Imagine Canada is pleased to submit recommendations concerning Budget 2017.

Charities and nonprofits make enormous economic and social contributions to Canada. They employ more than two million people in every community across the country, account for more than 8% of GDP, and harness the energy, talent, and commitment of some 13 million volunteers every year.

A healthy charitable and nonprofit sector is necessary to achieve the goals identified in the Committee's call for submissions. We do want to note our disappointment with the language in the call for submissions, which focusses on meeting the needs of the business sector in order to achieve prosperous and vibrant communities. All sectors have complementary roles to play, and the federal government must not lose sight of the contributions made by charities and nonprofits, or the challenges they face.

The Committee has asked for recommendations aimed at:

1. Helping Canadians, specifically the unemployed, Indigenous peoples, those with a disability, and seniors, to maximize their contributions to the country's economic growth;
2. Helping businesses in all regions and sectors expand, innovate, and become more prosperous; and,
3. Ensuring that urban, rural, and remote communities have what they need to prosper and contribute to growth.

An enabling policy environment will allow charities and nonprofits to contribute to all of these goals. Our sector is at the forefront of helping disadvantaged Canadians and new immigrants develop the skills and networks they need to succeed, providing services to seniors, and providing educational opportunities at all levels. We already employ two million people, in every region and every community. And with the right tools – and a commitment from the federal government to help us grow and prosper – we can and will do more.

**Recommendation 1: The federal government should commit to a fully-resourced process to explore a new legal and regulatory framework for charities and nonprofits. This process should recognize the vital role umbrella organizations can play in convening the sector, and the importance of the Commons Standing Committee on Finance carrying out a detailed examination of any proposed reforms.**

Three of the ministerial mandate letters published last autumn specifically mention legal and regulatory issues pertaining to charities and nonprofits. The most significant of these, for the broadness of its ambition and for the long-term implications for the sector, mandated the

Minister of Justice to work with the Ministers of Finance and National Revenue to “develop a modernized regulatory and legal framework governing the Charitable and Not-for-Profit sectors.”

Registered charities and nonprofits are governed by different regulations and statutes. In the case of registered charities, the regulatory regime is based on common law and administrative interpretations of a law adopted in the era of Elizabeth I. Nonprofits are governed by federal or provincial statutes, and by interpretations by the Canada Revenue Agency and the Department of Finance as to what constitutes “profit.”

The current regulatory regime poses many challenges, to both charities and nonprofits, particularly with regard to their long-term financial sustainability. In the case of nonprofits, business lines they carry out to finance their core activities and mission may be deemed “offside” if they generate a surplus. For registered charities, restrictive interpretations of common law limit their ability to generate income through business and investment activities. Organizations that want to explore business or marketing opportunities face difficulties accessing expertise and capital, and are often not eligible for programs and initiatives the federal government has established to assist with entrepreneurship and business development.

The restrictions, and the grey areas, around income-generating activity are troublesome. At a time when the donor base is ageing and shrinking, and when traditional sources of government funding are restricted – but when demand for the services provided by charities and nonprofits continues to rise – self-generated income is increasingly necessary for the sector’s sustainability. Regulatory issues also threaten the ability of the sector to fully contribute to the government’s vision for social finance and social enterprise.

We welcome the federal government’s commitment to examine the legal and regulatory regime. It provides an opportunity to explore the sector’s relationship with the federal government and work towards better institutional and policy recognition of the role the sector plays and will continue to play. Our hope is that any new regime builds on and has more permanence than the Voluntary Sector Initiative of the early 2000s.

That being said, there is a great deal of work to be done to understand both the full range of policy needs, and the implications of different courses of action. It would arguably be better to do nothing than to make the wrong sort of change. Further complicating matters, while the federal government has taken a lead role in regulating charities – based on establishing organizations’ eligibility for various provisions of the *Income Tax Act* – the *Constitution Act, 1867* actually assigns responsibility for charities to the provinces. By and large, provincial governments have chosen not to exercise this responsibility, but they cannot be absent from the discussion.

For the most part, charities and nonprofits are too focussed on their mission to devote resources, time, and thought to the potential implications of regulatory reform. National, regional, and subsector umbrella organizations – including Imagine Canada – are in a good

position to research issues and play a convening role. This will be of great assistance to the federal government, but will require investment on the part of the federal government. ***We look to the federal government to ensure that adequate resources are devoted to researching the options, to a broad consultation process without artificial time constraints, and to convening the sector as full partners in any reform process. We also look to the House of Commons Standing Committee on Finance to play an active role in ensuring Parliament's role in studying and consulting on any proposed reforms.***

**Recommendation 2: The federal government should commit to working with the charitable sector to identify and address key gaps that prevent charities from effectively using data in developing and delivering consistently excellent programs and services to Canadians.**

The need for high quality data was highlighted in a number of ministerial mandate letters, as was the need to make data more available to Canadians. In them, measurement, data, and evaluation are properly seen as both key enablers of innovation and as the foundation of sound policy decisions, while their absence is viewed as a critical impediment.

