

A Code of Good Practice on

Funding

*Building on An Accord
Between the
Government of Canada
and the
Voluntary Sector*

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Developed by the Joint Accord Table of the Voluntary Sector Initiative

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1. Why a Code?

Signed in December 2001, *An Accord Between the Government of Canada and the Voluntary Sector* describes the key elements of a strengthened relationship between the two sectors. It sets out common values, principles and commitments that will shape the sectors' future practices as they work together for the benefit of all Canadians.

This Code of Good Practice on Funding fulfils the Accord's commitment to take measures to put its provisions into action. As such, the Code is a tool for identifying practices related to the funding aspect of the sectors' relationship. By using these good practices, both sectors are committed to building that relationship, thereby strengthening their ability to better serve Canadians.

1.1 Link to the Accord

This Code of Good Practice on Funding has been developed in accordance with the provision in the Accord stipulating that the Government of Canada and the voluntary sector will develop, in a timely fashion: *codes or standards of good practice to help guide interactions between government departments and voluntary sector organizations on aspects of the relationship such as policy dialogue, funding, and other issues as identified.*

As summarized below, the Accord also contains specific references to the issue of funding:

- *Recognize and consider the implications of its legislation, regulations, policies and programs on voluntary sector organizations including the importance of funding policies and practices for the further development of*

the relationship and the strengthening of the voluntary sector's capacity; (Government of Canada Commitments) and

- *Advocacy is inherent to debate and change in a democratic society and ... should not affect any funding relationship that might exist.* (Principles: Independence)

In addition, the Code builds on the values of democracy, active citizenship, equality, diversity, inclusion and social justice, and the principles of independence, interdependence, dialogue, co-operation and collaboration, and accounting to Canadians, which are the basis for the Accord.

1.2 Purpose of the Code

The purpose of this Code is to guide interactions between the Government of Canada and the voluntary sector on funding policies and practices.

The Code is grounded in each sector's recognition of its responsibility to be accountable to Canadians and the importance of sustainable capacity to enable voluntary organizations to serve Canadians.

Voluntary sector organizations have a mandate to identify and respond to community needs by providing programs, services and support to improve people's lives. They provide collective voices and involvement in issues of common concern. As diverse as the Canadian population itself, the voluntary sector includes an estimated 180,000 incorporated non-profit organizations, of which 80,000 are registered charities. These organizations differ enormously in their causes and constituencies, in size and resources, and in the extent to which they are run by volunteers and paid professional staff. They range from

small community-based groups to large national and international organizations. Working independently, voluntary sector organizations determine their own priorities and manage their own affairs.

Voluntary sector organizations carry out important work in many areas, including sports and recreation, arts and culture, health, religion and environmental protection. Through their staff and volunteers, these organizations work daily in communities across Canada, identifying needs and providing effective services to improve people's lives and support the well-being of communities. In addition to its support role, the voluntary sector contributes significantly to the Canadian economy. (See Appendix 1 for a description of the voluntary sector and Appendix 2 for an overview of the sector's contributions.)

The Government of Canada has a mandate to use public funds for programs and services that improve the quality of life of all Canadians (see Appendix 3 for a summary of the federal government's contributions). Almost every aspect of Canadian life is affected in some way by the Government of Canada and, each day, millions of Canadians rely on the essential services it provides. The federal government also plays an important role in developing Canadian and global economies, and in sustaining relations with other countries and multilateral organizations. Moreover, the federal government makes laws and regulations that affect many aspects of Canadians' daily lives.

This Code examines the current funding policies and practices between the Government of Canada and the voluntary sector, and identifies ways to strengthen these arrangements over time. Expanding on prior work by the Treasury Board Secretariat to identify how the Government of Canada's funding policies and practices could be improved to strengthen its relationship with the voluntary sector¹, the Code is also informed by the input of the voluntary sector's Working Group on Financing. The contributions of these bodies provide a strong foundation for the Code.

The Code is a guide to good practice and a practical tool for implementing the principles set out in the Accord. It takes into account the environment in which both the voluntary sector and the Government of Canada work, as well as the values and other important considerations that affect the funding aspect of their relationship. In the longer term, improved funding policies and practices should 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.

¹ As part of the Voluntary Sector Initiative, the Voluntary Sector Project Office (VSPO) in the Treasury Board Secretariat was mandated to identify and propose solutions to impediments in federal funding practices and policies in relation to the voluntary sector, to provide greater consistency across departments and to improve the government's ability to strengthen sector capacity. This work involved extensive consultations with the voluntary sector and across government, and resulted in the Federal Strategy on Funding Practices and Policies, a federal funding framework to improve administrative practices and help federal departments build the capacity of sector partners. A key element of the Strategy is a Guide to Improving Funding Practices Between the Federal Government and the Voluntary Sector, which has now been fully integrated into this jointly developed Code and is superseded by it.

