

The Voluntary Sector Initiative (VSI) and A Code of Good Practice on Funding: A Submission to the Special Senate Committee on the Charitable Sector

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Background to the Voluntary Sector Initiative (VSI)

In March of 1999, 13 federal Cabinet Ministers met in Ottawa for a working dinner. They were joined by over 20 leaders of the voluntary sector ¹ from across Canada. The meeting participants discussed ways in which to strengthen the relationship between the federal government and the voluntary sector for the benefit of Canadians.

That seminal meeting resulted in the creation of three “joint tables” – a unique innovation in policy development. Co-chaired by and including equal representation from senior government and voluntary sector leaders, the joint table participants developed 26 recommendations that were contained in the August 1999 report *Working Together*. ²

In June of 2000, the federal government and the voluntary sector launched the Voluntary Sector Initiative (VSI) - an ambitious five year exercise. Adopting the joint table approach used successfully in 1999, the VSI charged 77 voluntary sector participants and approximately the same number of federal officials to give effect to the recommendations contained in the *Working Together* report.

Many of the original federal VSI representatives were senior officials with the rank of Assistant Deputy Minister or Director General. The voluntary sector participants were drawn from all parts of the country and represented a diverse range of voluntary organizations large and small.

Alongside my federal government colleague Kathy O’Hara, then Deputy Secretary to Cabinet, I represented the voluntary sector between 2000 – 2002 as Co-Chair of the Joint Coordinating Committee of the VSI to provide broad oversight to the initiative. This submission draws on that experience.

Why the VSI?

The VSI was launched for many of the same reasons this committee was established. It reflected the historical interrelationship between voluntary sector organizations and governments at all levels in order to best meet the needs of Canadians. It was a recognition that many federal departments depend on the voluntary sector, in part, to deliver services to Canadians. It was also an acknowledgement that a number of voluntary organizations received significant funding from the federal government as is the case today. Based on T3010 filings with CRA in 2015, for example,

¹ The term overarching term “voluntary sector” was chosen in preference over the charitable and non-profit sector to reflect the essential spirit of the sector rather than the nature of its labour force. See Appendix A.

² The *Working Together* report can be accessed at this link http://www.vsi-isbc.org/eng/knowledge/working_together/pco-e.pdf

Canadian charities reported receiving a total of \$6.8 billion in federal funding.³ Any change in the nature of the relationship, in other words, has consequences for both the federal government and voluntary organizations and, ultimately, Canadians.

The VSI and federal funding

The mandate of the VSI, and the subsequent work undertaken, went well beyond the issue of federal funding to voluntary organizations.⁴ In fact, federal funding was not a primary focus of the VSI. Nevertheless, there were several reports prepared during the VSI that relate to the issue of federal funding. The first of these was entitled *An Accord Between the Government of Canada and the Voluntary Sector*⁵. The second document was *A Code of Good Practice on Funding*. Although both of these documents were prepared more than 15 years ago, they have stood the test of time and are of direct relevance to the work of this special committee.

The Accord

The development of the *Accord* in Canada followed on the work of similar initiatives in other countries and in the UK, in particular, where it was referred to as the *Compact*. The *Accord's* purpose was described as follows:

"The purpose of the Accord is to strengthen the ability of both the voluntary sector and the Government of Canada to better serve Canadians.

The strength of this Accord derives from the joint work that produced it. While the Accord is not a legal document, it is designed to guide the evolution of the relationship by identifying the common values, principles and commitments that will shape future practices. It focuses on what unites the two sectors, honours the contributions of both, and respects their unique strengths and different ways of working.

*The Accord represents a public commitment to more open, transparent, consistent and collaborative ways of working together. When working together, the Government of Canada and the voluntary sector seek to fulfil the commitments set out in the Accord and in so doing enhance the quality of life of all Canadians."*⁶

³ From *Key Statistics on Canada's charity and non-profit sector* compiled by Toronto lawyer, Mark Blumberg. <https://www.canadiancharitylaw.ca/blog/key-statistics-on-canadas-charity-and-non-profit-sector> See also, David Lasby, *What T3010 Data Tell Us About Charity Financing*, *The Philanthropist* / 2011 / Volume 24 . 2 <https://thephilanthropist.ca/original-pdfs/Philanthropist-24-2-476.pdf>

⁴ A rich archive of all of the work and research undertaken during the course of the VSI can be accessed at this site <http://www.vsi-isbc.org/eng/index.cfm> . See, also, my article, *A Retrospective Look at the Voluntary Sector Initiative (VSI): What Lessons Did We Learn?* <https://thephilanthropist.ca/2013/02/a-retrospective-look-at-the-voluntary-sector/>

⁵ The Accord can be accessed here http://www.vsi-isbc.org/eng/relationship/the_accord_doc/index.cfm

