

Government, Governance, and the Nonprofit and Voluntary Sector in Ontario

**A report about how local services
realignment has affected the ability of
organizations to recruit and retain leadership
and governance volunteers**

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The logo for Canada, featuring the word "Canada" in a serif font with a small maple leaf icon above the letter "a".

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Government, Governance, and the Nonprofit and Voluntary Sector in Ontario

Introduction

Before 1998, many municipalities in Ontario supported nonprofit organizations with funding through fee-for-service contracts or discretionary municipal grants. In turn, these organizations provided social, health, cultural, and arts services to communities. In 1998, the Province of Ontario instituted a new way to divide the financial and service management responsibility for a variety of services, including childcare, social assistance and employment supports, housing and homeless supports, public health services, education, and transportation. The provincial government referred to this new method as local services realignment.

Local services realignment changed the relationship of the provincial government to municipalities and the nonprofit and voluntary sector (See Appendix). It also altered the service delivery system for many community services and programs. These changes have had an impact on the nonprofit organizations that deliver these services and on their leadership and governance volunteers. In this report, we define leadership and governance volunteers as those who serve on boards of directors and committees of incorporated, nonprofit organizations (including registered charities).

The Coalition of Ontario Voluntary Organizations (COVO), funded through the Canada Volunteerism Initiative's Knowledge Development Centre at Imagine Canada, set out to determine the impact of local services realignment on the capacity of Ontario's nonprofit organizations to attract and retain board and committee volunteers. Our project examined:

- the capacity of nonprofit organizations to attract and retain leadership and governance volunteers;
- the challenges to, and effective strategies for, recruiting and retaining leadership and governance volunteers in the Ontario context.

We gathered information through:

- a literature review, which revealed the needs for a new model of interaction between the nonprofit and voluntary sector and municipalities;
- telephone interviews with 25 key stakeholders, which provided insight into the impact of local services realignment on nonprofit organizations and helped us develop the survey questions;
- an electronic survey of nonprofit organizations across Ontario, with an emphasis on the Ottawa, London, Niagara, and Greater Toronto areas.

The 139 respondent organizations of the survey are broadly representative of Ontario's nonprofit and voluntary sector. The largest proportion (43%) provide social services to the community. This group is followed by those that provide education and research services (18%); services to seniors (18%); housing services (16%); mental health and crisis intervention services (15%); other health services (15%); and employment and training services (14%). Nearly half (49%) of respondent organizations had annual budgets of between \$100,000 and \$1 million, while more than one third (36%) had annual budgets of more than \$1 million. Nearly half (46%) received funding from municipal governments.

The majority (70%) of respondents indicated that local services realignment has had neither a positive nor a negative impact on leadership and governance volunteering. However, respondents cited two factors as having had a negative or very negative effect on the ability of their organizations to attract leadership and governance volunteers. Two thirds of respondents (67%) cited the shift from core to project funding as a major issue, and three quarters (74%) also cited the cost and availability of liability insurance as an issue.

Respondents reported other effects of local services realignment:

- 67% of respondents agreed or agreed strongly that local services realignment has increased the pressure on nonprofit organizations to drift from their mission and mandate in order to obtain funding.
- 64% of respondents indicated that local services realignment has had an impact on the ability

of organizations to respond to changing community needs.

- 55% indicated that local services realignment has had a major impact on the levels of funding provided to organizations.
- 51% agreed or agreed strongly that local services realignment has had an impact on the ability of board members to maintain focus on the mission of their respective organizations.
- 47% reported that local services realignment has had a negative or very negative impact on the stability and sustainability of organizations and the number of programs offered.
- 46% agreed or agreed strongly that local services realignment has limited the capacity of nonprofit organizations to speak out on community issues.

These findings suggest that nonprofit organizations are dealing with a complex environment in which no single factor can be definitively identified as affecting their capacity to recruit and retain leadership and governance volunteers. Rather, many factors such as local services realignment, changes in funding approach (long-term core funding versus short-term project funding), funding cutbacks, the introduction of managed competition, and the changing relationship between public sector officials and nonprofit organizations must also be considered.