2. Principles Underpinning the Code

Building on the Accord, this Code is based on the following shared principles:

The Voluntary Sector's Value

A healthy and active voluntary sector plays an important role in helping the federal government achieve its public policy objectives. By its very nature and particularly because of its connection to communities, the voluntary sector brings a special perspective and considerable value to its activities, including those it undertakes with the Government of Canada.

Strengthened Sustainable Capacity

Sustainable capacity consists of resources, expertise and infrastructure that allow organizations to manage themselves and carry out their mandate over time. Maintaining this capacity is critical for organizations to continue serving their clients, including undertaking work in partnership with federal government departments and agencies.

The Government of Canada and the voluntary sector recognize the importance of sustainable capacity for organizations and how funding policies and practices can affect that capacity. This capacity requires resources and support from a variety of sources, including the federal government.

Co-operation and Collaboration

A close working relationship between the voluntary sector and the Government of Canada will foster the co-operation and

collaboration needed to maximize their complementary skills, expertise and experience.

Innovation

The voluntary sector and the Government of Canada encourage and support innovation in communities across the country. The sectors will collaborate to leverage their strengths and expertise, enabling them to explore new and creative ways of responding to community needs. Through its strong connection to community, the voluntary sector is well placed to identify emerging priorities and offer innovative proposals for change. For its part, the federal government can play a role by developing funding practices that encourage innovative policies and programs.

Diversity and Equitable Access

The voluntary sector derives much of its strength from the diversity of its people, organizations and sources of support. Reflecting the face of Canada, the people who work and volunteer in the sector are drawn from a range of backgrounds and offer a wealth of unique abilities and experiences. The Government of Canada and the voluntary sector will work together to ensure that funding policies and practices take account of the specific needs, interests and diversity of the sector, including, for example, groups representing women, visible minorities, persons with disabilities, Aboriginal people, linguistic minorities, sexual orientation, remote, rural and northern communities, and other sectors, so that

such groups do not face even greater challenges in accessing federal government funding and/or programs and services.

As well, policies and practices must respect the provisions of existing legislation, including the *Canadian Charter of Rights and Freedoms*, the *Canadian Human Rights Act*, the *Employment Equity Act*, the *Official Languages Act*, the *Multiculturalism Act*, the United Nations *Universal Declaration of Human Rights* and other international conventions to which Canada is a signatory. Policies must also respect all amendments, extensions or replacements to these laws and policies.

Accountability

Accountability is the requirement to explain and accept responsibility for carrying out an assigned mandate in light of agreed-upon expectations. The two sectors will fulfil their respective accountabilities as described below:

- Voluntary sector organizations, through their boards of directors, are accountable to multiple constituencies, including funders, donors, clients, members, volunteers, staff, government and the general public. When they accept public funds, as with any other funds, they are accountable for how these funds are used. Accountability requirements differ depending on the type, purpose, duration and amount of funding and should be linked to realistic and measurable outcomes.

- The Government of Canada is accountable to Parliament and the Canadian people for the use of public funds. It is guided by *Results for Canadians* (a management framework for the federal government) and the financial management framework of the Government of Canada. The Office of the Auditor General of Canada also plays an important role in monitoring accountability for the expenditure of public funds.

Transparency and Consistency

More consistent application of funding policies and practices across the Government of Canada and the voluntary sector as a whole will lead, over time, to more harmonized and streamlined processes that will benefit both sectors. Both sectors require clear and timely information on all aspects of funding processes in an open and transparent manner.

Efficiency and Effectiveness

The Government of Canada and the voluntary sector recognize the importance of efficient and effective allocation of funds. Application, reporting and monitoring requirements must also be manageable and realistic.

3. Voluntary Sector Financing

The voluntary sector is a significant economic force in Canada³:

- The sector employs 1.3 million people, about 9 percent of the workforce.
- The contribution of this workforce is increased by the 6.5 million volunteers who dedicate more than 1 billion hours each year through the voluntary sector organizations in their communities – the equivalent of 580,000 full-time jobs.
- The voluntary sector generates about \$90 billion in annual revenues and has \$109 billion in assets.

A strong, resilient voluntary sector draws its support from a variety of sources, including:

- 22 million Canadians who make financial and/or in-kind donations totalling almost \$5 billion to help organizations achieve their missions;
- millions of individuals who volunteer their expertise and labour;
- governments, foundations, charitable funding organizations (e.g., United Ways-Centraides) and corporations that provide financial and in-kind resources; and
- funds raised by voluntary sector organizations through service fees, product sales, investment income and other charitable fund-raising activities.

