



Strong Charities. Strong Communities.

Pre-budget Submission

to the

House of Commons Standing Committee on Finance

August 2018

Recommendations

- 1. That \$1 million a year be allocated to Statistics Canada, for the purpose of gathering and disseminating data pertaining to charities, nonprofits, and social enterprises.**
- 2. That the government, specifically the Ministers of Finance and National Revenue, implement the recommendations made by the Consultation Panel on the Political Activities of Charities.**
- 3. That the government enter into a co-creation process aimed at modernizing the laws and regulations under which charities, nonprofits, and social enterprises operate. We estimate an incremental cost to the federal government of \$5 million over two years.**

Context

The social purpose sector – registered charities, public-benefit nonprofits, and an increasing number of social enterprises – make enormous economic and social contributions to Canada. The data available to us indicate that two million Canadians work in the sector, which accounts for more than 8% of GDP.

No serious discussion of economic growth and competitiveness can ignore either the contributions made, or the challenges faced, by a sector of this size, operating in and touching every community across Canada. But governments of all stripes have been reticent to see us as an economic asset as opposed to a cost centre. They have been reluctant to engage on issues that would help us operate in a modern and sustainable manner.

The mandate letters issued by the Prime Minister to a number of federal ministers in 2015 included several commitments that, if fulfilled, could lead to significant progress and improvement. While there have been a number of consultative processes, some of which will be discussed below, time is running short in the current mandate for substantive action.

A case for urgency

Broadly speaking, social purpose organizations rely on three streams of revenue: government grants and contributions, donations, and self-generated income.

Government grants and contributions are never certain. Where they are present, the conditions placed on them, and the refusal by most departments and agencies to cover the full cost of services they commission, often detract from, rather than enhance, organizations' financial sustainability. Progress has been made by some departments in this regard, particularly Canadian Heritage and Global Affairs Canada, but realistically we cannot count on government funding to ensure organizational sustainability.

Philanthropy is undergoing a tectonic shift. In partnership with the Rideau Hall Foundation, Imagine Canada recently published [30 Years of Giving in Canada](#), the most comprehensive overview of charitable giving in Canada. While overall donation levels have recovered from the financial crisis of several years ago, charitable giving is increasingly concentrated among a smaller number of primarily older donors. Donors over 70 now account for \$4.3 billion in giving; over the next decade, replacing these dollars will be a significant challenge.

The reality is, financial sustainability will require organizations to generate more income from sources other than government or donations. This will require a fundamental shift in how organizations operate, accompanied by a willingness on the part of governments to adapt and modernize legal and regulatory frameworks that are increasingly stymieing efforts to operate in new ways, and to engage with the sector in a manner more akin to how it engages with other economic sectors.

The alternative is to fall further into what our Chief Economist has labelled the “social deficit,” that is, the difference between the resources that social purpose organizations have, and the demands for the services they provide.

Under realistic scenarios, this social deficit could reach \$26 billion within the next decade. This will not show up on balance sheets, but will manifest itself through services that Committee members’ communities and constituents rely upon being cut back or eliminated. Benign indifference on the part of governments is no longer an option.

Fulfilling commitments

As noted above, commitments already made by the federal government have the potential, if carried out, to significantly improve the long-term prospects of charities, nonprofits, and social enterprises. This, in turn, means preserving and expanding upon the employment, economic, and social contributions they make all across Canada.

Data

It is more than a decade since Statistics Canada collected, analyzed, and disseminated comprehensive data about charities and nonprofits.

In its 2015 platform, the current government made a number of encouraging statements about data:

- “We will make decisions using the best data available...”
- “Responsible governments rely on sound data to make their decisions.”
- “We will use accurate data to make good decisions.”

This emphasis on data carried through to the Prime Minister’s mandate letter to the Minister of Innovation, Science and Economic Development. The first priorities listed for the Minister were restoration of the long-form census, and improving the quality of publicly-available data in Canada.