⁶ The Accord pg. 7

In keeping with the collaborative partnership of the VSI, the *Accord* was developed jointly by a group of senior federal officials and voluntary sector leaders led by the Co-Chairs, Lynne Toupin, CEO of the Canadian Cooperative Society, and Bill McCloskey, Assistant Commissioner of the Canada Customs and Revenue Agency. Federal representatives contributing to the *Accord* included the Assistant Deputy Ministers of Citizenship and Immigration Canada, Fisheries and Oceans Canada and Human Resources Development Canada as well as the Assistant Commissioner of the RCMP and others. Participants from the voluntary sector included the Executive Director of the Social Planning Council of Winnipeg, the CEO of YWCA of/du Canada, the Executive Director of the Canadian Parks and Recreation Association and the Présidente, Association québécoise de défense des droits des personnes retraitées et préretraitées among others. That such a diverse group of individuals was able to agree on a common set of values, principles and commitments was, in itself, a remarkable achievement.

A Code of Good Practice on Funding ⁷

One of the specific outcomes of the *Accord* was the development of two codes of good practice – one relating to policy dialogue and one related to funding. These were joint commitments made by the federal government and the voluntary sector to develop “*codes or standards of good practice to help guide interactions between government departments and voluntary sector organizations*” ⁸

The development of *A Code on Good Practice on Funding* was designed to give effect to and operationalize the *Accord*. It was intended to achieve the following positive outcomes:

- Enhanced ability for each sector to carry out its mandate;
- Greater transparency, consistency and understanding between both sectors
- Clear and balanced accountability in the funding process;
- Good funding policies and practices that are applied widely; and
- Strengthened sustainable capacity of voluntary sector organizations.

The *Code* was not intended to address funding issues specific to an individual ministry or a single, sub-set of voluntary organizations. Rather, it was a framework that could be used by all federal ministries and all voluntary organizations receiving federal funding to guide the relationship.

⁷ The Code can be accessed here http://www.vsi-isbc.org/eng/funding/funding_code.cfm

⁸ The Accord, pg. 10

The *Code* was founded on a set of eight, mutually agreed and shared principles as follows:

- The voluntary sector's value
- Strengthened sustainable capacity
- Co-operation and collaboration
- Innovation
- Diversity and equitable access
- Accountability
- Transparency and consistency
- Efficiency and Effectiveness

A unique feature of the *Code* were the specific commitments made by each sector to bring life to these principles. For example, with respect to the principle of strengthened sustainable capacity, the voluntary sector committed to *"invest in organizational and human resource development management and to develop its funding sources and diversify them to the extent possible"*. For its part, the federal government committed to *"use multi-year funding agreements and develop and implement mechanisms to facilitate their use, in appropriate circumstances, in order to enhance organizations' stability and capacity for longer-term planning"*. The *Code* included similar commitments made by both sectors for each of the other principles.

Next Steps

The VSI came to its formal conclusion at the end of 2005. It was understood, however, that the work required to give effect to documents like the *Accord* and *A Code on Good Practice on Funding* would be ongoing. These were living, evergreen documents. They entailed a different way of thinking about the relationship and would take some getting used to by federal public servants as well as those in the voluntary sector. For example, a two-phase process for implementation of the *Code* was anticipated. The first phase would have involved broad dissemination of the *Code* throughout the federal government and voluntary sector. The second phase would have entailed briefings, workshops, and seminars etc. to share learnings and revise the *Code* as necessary.

While work on the first phase of dissemination began prior to the federal election in 2006, the resulting change in government ended any further discussion of the *Code* or the *Accord*.⁹

⁹ This may have been intentional. I was told by a senior public servant that, post election, their political masters told them to remove the *Accord* from the Ministry's website and discontinue any further discussions about it for the sole reason that it was associated with and had been initiated by the previous government – even though the VSI was a completely non-partisan initiative.

Although the *Accord* and *A Code on Good Practice on Funding* were developed more than 15 years ago, the overarching values, principles and commitments they contained are, for the most part, just as valid today. And, the fact that those products were the result of the collaborative efforts of a group of dedicated public servants working jointly with their voluntary sector colleagues should not be underestimated. While many of the original architects of those documents are now retired, their current day counterparts are dealing with the same and, perhaps, even greater challenges to the relationship between the federal government and the voluntary sector.

It may also be the case that the *Accord* and the *Code* were too far ahead of their time and may have more traction today. It is notable, for example, that in late December 2017, the City of Toronto adopted a new policy framework similar to the *Accord* and entitled *For Public Benefit: A Whole of Government Framework to Guide City of Toronto Relationships with the community-based not-for-profit sector*.¹⁰ I encourage members of this committee to consider the utility of a modern-day version of the *Accord* and *A Code on Good Practice on Funding* as a means of strengthening the future relationship between the federal government and the voluntary sector in order to enhance services provided to Canadians.