In response to changing government priorities and available funding over the past decade or so, voluntary sector organizations have

explored opportunities to further diversify their funding sources.

- **The private sector:** Corporations were encouraged to increase their donations and they did so. Although the private sector plays an important role in voluntary sector funding, it has not been able to offset reduced government funding, which remains the sector's largest source of revenue. Moreover, the private sector provides primarily one-time or short-term funding; this is problematic as voluntary sector organizations require ongoing funding.
- **Individual donors:** Individual donations can be a consistent and significant source of revenue, but most smaller voluntary sector organizations do not have the broad public profile needed to raise significant funds from individuals. In recent years, the government has increased tax assistance for charitable donations (mainly in 1996, 1997 and 2001) resulting in an increase in average donations reported by individuals on tax returns.
- **Foundations, community funds and charitable funding organizations:** Voluntary sector organizations regard these flexible and innovative funding sources as essential elements of their long-term sustainability.
- **Governments:** Federal, provincial, territorial and local governments together provide more than half of the voluntary sector's total annual revenues, with the large majority of funding (more than 85 percent) coming from the provincial and territorial levels of government.

³ See Appendix 2 for more information on the contributions of the voluntary sector.

4. Government of Canada Support of the Voluntary Sector

Although direct federal funding is not the largest source of public funds to the voluntary sector (provincial, territorial and local government funding are considerably larger), it is nonetheless significant. As discussed in Section 1.3, the Government of Canada's provision of tax relief also has a significant impact on the voluntary sector.⁴

The Government of Canada has a clear interest in ensuring a healthy and active voluntary sector in communities across the country so that they can work together for the well-being of Canadians. Funding policies and practices must encourage this by removing any barriers to an effective working relationship.

4.1 Purposes/Activities for Which Direct Funding is Provided

Federal government departments and agencies make different types of direct funding available to voluntary sector organizations for a range of purposes and activities⁵ to ensure that government policy objectives are met in a flexible and appropriate manner. However, not all types of

funding are provided by every department and agency. Each federal department and agency determines the type(s) of funding best suited to fulfil its mandate and policy objectives. Departments and agencies are guided by their individual policy and program priorities as well as by the terms and conditions of the specific funding programs they provide. Although most federal government funding is allocated for a one-year period, some departments and agencies also provide funding on a multi-year basis. All funding agreements are subject to the annual appropriation of funds by Parliament.

In considering their mandate, federal departments and agencies may make funding available for various purposes and activities, including:

- program and service delivery;
- strengthened sustainable capacity;
- strategic investment;
- alliances and partnerships;
- policy dialogue;
- advocacy;
- research;
- innovation; and
- capital expenditures.

⁴ See Appendix 3 for more information on the contributions of the Government of Canada.

⁵ Descriptions of each of these funded purposes/activities can be found in Appendix 4.

4.2 Direct Funding Mechanisms

The federal government provides the vast majority of its direct funding to the voluntary sector through four main types of funding mechanisms⁶, in accordance with the Treasury Board of Canada's Policy on Transfer Payments and Contracting Policy:

- contributions;
- grants;
- contracts; and
- other transfer payments.

Of these, most funding is provided through the first two mechanisms (i.e., contributions and grants). Some funding is also provided through contracts for specific professional services. The last mechanism is restricted to special and specifically defined arrangements, for example, transfer payments to other levels of government.

Funding arrangements, including their duration, should reflect the nature and scale of the issue to be addressed. For example, chronic or systemic social issues are not likely to be solved through short-term project funding. Project funding has a place in the overall funding mix for problems that are expected to be solved in the short-term or for time-limited activities. However, many issues (e.g., racism, climate change, HIV/AIDS) are longer term in nature and may require long-term funding commitments, as well as collaboration and partnership activities, to make real progress.

4.3 Other Government of Canada Support of the Voluntary Sector

In addition to providing voluntary sector organizations with direct funding as mentioned above, federal departments and agencies can provide access to other support and resources. Such non-monetary contributions are made at the discretion of individual departments and agencies and may need to be charged against a department's appropriations.

Although awareness of them varies, the types of non-monetary contributions listed below can be found in some federal departments and agencies. As specific circumstances will determine the details of any funding arrangement, departments and agencies may adapt and/or build on these examples. Key determining factors are the availability of resources, and congruence with federal government priorities and the department's or agency's specific strategic aims and policy priorities. Departments and agencies whose current terms and conditions do not permit them to provide these types of support should be aware that they can seek approval to amend those terms and conditions to permit the following activities:

- **In-kind contributions**, such as:
 - access to/use of hard and soft assets (e.g., libraries, meeting space, video teleconferencing equipment and facilities);

⁶ The four funding mechanisms are described more fully in Appendix 5.