Leadership and Governance Volunteers

Volunteers who agree to participate as board or committee members are uniquely positioned to lead a nonprofit organization in achieving its mission and in meeting community needs. Their functions include

governance, management, and operations of the organization to which they are committed.

Leadership and governance volunteers (i.e. volunteers who serve on boards of directors and committees of incorporated nonprofit organizations, including registered charities) have substantial ongoing responsibilities in five specific areas:¹

- 1. Establishing the organization's vision, mission, and direction.** This requires leadership and governance volunteers to assess community needs, monitor the effectiveness of the organization in meeting those needs, and continuously scan the environment in which the organization works for any changes that may affect its operations.
- 2. Ensuring that the organization has sufficient financial resources to do its work and that it complies with statutory fiscal requirements.** This includes financial planning and meeting income tax requirements.
- 3. Ensuring that the organization has sufficient and appropriate human resources to do its work.** This includes making sure that working conditions are appropriate and safe, evaluating the executive director and senior staff, ensuring the suitability and vitality of its own members, and ensuring that there is a nominating committee to identify and recruit new board members.
- 4. Directing the operation of the organization.** This entails making sure that the organization

complies with all statutory and legal requirements, ensuring effective board operations, and overseeing organizational structure and agency administration.

- 5. Ensuring effective community relations at all levels (i.e. relations with elected officials, other agencies, prospective volunteers, the business community, etc.).** This includes understanding changing needs in the community, finding new ways to meet the needs, and marketing and promoting the organization.

The effective execution of these responsibilities is critically important to the success and vitality of nonprofit organizations. Any pressures that threaten the ability of leadership and governance volunteers to carry out these responsibilities are of concern to their organizations, those who are committed to the health of the nonprofit and voluntary sector, and those (e.g. governments at all levels) who depend on the sector to provide services that meet needs in our society.

Local services realignment changed the relationship of federal and provincial governments to municipalities and the nonprofit and voluntary sector. Local services realignment also changed the service-delivery system for many community services and programs. These changes had a great impact on nonprofit organizations and the volunteers who lead them (Community Social Planning Council of Toronto, 2003; Reed & Howe, 2000).

For example, social and transitional housing providers that received funding from diverse sources before local services realignment now receive funding primarily from local government. Many organizations

¹ This is reprinted from United Way of Canada/Centre-Aide Canada (2005). Last retrieved June 7, 2005 from United Way of Canada/Centre-Aide Canada Web site: www.boarddevelopment.org

see this as a positive change because of the closer relationship that is possible with local government.

However, some organizations see the change as negative because dependence on a single source of funding limits their flexibility and control over their work.

Background

During the past ten years, the nonprofit and voluntary sector in Canada and particularly in Ontario has faced challenges that reflect both a lack of understanding of the sector as well as an ambivalent view of its contribution to communities. For example, between 1995 and 2003, the Ontario government identified volunteerism and the contribution of volunteers as one of the fundamental underpinnings of its policy approach. Yet, many of its public policy changes increased the pressure on the nonprofit and voluntary sector to meet community needs while reducing its capacity to do so.

Before local services realignment, many municipalities in Ontario had developed a symbiotic relationship with nonprofit organizations. Frequently, municipal governments provided them with funding through fee-for-service contracts or discretionary grants. The nonprofit organizations supported by this municipal and other government funding, as well as by funds from foundations and donors, provided social, health, cultural, and arts services to local communities.

Starting in 1995, local services realignment mandated new direct and closer relationships between Ontario municipalities and the nonprofit and voluntary sector. The province established performance benchmarks for municipalities, many of which depend upon the performance of contracted service providers. As

a result, municipalities have a strong incentive to develop accountability measures as part of their service contracts with these providers (usually nonprofit organizations).

The diversity of organizations that have fee-for-service contracts with municipalities has increased significantly (See Appendix). Municipalities now provide funding to a wide range of nonprofit organizations, including childcare centres; family resource centres; employment support, job counselling, and training centres; and social housing (nonprofit and co-ops), hostels, and homelessness support centres (e.g. mental health agencies, recreation programs).