The same holds true for the charitable and nonprofit sector. Effective program development and execution depends in large part on having the right data, but all too frequently, organizations face data gaps that significantly hinder their efforts. Some, like information about the size, scope, financing, and human resources of the charitable and nonprofit sector, exist because data programs such as the Satellite Account of Nonprofit Institutions and Volunteering (last produced for 2009) or the National Survey of Nonprofit and Voluntary Organizations (last conducted in 2003) no longer exist. Other gaps exist because data that is being collected, such as with data on a range of social issues covered by the General Social Survey, are not reaching the vast majority of organizations.

Organizations also face significant gaps in their capabilities to manage, manipulate and query data, as well as their ability to merge and recombine data to make it more useful (this is particularly true for operational program data they are producing in ever greater volumes). Some gaps are technological, some are driven by scarcity of key skills, and others by ill-founded pressures to keep organizational overhead artificially low. The net effect is that the vast majority of organizations are not equipped to use data to its maximum potential.

While enormous strides have been made in making government data more available to Canadians, and while we welcome the renewed commitment to initiatives like open data, the reality is that opening access to existing data is only a partial solution. To realize the benefits of data openness, the right mix of data needs to be collected, it needs to be mobilized effectively to reach organizations, and those organizations must have the skills and tools to work with it effectively day in and day out.

Increasingly, we are facing dual challenges of steadily increasing demand and static, even declining, resources. In coming years, we will have to work smarter - allocating and targeting

resources and effort in ways that produce the greatest impact. Empowering our organizations to make better use of data is key to helping us do this.

***We recommend that the government work in partnership with the charitable and nonprofit sector to identify and address:***

- ***shortfalls in current government data collection,***
- ***situations where currently collected government data is not reaching organizations in effective or usable ways, and***
- ***key capability gaps that keep organizations from maximizing their use of data to work more effectively.***

### **Recommendation 3: Government-wide adoption of reforms to grants and contribution administration recently announced by the Department of Canadian Heritage**

As much as charities and nonprofits increasingly look to self-generated income to secure their long-term financial sustainability, government departments are and will remain important partners. Departments use grants and contributions to further social and economic goals, as well as to have services delivered in an efficient, community-based manner.

The administration of grants and contributions varies from department to department, and has been studied numerous times. Thoughtful recommendations to improve the system – to the benefit of both sector organizations and the federal government itself – have been either ignored or implemented in a piecemeal manner.

We have long called for reforms that would, among other things:

- Speed up the decision-making process;
- Transfer funds in a more efficient manner;
- Recognize legitimate organizational costs for infrastructure and administration; and,
- Provide for multi-year agreements, so that organizations can more efficiently plan their activities.

On April 4, 2016, the Minister of Canadian Heritage announced that the Department will implement a number of reforms to grants and contributions. Significantly, decision-making authority on many grants will be devolved and on-line applications will become the norm, significantly speeding up the process. Funds will be transferred in a more timely manner. And multi-year funding will be available. These reforms will be accompanied by greater transparency on the part of the department with regard to the initiatives it funds – and we welcome this greater transparency.

While the Minister did not announce reforms related to legitimate infrastructure and administrative costs, Canadian Heritage has taken a significant step forward. The result will be a system that works better for the government, for organizations, and – most importantly – for Canadians and their communities.

***We recommend that the new Canadian Heritage grant and contribution measures be adopted by all federal departments and agencies, with an eye to further improvements in future years.***

**Conclusion:**

Canada's economy and society are undergoing fundamental shifts. The ageing population and the imminent retirement of the baby boom generation present unique challenges to charities and nonprofits. The demand for the services we provide will continue to rise, but without fundamental rethinking of the environment in which we operate, organizations will be pressed to meet this demand.

The federal government has committed itself to fundamental reforms. Alongside such reforms, there are concrete measures that the government can take to help charities and nonprofits better finance themselves, and to better tailor and deliver services to communities.

Achieving the prosperous, healthy communities we all desire will require all sectors – ours, governments, and the business community – to work together, to recognize each other's contributions, and to support each other's efforts. For too long, governments at all levels and of all stripes have failed to recognize the needs and potential of charities and nonprofits as a collective. We have an opportunity to change this. We look to this Committee to make recommendations that will allow us to work towards a renewed and revitalized relationship with the federal government.