- recyclable equipment (e.g., office furniture, computer hardware);
 - access to training opportunities (e.g., professional development);
 - training for voluntary sector organizations on Government of Canada funding practices, mechanisms, processes and outcomes; and
 - federal government/voluntary sector personnel interchanges.
- **Differential pricing:**
 - consideration/recognition of many voluntary sector organizations' reduced capacity to pay for participation in conferences or training programs (note: support of this kind can also be provided through direct funding in the budget of an eligible initiative); and
 - access to Government of Canada bulk pricing rates, in the case where a supplier has agreed to extend preferential rates to a voluntary sector organization.

5. Good Funding Practices: The Code in Action

Building on the principles presented in Section 2 of this Code, the funding practices outlined below identify specific measures to improve the flexibility, responsiveness and consistency of funding arrangements, taking into account the realities of the two sectors. Many of these practices are already in place in some federal departments and agencies and in the voluntary sector. Where appropriate, these practices could be applied more broadly in both sectors. A living document, the Code will evolve as new practices are identified and improved upon. Progress will be achieved when this process of continuous improvement, based on shared principles and supported by ongoing dialogue, becomes common practice.

5.1 Voluntary Sector Responsibilities for Funding Practices

Building on the Code's shared principles, the following good practices by the voluntary sector will help guide interactions between the voluntary sector and the federal government. The voluntary sector commits to:

5.1.1 The Voluntary Sector's Value

- demonstrate and communicate value in the delivery of programs and services;
- inform federal government departments and agencies of areas in which the voluntary sector possesses particular expertise and knowledge; and

- stay informed about federal government policy and program areas that are relevant to their areas of operation.

5.1.2 Strengthened Sustainable Capacity

- invest in organizational and human resource development management;
- develop its funding sources and diversify them to the extent possible;
- demonstrate through the application of equitable and efficient operating policies and practices its readiness to work with government;
- explore with government funders the possibility of using multi-year funding agreements and identify the potential impact of such agreements on organizations' stability and long-term planning processes; and
- identify and include infrastructure-type costs, such as information management and information technology, memberships, facilities, human resources and financial management obligations (e.g., audits), when developing budget estimates.

5.1.3 Co-operation and Collaboration

- acknowledge funding sources, including the Government of Canada, in promotional material;
- use its extensive networks to communicate information and co-ordinate among organizations as appropriate to avoid duplication;

- take steps to stay current with existing government planning tools such as program expenditure priorities and plans, contribute to these as required, and work to improve the effectiveness of the sector’s related planning tools and practices; and
- work with government funders to identify ways to make programs more responsive to local needs.

5.1.4 Innovation

- identify innovative funding practices to improve existing program delivery;
- engage with federal departments and agencies in dialogue about innovative funding approaches to address emerging community issues and needs; and
- where appropriate, examine opportunities to share innovative approaches with other voluntary sector organizations and government funders.

5.1.5 Diversity and Equitable Access

- implement policies to ensure equality of opportunity, both in employment practices and service provision; and
- publicize government or other funding policies broadly and share that information across the diverse sector.

5.1.6 Accountability

- ensure sound financial management, including accounting procedures that are in accordance with generally accepted accounting principles;
- provide effective board governance;

- adhere to ethical fund-raising practices;
- ensure that sufficient monitoring, internal management and client and funder accountability systems are in place; and
- ensure that organizations have the level of financial expertise needed to fulfil all their financial management, recording and reporting obligations.

5.1.7 Transparency and Consistency

- ensure openness and transparency of activities and financial records, including management and overhead costs, and volunteer involvement;
- provide essential financial information and notify the federal government of any changes, delays or irregularities related to funding, in a timely manner; and
- co-operate with any external reviews of funding that may be required, including monitoring, evaluation and/or audit.

5.1.8 Efficiency and Effectiveness

- ensure that systems are in place to monitor and evaluate activities against agreed-upon objectives;
- ensure the timeliness of its responses to accountability requirements;
- plan program investments strategically;
- periodically evaluate (in consultation with users) its use of public funds to ensure it meets “value for money” criteria; and
- work with government funders, where appropriate, to develop user-friendly forms and reporting requirements.

5.2 Government of Canada Responsibilities for Funding Practices

Building on the Code’s shared principles, these good practices by the Government of Canada will help guide interactions between government departments and agencies and voluntary sector organizations. The Government of Canada commits to:

5.2.1 The Voluntary Sector’s Value

- communicate with voluntary sector organizations that may be well qualified to compete for research funding alongside the private sector and universities;
- include as one criterion the “particular value” that voluntary sector organizations bring to specific activities they undertake with the Government of Canada (e.g., access to networks, knowledge of specific issues, expertise in service delivery, ability to promote equality and social inclusion) when considering a funding proposal;
- include a legitimate proportion of the cost of providing this particular value as part of the budget for a funded activity when it is integral to the project’s successful implementation; and
- establish opportunities for voluntary sector organizations to access federal contracts through means such as:
 - the creation of standing offer lists of voluntary sector organizations that have been “pre-qualified”; and
 - the development of service registries (i.e., listings of voluntary sector organizations with a particular expertise).