These organizations originally developed out of clearly identified community needs and according to clearly defined community-service missions. The leadership and governance volunteers that serve on the boards of directors and committees of these organizations, which receive partial support through contracts with provincial or municipal governments, focus on achieving their missions. Yet, board volunteers have important responsibilities that transcend the limits of contractual relationships with funders. Thus the extent to which local services realignment puts increasing pressure on nonprofit organizations and their boards or committees has become an important question.

At the same time, the cost of shifting programs and services to municipalities has placed increasing pressure on alternate municipal funding programs. For example, local government has either reduced the municipal discretionary-grants programs (used primarily for social services, arts and culture, and community programs) or distributed the same amount of money to more charitable and nonprofit organizations than it did in the past.

Methodology

The study used three types of data collection: a literature review, telephone interviews of key stakeholders, and a survey of nonprofit organizations across Ontario, with a particular focus on the Ottawa, London, Niagara, and Greater Toronto areas. The data from the literature review and telephone interviews were used to formulate questions for the survey and to inform our analysis of the findings.

Literature Review

The objective of the literature review was to explore recent challenges to leadership and governance in nonprofit organizations. These challenges include reductions to the power and authority of board volunteers resulting from unilateral funding cutbacks and changing government policy without changes in their accountability for the organization. Our working premise for the review was that changes over the past decade might affect people's decision to volunteer for board and leadership positions.

Our review examined books, articles, and Web sites that address governance, volunteering, and changes in the federal, provincial, and municipal systems since 1993. A number of the resources we reviewed were specific to Ontario and commented on the impact of funding and legislative change on the nonprofit and voluntary sector in Ontario.

Stakeholder Interviews

We conducted telephone interviews with 25 key stakeholders. The project team and other contacts in the communities under study recommended possible stakeholders for interview. We chose:

- representatives of nonprofit organizations funded by the province and / or a municipality;
- representatives of municipalities; and
- representatives of non-government funders.

Interviewees were representative of the various sub-sectors of the nonprofit and voluntary sector in Ontario and we drew from all geographic areas of the province.

The primary purpose of the telephone interviews was to help define and refine the survey questionnaire, provide a broader perspective on the issues, and determine the types of information resources or tools needed to support nonprofit organizations dealing with the new funding and legal environment. The interview results significantly affected the design of the survey. Respondents indicated that local services realignment was only one of many issues affecting governance and the capacity of nonprofit organizations to recruit board volunteers.

Survey of Nonprofit Organization Representatives

Based on the literature review and key stakeholder interviews, project staff developed a comprehensive survey and distributed it electronically to over 6,000 nonprofit organizations across Ontario. To improve the response rate, we sent an introductory letter co-signed by the executive director of Coalition of Ontario Volunteer Organizations, (COVO) and the principal investigator to targeted organizations before posting the survey online.

COVO distributed the survey to the organizations in its Ontario-wide database. Project partners – Niagara Centre for Community Leadership, the Ottawa Chamber of Voluntary Organizations, and Pillar

Nonprofit Network – told their members about the project and gave them the survey’s Web address.

Findings

Literature Review

Our review identified some of the challenges facing nonprofit organizations over the past ten years. These include growing restrictions on the capacity to engage in long-term, strategic planning to assess community needs, to ensure financial viability, and to work collaboratively with other community organizations. All of these functions are the ultimate responsibility of the leadership and governance volunteers who serve on the boards of directors of nonprofit organizations.

Canadian Studies

According to Hall, McKeown and Roberts (2001), 6.5 million Canadians (27% of the population aged 15 and older) volunteered through a charitable or nonprofit organization in 2000. The second most common volunteer activity among this group of volunteers (accounting for 41% of all volunteer events) was serving as an unpaid board or committee member.

Scott (2003) examined how the nonprofit and voluntary sector is managing after 10 years of cost cutting and restructuring by governments. Scott found that fundraising and the search for financial support in an increasingly competitive environment is diverting nonprofit organizations from their primary mission. In addition, the shift to unstable short term government funding has forced many organizations to cut back or alter their programs at a time when demand for programs and services is increasing. The need to put more emphasis on fundraising, combined with the government’s shift to short-term funding, have

undermined organizational stability, long range planning, and the sense of autonomy.²

Short-term funding has also undermined advocacy efforts (especially on the part of the more financially fragile organizations), prevention efforts (in work with vulnerable groups), financial reserves, and recognition of the resources required to properly serve needy populations. These services require support that is long term and stable (i.e. because a service such as advocacy or policy development becomes secondary to front-line service and because preventive services need a long term commitment to achieve favourable outcomes).