Beyond Funding

The federal government provides direct funding to voluntary sector organizations primarily by means of grants, contributions, and contracts. Enhancing the efficiency of those mechanisms is necessary but insufficient to fully address the revenue challenges confronting voluntary organizations. As this committee considers its recommendations, it should give equal consideration to other issues that fall within the purview of the federal government and, especially, the role played by charitable donations and earned income.

Charitable Donations

A relatively small number of voluntary sector organizations receive direct funding from the federal government. Most voluntary organizations that are registered charities raise funds from the public, however. As a result, the rules and regulations regarding the provision of charitable tax receipts are far more relevant to these organizations than policies with respect to direct federal funding.

The landmark study, *Thirty Years of Giving in Canada*, recently commissioned by the Rideau Hall Foundation and prepared by Imagine Canada, highlights the importance of charitable donations.¹¹

¹⁰ The policy framework can be accessed at this link https://www.toronto.ca/wp-content/uploads/2018/02/8c1c-SDFA_ForPublicBenefit_WEB_Jan31.pdf

¹¹ The study can be accessed at this link https://www.rhf-frh.ca/wp-content/uploads/2018/04/RHF_30years_Report_eng_FNL.pdf

The study found that individual Canadians donated \$14.3 billion in receipted and unreceipted donations to registered charities in 2014. That was more than twice the estimated amount of direct federal funding to charities cited earlier in this submission.

The *Thirty Years of Giving* report also highlighted some worrisome trends with respect to charitable donations. For example, while claimed donations have increased 150% in real terms since 1985, the proportion of tax filers claiming donations has been falling steadily since 1990. The total amount of charitable giving is increasing, in other words, only because a small number of Canadians – and generally older Canadians – are giving much, much more.

In discussions about enhancing incentives for charitable giving by Canadians, federal officials often advance the argument that Canada already has one of the most generous set of giving incentives in the world. This should not be used as an argument against considering additional tax incentives for giving, however. Nor should it mask the challenging trends to charitable giving that were outlined in the *Thirty Years of Giving* study.

Earned Income and New Revenue Sources

One of the least understood aspects of the revenue stream of voluntary organizations is the historical importance of earned income as a means of achieving sustainability. In the five-year period 2005–2009, for example, earned income as a proportion of total income reported by charities (excluding hospitals and universities) ranged from 16.7 % to 18.7% ¹²

Earned income includes revenue from the sale of goods and services, rental income, and membership dues and fees. By way of example, art galleries generate revenue from gift shops, YMCA's generate revenue from gym fees, hospitals generate revenue from parking lots, UNICEF generates revenue from the sale of greeting cards, performing arts groups generate revenue from ticket sales etc. These and similar sources of income complement revenues received from charitable donations and government grants and are essential contributors to the sustainability and viability of the voluntary sector.

Given the importance of earned income, many voluntary sector organizations have had to be as enterprising, entrepreneurial and innovative as small businesses in order to succeed. This fact is rarely acknowledged. The challenge confronting voluntary organizations is exacerbated, however, because they have not had access to governmental supports provided to small businesses. The limited access to capital has had an especially restraining impact on the ability of voluntary organizations to innovate and experiment.

¹² See David Lasby, *What T3010 Data Tell Us About Charity Financing*, *The Philanthropist* / 2011 / Volume 24 . 2 <https://thephilanthropist.ca/original-pdfs/Philanthropist-24-2-476.pdf>

Fortunately, there is increasing recognition of the need to expand the sources of capital and support programs to better enable voluntary organizations to achieve their missions. These new sources of social finance include instruments like Social Impact Bonds. In addition, Impact investing is emerging as a new asset class enabling voluntary organizations to access capital from institutional and individual investors seeking a social or environmental return in addition to a financial return.

The Government of Canada has also recognized the need for new sources of financing for voluntary organizations by its commitment to establish a Social Innovation and Social Finance Strategy. A recent report, *Inclusive innovation: New ideas and new partnerships for stronger communities*,¹³ contained a number of recommendations directly relevant to the work of this committee. For example, members of the Social Innovation and Social Finance Strategy Co-Creation Steering Group made recommendations to:

- Improve social purpose organizations' access to federal innovation, business development and skills training programs.
- Address the legal and regulatory issues impeding charities and non-profits from engaging in social innovation, social finance, and social enterprise.
- Create a Social Finance Fund.

The creation of a Social Finance Fund may be especially important as a means to continue the development of social innovation and social finance initiatives. And, if we want to pilot new approaches to social innovation, we should give serious consideration to the use of unclaimed bank balances as the source for such a fund. According to the Bank of Canada, a total of \$742 million in unclaimed bank balances sat on the Bank's books at the end of 2017.¹⁴ Canada should follow the lead of the UK and establish creative methods of using this "dead money" in ways that will benefit the voluntary sector and, ultimately, Canadians.