5.2.2 Strengthened Sustainable Capacity

- 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;
- allow a reasonable and flexible transition period when major changes are made to a funded activity already underway;
- use flexible arrangements available to departments and agencies in accordance with the Treasury Board of Canada’s Policy on Transfer Payments (e.g., making advance or installment payments to meet program objectives, including the carry-forward of nominal unused advances over year-end, not exceeding expected expenditures for the month of April);
- make payments according to an agreed-upon timetable and consider both the size and nature of the proposed funding and the applicant organization;
- in proposed budgets for programs or projects to be delivered by voluntary sector organizations, include among allowable expenditures infrastructure-type costs (e.g., information management and information technology, memberships, facilities, human resources and financial management obligations (e.g., audits)) that are integral to successfully implementing eligible initiatives;
- manage funds effectively to eliminate problems caused by the distribution of a concentrated amount of funding to organizations at the end of the fiscal year; and

- use the Strategic Investment Approach to strengthen the capacity of voluntary sector organizations to collaborate over the longer term with government on key policy and program goals of mutual interest (see Appendix 6).

5.2.3 Co-operation and Collaboration

- solicit and consider voluntary sector views on better ways to meet new or existing needs through funding programs;
- provide voluntary sector organizations with access to useful planning tools and routinely share information on departmental, agency and government-wide priorities and plans (for policies, programs and research), to facilitate long-term planning in voluntary sector organizations; and
- be flexible in implementing new programs that address broad federal priorities and, where appropriate, tailor these programs to meet local needs.

5.2.4 Innovation

- identify and bring forward emerging issues with respect to funding policies and practices, and use new funding approaches to address community needs;
- recognize the potential of voluntary sector organizations as a source for innovations that could be used to advance departmental or agency or program priorities; and
- recognize the benefit of targeting a portion of new program funding for innovation at the design stage, incorporating appropriate risk assessment, risk management and accountability measures.

5.2.5 Diversity and Equitable Access

- recognize the potential of diverse community organizations (e.g., faith, cultural) to contribute to program development and delivery of services, and demonstrate sensitivity to cultural differences; and
- make an effort to provide equitable access to funded programs for organizations that may face greater challenges in accessing federal funding (e.g., groups representing women, visible minorities, persons with disabilities, Aboriginal people, linguistic minorities, sexual orientation, and remote, rural and northern communities) by:
 - making information available on existing and new funding programs, including application procedures, in a variety of easily accessible formats (e.g., through outreach activities, the press, umbrella and intermediary organizations, voluntary sector networks, directories, newsletters and the Internet, and in formats accessible to persons with disabilities);
 - writing application forms in plain language to increase clarity and reduce complexity; and
 - ensuring that eligibility criteria and funding practices do not create unintended barriers for smaller organizations with limited resources or without a federal “track record”.

5.2.6 Accountability

- make application and accountability standards and procedures flexible enough to accommodate a variety of approaches and the limited capacity of smaller organizations, while still ensuring effective protection of, and proper accountability for, public money;
- take into account monitoring procedures already agreed to by a voluntary sector organization's other funders, as well as any quality assurance system introduced by the organization, when discussing the content, quality and format of federal information needs;
- agree on well-defined, measurable results and clear roles and responsibilities; and
- ensure mutual respect for diversity and recognize that different community groups can manage their resources in different ways and still meet the federal government's accountability requirements.

5.2.7 Transparency and Consistency

- develop a harmonized process across the Government of Canada to facilitate the joint funding of projects when several departments or agencies are working collaboratively on the same or several initiatives with a common client;
- ensure a clear understanding and consistent application of the Treasury Board of Canada's funding policies across the federal government (e.g., transfer payments, contracting, risk management) and make them known to the voluntary sector organizations they work with;

- clearly state the objectives of funding programs and their eligibility criteria, and ensure that application forms are understandable and concise;
- use common elements in application and reporting forms across the federal government;
- ensure that all applicants receive precise information concerning the application process and the stages and timing of decision-making;
- establish realistic planning timeframes, service standards for funding, and performance commitments of departments and agencies for providing full information in a timely manner; and
- identify a point of contact for each funding program and include it in the application guide.