As these service activities represent the fundamental responsibilities of boards of directors, and as local services realignment created new funding mechanisms and relationships (with service management and allocations downloaded to municipalities), it would appear that Scott’s conclusions support our premise in that local services realignment might have a negative impact on the volunteerism efforts of nonprofit organizations.

As part of the National Survey of Nonprofit and Voluntary Organizations, a consortium led by the Canadian Centre for Philanthropy (now Imagine Canada) conducted a qualitative study of the challenges facing Canada’s nonprofit and voluntary sector. This study, *The Capacity to Serve: A Qualitative Study of the Challenges facing Canada’s Nonprofit and Voluntary Organizations*, explored the capacity of organizations to fulfill their missions and achieve their objectives through consultations with

² As funding becomes more targeted, with stipulations and onerous reporting requirements, nonprofit organizations have little flexibility to modify programs in response to changing needs.

over 300 representatives from nonprofit and voluntary organizations across Canada.

Among the external factors identified as contributing to these difficulties are:

- government downloading and funding cutbacks;
- growing emphasis on project funding;
- increasing competition for scarce resources;
- declining availability of skilled and committed volunteers;
- mandated collaborations with other organizations.

The lack of financial capacity exerts a major influence on other key capacity areas such as ability to engage in policy development, formal strategic planning, organizational renewal and resource development (Hall, Andrukow, Barr, Brock, et al, 2003).

This study notes the impact on board members of reduced funding for administrative and infrastructural support. Board members are ultimately accountable for the fiduciary and strategic health of the organization, its human resources, and achieving its mandate. Reductions in infrastructure and administrative support lower the capacity of boards to audit and monitor the extent to which they are able to achieve key results and to engage in strategic, organizational development. The study noted the need for strategic recruitment of board members and for better training and retention strategies to ensure that boards have the mix of people and skills (core competencies) best suited to the organization's mission. The study identified several recruitment challenges such as:

- the competition for board members who are experienced, skilled (e.g. in fundraising or strategic planning) or influential and well-connected;

- concerns about liability;
- the lack of younger people willing to sit on boards; and
- the reluctance of volunteers to make long-term commitments.

Ontario Studies

In our literature review, we found anecdotal observations about changes in the nonprofit and voluntary sector in Ontario and we documented analyses of challenges faced by nonprofit organizations. However, we found no studies that focused exclusively on the impact of local services realignment.

Evidence suggests that many nonprofit organizations are trying to cope with new government funding models by adopting more entrepreneurial and businesslike attitudes and approaches (Meinhard and Foster, 1997). This may have an impact on the tradition of community-based board governance, which tended to involve users or members from all parts of the community the organization serves. Now many organizations focus on recruiting professionals such as lawyers, accountants, and management consultants who are not necessarily users or members of the community.

Basok and Ilcan (2002) surveyed community agencies that address social justice issues in Windsor and Essex County. They identified a lack of opportunity for volunteers to formulate opinions, voice concerns, identify important and emerging issues, and have input to community agency and government policies, all of which are governance responsibilities. Rather, agencies emphasize direct service volunteering in their volunteer recruitment processes. They attributed this situation to funding cutbacks for programs and

services, which results in a greater need for volunteers to deliver services.

The Niagara College Centre for Community Leadership (2003) released a labour market survey of the nonprofit and voluntary sector in regional Niagara. This survey demonstrated that increased demand for services, coupled with lack of resources, is crippling the ability of the region's nonprofit organizations to help people in need. The study found that only 17% of nonprofit and voluntary sector organizations in the region feel they are able to cope with the estimated 36% increase in demand for their services since 2000. It concluded that because of major changes in funding relationships with government and donors (e.g. declining core funding, declining corporate donations, and reliance on gaming revenues), the sustainability of many nonprofit organizations is at risk. These pressures will almost inevitably affect the availability of volunteers interested in serving on boards of directors. Organizations at risk are not attractive to prospective governance volunteers because of the fear of unexpected liability.