¹³ The report can be accessed at this link <https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/reports/recommendations-what-we-heard.html>

¹⁴ See <https://www.bankofcanada.ca/unclaimed-balances/>

Conclusion

The Voluntary Sector Initiative (VSI) that took place from 2000 – 2005 was the last major examination of Canada's large and diverse voluntary sector. While the VSI had its shortcomings as well as its successes, much of the research and many of the reports it produced are directly relevant to the work of the Special Senate Committee on the Charitable Sector.

With respect to federal funding of the voluntary sector, the *Accord Between the Government of Canada and the Voluntary Sector* and *A Code of Good Practice on Funding* are particularly germane and their modern-day utility should be considered. This committee should also consider the need to enhance incentives for charitable giving by Canadians. In addition, the committee should give serious consideration to the recommendations of the Social Innovation and Social Finance Steering Group and, as a place to start, it should advance options for a more constructive use of the dormant bank accounts sitting on the books of the Bank of Canada.

The author

Patrick Johnston began his voluntary sector career in 1975 as Executive Director of the Richmond Youth Service Agency in B.C. Since then, he has held senior staff and Board positions in many voluntary organizations including serving as Executive Director/CEO of organizations as diverse as the National Anti-Poverty Organization (now Canada Without Poverty), the Canadian Council on Social Development, the Canadian Centre for Philanthropy (now ImagineCanada) and the Walter and Duncan Gordon Foundation. From 2000-2002, he served as the voluntary sector Co-Chair of the Joint Coordinating Committee providing oversight to the Voluntary Sector Initiative.

Appendix A

What's in a Name: "Non-profit, Charitable or Voluntary?"

Every attempt to address issues of importance to the voluntary sector faces the lack of a clear, concise name for the sector. Therefore, any name used by the Joint Tables would have been seen as inadequate in some way.

The term "non-profit sector" is the most encompassing concept. It includes almost every type of voluntary association, charity, church, trade and professional association, and advocacy organization. The non-profit category is estimated to include more than 175,000 organizations in Canada. Non-profit organizations enjoy special tax exemptions, which they gain by fulfilling requirements of the Income Tax Act.

A subset of non-profits, the charitable sector, is the narrowest concept. It usually refers specifically to those organizations that are registered under the Income Tax Act as meeting a set of criteria, which exempts them from income taxes and permits these organizations to provide receipts for donations that can be claimed as tax credits. Unlike the non-profits, charitable groups are required to apply for their status, which is either granted or refused by Revenue Canada, and which the Department can also revoke.

The charitable sector has more than 78,000 organizations encompassing a vast array of types — from small, entirely volunteer-run initiatives that provide services to a specific or local population, to large institutions such as museums, schools, colleges, universities and hospitals.

The focus here is primarily on organizations whose work depends on: serving a public benefit; volunteers (at least for the group's governance); financial support from individuals; and limited direct influence from governments (other than that relating to any tax benefits accruing to the organization). This focus includes not only charities, but also the multitude of volunteer organizations, incorporated and unincorporated, that enrich the lives of communities but do not qualify for status as registered charities. These groups include recreational associations, service clubs, local community associations, advocacy groups, and community development organizations, among others. These groups are often the lifeblood of communities and are part of the voluntary sector, but may be largely unknown beyond their neighbourhoods.

So, the Joint Tables chose the broad term "voluntary sector" for their focus. The Table members recognize that some organizations rely on paid staff to carry out their work, although all organizations rely on volunteer directors for their governance. "Voluntary sector" was selected to reflect the sector's essential spirit, not the nature of its labour force. While the Tables acknowledge that the sector's boundaries are fuzzy, it is the sector's core, not its edges, that matters for this endeavour.

Adapted from Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector, Panel on Accountability and Governance in the Voluntary Sector, pp 7-8

(Excerpt from the report 1999 report Working Together, pg. 16)

Appendix B

Other relevant sources include:

[Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector](#) (more commonly known as the Broadbent report). The 1999 report of a six-person, independent panel chaired by former NDP leader Ed Broadbent was commissioned by a coalition of national, charitable organizations. Other panel members included the late Arthur Kroeger, a highly regarded senior federal civil service, and Monique Vézina, a former Minister of External Relations in the Mulroney government.

[Funding Matters: The Impact of Canada's New Funding Regime on Nonprofit and Voluntary Organizations](#) this 2003 study prepared by the Canadian Council on Social Development in collaboration with the Coalition of National Voluntary Organizations documented the changing funding landscape in Canada and assessed the impact of those changes on the financial capacity and long-term sustainability of nonprofit and voluntary organizations.