5.2.8 Efficiency and Effectiveness

- ensure minimum duplication and maximum ease in application and reporting requirements by requiring only essential information and encouraging the development and use across the Government of Canada of generic, user-friendly forms and software, electronic application and reporting procedures, and one-time-only basic "boiler plate" data, to be updated as required;
- develop less complex and shorter agreements for lower-cost, lower-risk projects that will facilitate the application process;

- use a “risk-based” approach – based on modern financial management principles – to assess and monitor initiatives, ensuring that it is appropriate to the organization’s level of funding, size and nature; and
- recognize the cost to voluntary sector organizations of monitoring and evaluation by including support towards such costs when they are identified in the budget submitted for an eligible initiative.

5.3 Joint Responsibilities for Funding Practices

Together, the two sectors can give effect to the Code’s shared principles by adopting good practices that will improve their funding relationship. Specifically, they commit to:

- ensure that impact assessments of funding policies and practices on projects and programs take into account the varying circumstances in different regions of the country;
- ensure that accurate and sufficient information is uniformly available to support quality decision-making and reporting on results;

- develop evaluation tools (including third-party evaluations) for measuring longer-term outcomes of funding at the departmental and agency program level (as opposed to the project level);
- establish collaborative processes with clearly delineated roles and responsibilities, and reach decisions about the funding process through collaborative processes;
- exchange information and build awareness to improve mutual understanding;
- outline agreed-upon results/outcomes for financial programs/activities; and
- communicate shared results and successes jointly, wherever possible.

6. *Moving the Code Forward*

The Government of Canada and the voluntary sector are committed to implementing the Code through a two-phase plan. The first phase will involve broad dissemination and communication of the Code as a guide for both sectors on ways to improve the application of direct funding policies and practices. This includes strengthening the sustainable capacity of voluntary sector organizations to better serve Canadians.

In the second phase of the implementation plan, the sectors will work together to apply the Code, for example, through briefings, workshops, seminars, pilot projects and case studies. This phase will also focus on initiatives to monitor and assess the impact of the Code and to increase understanding of how it can be used to improve the funding relationship between the sectors.

The Government of Canada and the voluntary sector are committed to using the Code, to learning and improving the way they work together, and to making positive and lasting behavioural changes. As the Code's guidelines are incorporated into daily use across government departments and agencies, and throughout the voluntary sector, representatives of both sectors will:

- discuss the Code and learn from one another;
- work to adapt their funding policies and practices; and
- propose reforms to make the Code more effective.

Results will flow from the increased use of the array of good practices already in place, including those proposed in this Code, as well as from those that will evolve with time and experience. Understanding in both the Government of Canada and the voluntary sector of their mutual commitment to achieve progress together is key.

In *An Accord Between the Government of Canada and the Voluntary Sector*, both sectors agreed on the need to report to Canadians on the status of their relationship and the results that have been achieved under the Accord. Assessing the Code's use and effectiveness as a tool in meeting the Accord's goals will require periodic review, discussion, analysis, evaluation and reporting. This may result in modifications to the Code and the establishment of new priorities.

Appendix 1

Description of the Voluntary Sector

An *Accord Between the Government of Canada and the Voluntary Sector* describes the voluntary sector as follows:

This sector consists of organizations that exist to serve a public benefit, are self-governing, do not distribute any profits to members, and depend to a meaningful degree on volunteers. Membership or involvement in these organizations is not compulsory, and they are independent of, and institutionally distinct from the formal structures of government and the private sector. Although many voluntary sector organizations rely on paid staff to carry out their work, all depend on volunteers, at least on their boards of directors.

The voluntary sector is large, consisting of an estimated 180,000 non-profit organizations (of which 80,000 are registered as charities) and hundreds of thousands more volunteer groups that are not incorporated. In 2000, 6.5 million people volunteered their time to a voluntary sector organization and the sector employed a further 1.3 million people. This diverse multitude of organizations ranges from small community-based groups to large, national umbrella organizations and includes such organizations as neighbourhood associations, service clubs, advocacy coalitions, food banks, shelters, transition houses, symphonies and local sports clubs.

Appendix 2

Contributions of the Voluntary Sector

Voluntary sector organizations do important work in a wide variety of areas, including sports and recreation, arts and culture, health, religion and environmental protection. Through their staff and volunteers, these organizations work in communities across Canada every day, identifying needs and providing effective service and support to improve people's lives. Instrumental in developing and supporting social, cultural, economic and political values in Canadian communities, voluntary sector organizations make a valuable contribution by:

- delivering services;
- advocating on behalf of community causes;
- encouraging self-help;
- facilitating community and economic development in Canada and developing countries;
- promoting awareness and action on environmental issues;
- advancing religious faith and practice; and
- raising funds and providing financial support to other organizations.