The Arts and Heritage Plan for the City of Ottawa (2002) noted the following in relation to the 65 heritage organizations in the amalgamated city:

“Board members may be particularly difficult to recruit, as people are concerned about both the time commitment involved and the potential for liability. Board members often double as service volunteers, involved not only in mandated board responsibilities [policy development, financial and personnel governance and advocacy], but also in the hands-on work

*required to plan and deliver programs. As a result, many organizations are concerned about volunteer burnout.”*³

Reed and Howe (2000) surveyed 40 executive directors of nonprofit organizations in eight Ontario cities and towns. Their report cites various elements that affect these organizations, such as:

- pressure to rationalize (i.e. to maximize organizational efficiency and eliminate all activities that are not directly related to the core mission);
- pressure to formalize (i.e. to make organizational structures and procedures explicit and codified);
- pressure to professionalize (i.e. to select personnel on the basis of credentials and formal education-based expertise); and
- pressure to commercialize (i.e. to generate funds through the sale of services and to compete with other nonprofit organizations and for-profit organizations).

Overall, these elements,

“constitute a movement toward... basing operations on the template of large businesses... These pressures and others such as increasing attention to contract, liability and other legal issues run counter to several of the nonprofit and voluntary sector's defining traits: a strongly idealism-based ethos which places highest priority on responding to need or producing a social good, and doing so

³ http://ottawa.ca/city_services/planningzoning/2020/heritage/pdf/heritage.pdf, page 61. Last retrieved June 8, 2005.

via indigenous, cooperative, mostly layperson- or community-based action.”⁴

Given the historic responsibilities and accountabilities of leadership and governance volunteers and the changing environment in the nonprofit and voluntary sector, these comments are an indication of the increasing challenges of recruiting new board volunteers. Prospective nonprofit and voluntary sector board members are attracted because of an urge to *give back* to their communities even when they believe that nonprofit organizations should be more *business-like* in their operations. This is particularly true of organizations that develop to address fundamental, unmet needs of their local community, and begin as a grassroots response to these needs. Without judging the respective merits of the more professionalized model of voluntary boards described above, it is possible to state that some governance volunteers are alienated by the more overt business approach.

Municipal, Nonprofit, and Voluntary Sector Focused Studies

A number of studies have specifically addressed the impact of government cutbacks, local services realignment, municipal amalgamations, and changing expectations of nonprofit organizations on government-nonprofit and voluntary sector relationships, particularly at the municipal level.

Prince and Rice (2000) note that *“whether through large or small cuts, government dismantling has profoundly affected community organizations. The*

cuts have reduced the capacity for voluntary agencies to provide services ... The termination of these health and social service programs weaken a community’s capacity to respond to social problems” (p. 113).

They further observe that the devolution or transfer of responsibility for a wide range of services from federal to provincial, and from provincial to municipal government, results in a difficulty in maintaining standards across the country or within a province. This is particularly true when larger and richer jurisdictions are able to afford better and broader services.

Brown, Kenney, Turner, and Prince (2000) note that the “enterprise culture” that entered the nonprofit and voluntary sector through the free market approach of neoliberal governments, such as those of Ontario between 1995 and 2003, is incompatible with deliberative democracy. Enterprise culture is based on competition, performance, efficiencies, and payments by users for service, and focuses on outputs and outcomes. Deliberative democracy, by contrast, focuses on dialogue, discussion, cooperation, collaboration, and negotiation to reach an agreed consensus between different interest groups in a community.

Brown et al (2000) also contend that the promotion of a “contract culture” with its use of partnerships and alternative service delivery creates unbalanced lines of authority and accountability between nonprofit organizations and government. They say, *“the power relation unquestionably reduces the opportunity for any kind of deliberative democracy and is more likely to cultivate the continuing decline of the public sphere”* (p. 193). That is, the imbalance of power between the government and nonprofit organizations is made worse by the contractual approach that requires expanded administrative

⁴ www.statcan.ca/english/research/75F0048MIE/75F0048MIE2002002.pdf, pages 46-46. Last retrieved June 8, 2005.

resources and sophistication on the part of nonprofit and voluntary sector.