We have developed and shared with Statistics Canada comprehensive recommendations as to the type of sector-wide data that would assist governments and organizations like ours in developing evidence-based policy. A number of provincial government agencies are increasingly frustrated by the lack of current data, and have also been urging Statistics Canada to act. Statistics Canada officials have indicated a willingness to once again produce this vital information, but that they need to the government to indicate that this is a priority and provide the appropriate resources.

We ask the Committee to recommend that \$1 million a year be allocated to Statistics Canada, for the purpose of gathering and disseminating data pertaining to charities, nonprofits, and social enterprises.

Political activity reform

The Ministers of Finance and National Revenue were tasked in 2015 with carrying out legislative changes to clarify and reform the rules governing political activities by registered charities. Political activities refer, by and large, to charities' efforts to engage the public in seeking legislative and policy change at any level of government. Examples include organizing petitions, letter-writing campaigns, publishing op-ed pieces, and holding public rallies.

Political activities do not include partisan support of, or opposition to, a political party or candidate for office. Charities have been clear that they want this prohibition on partisan activity retained.

In 2016, the Minister of National Revenue appointed a Consultation Panel to seek input and make recommendations on this issue. The Panel submitted its report to the Minister in March, 2017. We strongly support the recommendations made by the Panel. To date there has been no formal response from the government.

In July, the Ontario Superior Court of Justice struck down the provisions of the *Income Tax Act* that limit charities' political activities, as violating the Charter of Rights and Freedoms. The government has until August 15 to file an appeal; as of making this submission we do not know whether the government intends to do so.

Regardless of whether the federal government appeals the *Canada Without Poverty* decision, the Consultation Panel recommendations represent a well-considered and desirable way forward.

We ask the Committee to recommend that the government, specifically the Ministers of Finance and National Revenue, implement the recommendations made by the Consultation Panel on the Political Activities of Charities. There will be no ongoing cost to the government.

Legal and regulatory reform

Charities in particular operate under an outdated legal and regulatory regime. The framework that guides us is based largely upon 19th century judicial interpretations of 17th century statutes.

Where would Canada be, economically or socially, if our telecommunications regulations dated from when the telegraph machine was an exciting new development? If our medical care predated the invention of the X-ray? If the franchise was limited to male property-holders more

than 21 years old? Why do we accept the need to constantly modernize and adapt our thinking and our policy framework in every other aspect of economic and social life, but to relegate charities to an antiquated Victorian existence?

During Election 2015, the government committed itself to modernizing the laws governing charities and nonprofits. This was re-iterated in mandate letters to the Ministers of Finance, National Revenue, and Justice.

The Consultation Panel on the Political Activities of Charities (referenced above) recommended that a modernized framework was needed. The Social Innovation and Social Finance Co-Creation Steering Group, which has recently submitted its recommendations to government, heard a great deal about the need for modernization if the government is to achieve its goals in that area.

In the early 2000s, the government of the day launched the Voluntary Sector Initiative. Almost \$95 million was invested over five years, with one of the stated goals being an improved legal and regulatory environment. While new phenomena have arisen, particularly in the realms of social finance and social entrepreneurship, a great deal of the foundation for modernization has already been laid. We can take advantage of the investment that has already been made, incorporate recent developments, and co-create something that will meet 21st century challenges.

We ask the Committee to recommend that the government enter into a co-creation process aimed at modernizing the laws and regulations under which charities, nonprofits, and social enterprises operate. Given the financial and intellectual investment that has already been made by governments and the sector, this process should last no more than two years. We estimate an incremental cost to the federal government of \$5 million over two years.

Conclusion

Social purpose organizations – charities, nonprofits, and social enterprises – do not exist outside the economy, but are a large and vital part of it. Healthy and strong communities are prosperous and competitive communities, our sector is all about communities.

As a sector, we are grappling with many of the same challenges related to demographics as governments and the private sector. But these challenges manifest themselves in ways that are unique to us, and the solutions must be unique to us as well.

We are a sector of innovators – our business is to test and develop solutions to some of the most intractable challenges that communities face. We are ready to tackle the challenges that we ourselves face, but we cannot do it alone. We are not looking to governments to solve these challenges for us, but we are looking to the federal government to embrace change, to think of our contributions in a different way, and to work with us towards unleashing our full potential.