The voluntary sector's breadth and diversity are among its principal strengths. Voluntary sector organizations provide channels through which Canadians can make themselves heard on important issues. Many organizations work with the most marginalized members of society, advocating for the needs of those whose voices are too seldom heard. A fundamental part of a democratic, pluralistic and inclusive society, voluntary sector activities reinforce citizenship by encouraging Canadians to participate in and express their views on a diverse range of individual and civic concerns and interests within their communities, whether defined geographically or as communities of common interest.

Through its ability to galvanize Canadians on important issues and act as an early warning system on a broad range of issues (e.g., land mines, racism, family violence, climate change, media concentration, heritage preservation and HIV/AIDS), the voluntary sector can inform and enrich policy debates, identify emerging priorities and offer innovative proposals for change. The voluntary sector's ability to build bridges between communities and cultures helps to promote understanding, awareness, diversity, inclusion and social justice – connecting people locally, regionally, nationally and around the world.

Appendix 3

Contributions of the Government of Canada

Almost every aspect of Canadian life is in some way affected by the Government of Canada. Every day, millions of Canadians rely on essential services provided by the federal government, including, for example:

- national security;
- peacekeeping;
- protection of rights and freedoms;
- environmental protection;
- protection of the health of Canadians;
- maintenance of national parks and treasures;
- communication and technology development; and
- transportation guidelines and services.

The Government of Canada also plays an important role in the development of Canadian and global economies, and sustains relations with other countries and multilateral organizations. As well, the federal government makes laws and regulations that affect many aspects of Canadians' daily lives.

In 1997-98, the federal government made an estimated \$2.2 billion in annual **direct** payments to support programs and services delivered by voluntary sector organizations.

The federal government recognizes its role to encourage and stimulate increased giving by Canadian individuals, corporations and foundations (both public and private) through tax relief. In 1997-98, the federal government provided \$1.3 billion in **indirect** support to the voluntary sector through personal and corporate tax credits for charitable donations. In addition, tax assistance is provided through the sales tax rebates to charities and the benefits associated with their tax-exempt status.⁷

⁷ The source for these statistics on the federal government's direct and indirect support is: *Final Results of Statistical Research into Funding of the Voluntary Sector*, an analysis of the Public Accounts of Canada carried out in 2001 by the Voluntary Sector Project Office of the Treasury Board Secretariat.

Appendix 4

Voluntary Sector Purposes/Activities Funded by the Government of Canada

Program and Service Delivery: Funding may be provided to service delivery organizations that contribute directly to federal departmental and agency objectives. This funding is made available through project and organizational funding.

Strengthened Sustainable Capacity: Longer-term funding may be provided to help strengthen the capacity of voluntary sector organizations to collaborate more effectively with federal departments and agencies on key policy goals.

Departments and agencies also recognize the need to develop capacity over a longer period of time and may provide longer-term funding (i.e., three to five years) if organizations demonstrate specific performance outcomes. In addition to ensuring capacity is available to the federal government, this type of funding:

- enables funded organizations to develop and maintain a body of expertise;
- allows for longer-term planning and increases stability within the voluntary sector;
- takes account of an organization's objectives as well as its need to operate efficiently and effectively; and
- covers a wide range of infrastructure costs such as leadership, financial management, marketing management, organizational and human resource development, information technology and management information systems, research and development, and client and funder accountability systems required for quality service delivery.

Strategic Investment Approach: This is an innovative approach that uses existing funding mechanisms to strengthen the capacity of organizations in order to enhance their ability to work collaboratively with federal government departments and agencies on agreed-upon goals over a specified period of time. This approach was developed under the leadership of the Treasury Board Secretariat in consultation with the voluntary sector (see Appendix 6 for a detailed description of the Approach).

Alliances and Partnerships: Funding may be provided for:

- networking;
- capacity-building at the multi-organization level;
- coalitions;
- associations with other organizations; and
- joint action.

Policy Dialogue: Funding may be provided for:

- identifying emerging policy issues;
- supporting dialogue, discussion, debate and input on policy issues;
- supporting research, consultation and input into policy development and implementation;
- providing resources and support to the wider voluntary sector; and
- contributing to specific policy objectives.

Advocacy: Funding may be provided to promote representative voices on emerging issues that are important to the delivery of departmental and agency mandates, and for advocating for changes in public policy. Advocacy is defined as “the act of speaking or of disseminating information intended to influence individual behaviour or opinion, corporate conduct, or public policy and law.”⁸

Research: Funding may be provided for research and development.

Innovation: Funding may be provided for innovative or pilot projects whose outcomes may benefit the sector as a whole or be transferable to other voluntary sector organizations.

Capital Expenditures: Funding may be provided to purchase tangible assets such as equipment. In some exceptional cases, funding may also be provided to purchase land or buildings. Such assets help voluntary sector organizations provide continuous service and have a lifetime beyond the reporting period in which they are acquired.