Jenson and Phillips (2000) observe, “*under the Harris reforms, the historically privileged position of nonprofit organizations in service delivery has been replaced by an open, competitive bidding process in which large for-profit companies are increasingly successful*” (p. 44). This has resulted in strategic and financial insecurity for nonprofit organizations as well as concerns about the quality of service they are able to provide for their clients. Organizations now allocate resources to diversifying their funding base, cutting costs substantially, and restructuring their boards of directors. They do this by reducing the number of board members and shifting from an administrative to a policy governance model in order to be more strategic.⁵ Thus, “*more attention has been given to recruiting board members for specific skills, especially fundraising and professional oversight*” (p. 54).

Building on this thesis, Juillet, Andrew, Aubry, Mrenica, and Holke (2001) developed a case study predicated on the idea that the “contracting out” approach to relationships between government and the nonprofit and voluntary sector is forcing the latter to formalize governance, management, and service delivery. They note that the process can “*lead to a move away from traditional democratic models of governance with boards made up of target populations and communities toward a more professional model where specialists oversee management.... [greater] reliance on contract and project funding may result*

in a loss of control by boards as government contract officers and project sponsors become the main target of accountability” (p. 27).

Community groups have noted that even in partnership situations public sector employees seem to feel that they are superior and that community groups do not understand the complexity of issues and decisions; are not willing to make sacrifices in the face of restricted budgets; and are ruled by self-interest (Taylor, 2003). This perception can adversely affect the quality of relationships between governance volunteers and public sector employees, who actually administer fee-for-service and other contracts between government and agencies.

The literature on these issues documents the strong relationship that municipal government has traditionally had with the nonprofit and voluntary sector, the changes resulting from devolution, and the concerns of community groups about the apparent lack of respect by public officials for nonprofit and voluntary sector boards. Thus, it would seem that there is a challenge for both the nonprofit and voluntary sector and municipalities to overcome some of their historical relationship problems. There is also a challenge for nonprofit organizations that have had a strong role in community leadership and service delivery but are now faced with a loss of that role as municipalities become more involved in community planning.

Taylor (2003) argues that many communities have a group of key individuals (i.e. current and potential leaders) who participate in many community activities and organizations. When these enthusiasts fill board positions, other potential participants tend not

⁵ The Policy Governance model, in brief, reduces or eliminates board and committee work, trivia, board interference in administration, etc. Policy Governance emphasizes vision, values, and setting of general policy, and the empowerment of the board to set strategy for the organization. This is often counter to the representative, democratic tradition of board management and governance of many organizations in the nonprofit and voluntary sector.

to compete (p. 184). This may be another factor (apart from devolution) that affects the community's contribution to leadership and strong democratic governance of nonprofit organizations.

These studies imply the need for a model of interaction between municipalities and the nonprofit and voluntary sector that acknowledges the respective responsibilities and accountabilities of both partners. Two other observations reinforce the need for greater understanding between these parties.

1. Historically, there have been strong affiliations between elected politicians and community groups. In recent years, however, there has been a gradual erosion of these affiliations. Many elected politicians may believe that community members become involved on boards not on behalf of their community but more on behalf of their own political ambitions. They also tend to believe that community groups are not representative of the entire community, but of a small executive group with a vested interest (Fenn, 2002: 292).
2. The municipal amalgamations mandated during the 1990s increased the pressure on many municipal politicians and staff to reduce costs and to restructure their organizations to accommodate local services realignment (Cameron, 2002). While the financial capacity of local government has generally deteriorated, elected politicians are increasingly 'a force to be reckoned with' by provincial governments because of the redistribution of responsibilities. As the municipalities become aware of the opportunities that control comprehensive social services, land use, health and environmental planning conveys,

they will realize their own strengths in directing the development of their community.

Key Stakeholder Interviews

Twenty-five nonprofit and voluntary sector, municipal, and funder representatives were interviewed as key stakeholders. The information that the interviews provided is important, not only to an overall understanding of the impact of local services realignment on organizations and municipalities, but also in designing the survey questionnaire.

Generally, respondents believed that local services realignment is only one of many factors that have affected the capacity of nonprofit organizations to achieve their missions and to attract qualified leadership and governance volunteers.

Leadership and Governance Volunteer Issues

- Because of the focus on increased accountability, organizations try to attract leadership volunteers who are finance driven rather than needs driven. They look for expertise in stewardship, fundraising, and service quality (e.g. experts in continuous quality improvement, quality audits). This approach is significantly different from the approach taken prior to the 1990s, which focused on enhanced community participation, involvement of clients, and outreach to new groups in the community.
- Potential leadership and governance volunteers are generally very busy people with less time to volunteer than in the past. The strategic and conceptual skills of governance volunteers are scarce in any population, and people with those

skills are often working longer hours than ever before. Their volunteer time is at a premium.

- Boards are moving their focus to policy and governance issues with less direct involvement in operations, partly due to the influence of management 'gurus' such as John Carver.⁶ Many boards have reduced their size (most have no more than 12 members), which has in turn proved a barrier to fully representing the broader community that is served by the organization.
- Boards are beginning to see their primary role as ensuring the flow of funds from government to the community. Some respondents believe that as a result of this, the role of board in long-term strategic planning (i.e. planning over a three to five year period) is a thing of the past. This change is a result of the short term, usually one year, funding provided by government. Such time-limited funds do not usually provide sufficient support for long term, collaborative visioning and planning by governance volunteers and the people they serve in the community. This ultimately weakens the capacity of an organization to serve the community effectively, and reduces the attraction of the governance role for potential volunteers.
- There is a concern that the tradition of community involvement in the leadership and governance of nonprofit organizations is declining. This may be

attributable to the loss of the board's decision-making capacity over volunteer programs that are now subject to contractual relationships with local government.

Organizational Factors

- Funding agencies now tend to focus on providing short-term funds for projects in specific areas that will provide measurable outcomes and value for money. Such funding may or may not provide for administrative costs of a project. These funds often do not contribute to the necessary core funding that would provide organizational infrastructure to sustain operations over the long term.
- Increased accountability requirements by donors and funding agencies (enhanced reporting) increases administrative loads.
- Due to funding constraints, some services and organizations have disappeared and this has created increased pressure on organizations that remain. One organization cited a 300% increase in requests for help over the past few years, with no increase in staffing. This has frustrated and demoralized board members who volunteered to help in their communities, not to oversee increasingly futile efforts.
- Unit-based, fee-for-service funding can destabilize an organization if the units of service decrease substantially in a given year. This is an issue for some organizations. On the other hand, organizations that have a history of operating on a fee-for-service basis (such as Family Services agencies) have developed technological solutions to the administrative requirements. These have actually

⁶ Policy Governance is an integrated board leadership paradigm created by Dr. John Carver and is a model of governance designed to empower boards of directors to fulfill their obligation of accountability for the organizations they govern. As a generic system, it is applicable to the governing body of any enterprise. The model encourages the board to focus on the larger issues, to delegate, to control management's job without meddling, to evaluate the accomplishment of the organization; and to lead its organization. www.carvergovernance.com/pg-np.htm Last retrieved June 8, 2005.

enhanced their capacity to serve clients and stabilized their financial outlook.

- Some organizations risk mission drift when they decide to apply for funding. This is because it might result in moving the organization away from its mission and mandate in order to continue operations.
- One-time funding for projects runs counter to effective long-term planning, ongoing service development, and meeting a community's needs, which are all responsibilities of governance volunteers.
- Some organizations have suffered a significant loss of independence and autonomy due to micro-management by funders.
- Nonprofit organizations and municipalities need to develop ways to plan together more effectively to serve their community.

Municipal Factors

- Municipal amalgamations have absorbed much of the attention of municipal staff, and have had a greater effect on the relationship with nonprofit organizations (i.e. impact of staff and jurisdiction changes, changes in the financial health of municipalities) than has local services realignment.
- Municipalities have taken a 'batten down the hatches' approach. They are under pressure to comply with provincial regulations and guidelines to ensure ongoing or enhanced future funding. Consequently, they impose a similar regime on agencies contracted to deliver services

for them. For example, social housing was downloaded to municipalities with extensive risk management and due diligence requirements, in addition to legislative direction from the province. In order to comply with provincial requirements, municipalities have, of necessity, set up similar requirements for housing providers with whom they now do business.