⁸ *Working Together: A Government of Canada/Voluntary Sector Joint Initiative: Report of the Joint Tables*, Voluntary Sector Task Force, Privy Council Office, Government of Canada, August 1999.

Appendix 5

Types of Direct Funding Mechanisms

The four types of direct funding mechanisms are:

- **Contributions:** Conditional transfer payments to an individual or organization for a specified purpose as set out in a contribution agreement. These funds must be accounted for and are audited.
- **Grants:** Transfer payments made to an individual or organization that do not need to be accounted for and are not subject to auditing, but for which eligibility and entitlement can be verified or for which the recipient may need to meet pre-conditions.
- **Contracts:** Agreements between contracting authorities and suppliers to provide goods, perform services and/or carry out work for the federal government for appropriate financial and/or non-financial consideration. Payments go to individuals, firms or organizations that fulfil the terms of the contract.
- **Other Transfer Payments:** Payments based on legislation or an arrangement that normally includes a formula or schedule as one element used to determine the expenditure amount. Once payments are made, however, the recipient may redistribute the funds among the several approved categories of expenditure in the arrangement. Examples are transfers to other levels of government such as equalization payments, and health and social transfer payments.

Appendix 6

Strategic Investment Approach

Context

- As a key element in its Funding Strategy, the Government of Canada is looking to strengthen capacity in the voluntary sector in order to support the sector's ability to collaborate with the federal government over the longer term on key policy and program goals of mutual interest.

Purpose

- The Strategic Investment Approach (SIA) aims to strengthen the capacity of voluntary sector organizations working with departments and agencies on key policy goals to collaborate more effectively, by contributing to building their organizational capacity in selected areas of need.

Approach

- The SIA addresses gaps in specific areas of capacity. Purposes could relate to capacity gaps in governance, community outreach, policy and program development, technical capacity, or financial and program management capability.
- Capacity gaps, timeframes and resources required must be agreed upon between departments/agencies and collaborating voluntary sector organizations.
- The investment must be supported by a strong business case demonstrating why strategic investment is needed, and how it will improve collaboration with government on a major policy or program goal which is key to both the sector and the government. Consequently, the SIA would not be suitable for all funding relationships between the Government of Canada and the voluntary sector.

The SIA is results-oriented and time specific, i.e., delivering on specific goals in a limited number of areas over a finite time period.

Benefits

- Strategic investment in the capacity of key voluntary sector partners would improve their ability to provide expert advice and deliver programs over the longer term related to government priorities. This would lead to policies and programs and enhanced delivery of services better aligned with the needs and expectations of Canadians.
- SIA would enhance the ability of sector organizations to function effectively and efficiently by:
 - strengthening the structural capacity essential for long-term planning;
 - supporting the ability to expand and consolidate networks across a wide range of sectors;
 - stimulating the creation of a stronger, deeper knowledge base on issues; and
 - promoting opportunities for collaboration and engagement with the government which build on existing strengths.

Departments and agencies and voluntary sector organizations working on common issues would assess the extent to which the capacity of collaborating organizations could be strengthened through investment. Departments and agencies working with their sector partners would develop a business case that establishes:

- **The purpose for which funding is required.** Specific purposes could be related to governance, community outreach, policy and program development, technical capacity or financial and program management capability;
- **The duration of funding.** SIA may be multi-year, depending on the capacity gap identified and the investment needed to address it. The business case should clearly identify the funding timeframe required;
- **The expected results and its evaluation process.** Progress towards achieving expected results must be identified, and an evaluation plan developed to assess actual results against expected outcomes. This reflects the fact that SIA is meant to achieve tangible results within specific timeframes and is not an open-ended commitment to ongoing funding.

Considerations

- Results-oriented multi-year funding arrangements:
Strategic investments would be targeted to meet clearly identified goals, over several years. Progress towards achievement would be identifiable, demonstrating the effective use of the financial resources provided.
- The Need for a Business Case:
A strategy to achieve results is a requirement of the Strategic Investment Approach, to ensure that resulting changes or improvements can be evaluated. The investment must be supported by a strong business case demonstrating why strategic investment is needed, and how it will improve collaboration with government on an issue which is key to both the sector and the government. The business case would have the following elements:
 - a clear statement of the scope and objectives of the investment;
 - a strategy for achieving the objectives;
 - a detailed description of planned requirements;
 - a clear plan for management and monitoring over the life of the investment; and
 - a well-defined evaluation process to assess the investment outcome.

In addition to the strategies departments and agencies may use to implement the Strategic Investment Approach, the Voluntary Sector Project Office, Financial Management Policy Division at Treasury Board Secretariat, is providing implementation support to departments and agencies.