- Municipalities are sometimes perceived as disrespectful or ignorant of the governance role of board volunteers, which encompasses the broader mandate of the organization and is different in scope and responsibility from obligations of the service contract.
- Because the municipality is the level of government closest to the community, there is a greater potential for understanding, partnerships, and collaboration to respond to local needs. There is a potential for municipalities and nonprofit organizations to collaborate in community planning (i.e. health, social services, environment, justice) to the benefit of residents, businesses, and voluntary agencies.
- Often municipal staff will treat nonprofit organizations as part of their own system and not recognize their autonomy. Thus, they may use their contractual relationship to request information that is not required under the contract or that is already being collected elsewhere in the municipality.
- This situation may also result in the staff of nonprofit and voluntary agencies being treated as staff of the municipality. In some communities staff of municipalities have demanded an

immediate turnaround of information on the projects they fund with little regard for the stress it places on the administration and management of an organization.

- Municipalities are concerned that organizations professing to represent the community are in fact acting in their own self-interest. As a result, municipalities often prefer to work with the community independent of the more traditional or larger organizations.

These observations affected the complexity and nuances in the content and design of the electronic survey. Project staff realized that the survey would have to address the variety of system changes affecting recruitment and retention of leadership and governance volunteers from three main perspectives; the individual volunteer, nonprofit organizations, and municipalities. The survey would also have to examine the relationships between provincial and municipal governments and nonprofit organizations in order to tease out any possible impact on board volunteers.

Survey of Nonprofit Organization Representatives

The survey had a total of 139 respondents (just over 2% of those contacted) from across Ontario. Discussions with some organization representatives suggest that the low response rate may be due to the complexity of the issue and the comparative difficulty in isolating one factor as the primary cause of challenges in recruiting or retaining board or governance volunteers. One respondent made the following comment:

“In such a complex environment, it is very difficult to attribute causation to a single

factor being responsible for the many changes in the nonprofit and voluntary sector. In fact, it would be irresponsible and misleading to take more than suggestions or talking points from the above survey.”

Characteristics of Respondents

- Respondents were broadly representative of Ontario’s nonprofit and voluntary sector. Geographically, respondents were distributed across the province as follows:
 - 22% in the Greater Toronto Area
 - 10% in the Niagara Region
 - 8% in the London area
 - 11% in the Ottawa area
 - 4% in Thunder Bay
 - 12% in Eastern Ontario
 - 33% in other areas of the province.
- The primary activity of the majority of respondents (54%) was front-line service provision (e.g. child care, employment services, homemaking). Another 15% were focused primarily on providing information and building public awareness of issues or services (e.g. community information services). These two types of organizations were the most likely to have been affected by local services realignment.
- Respondents were asked to identify the various sub-sectors of the nonprofit and voluntary sector to which their organizations belonged, as determined by the type of services they provide.⁷ The largest proportion (43%) provide social services to the community, followed by those that provide

⁷ Percentages add up to more than 100% because organizations provide services in more than one program area.

education and research services (18%), services to seniors (18%), housing services (16%), mental health and crisis intervention (15%), other health services (15%), and employment and training services (14%). Of particular interest are those providers involved with services downloaded to municipalities, including housing, employment, training, and social services.

- Nearly half (49%) of respondent organizations had annual budgets of between \$100,000 and \$1 million, while more than one third (36%) had annual budgets of more than \$1 million. The majority of organizations (55%) employed between 2 to 5 staff or between 6 and 25 staff. It is likely that many of these medium-sized organizations will be interested in dealing constructively with the new relationship between the nonprofit and voluntary sector and municipalities. Nearly half (46%) received funding from municipal governments.
- Program streams funded by municipalities reflected the impact of local services realignment. Respondents received municipal funding for social housing (21% of respondents), supportive housing (12%), homelessness services (15%), Ontario Works (11%), and childcare (17%).
- Respondents were asked if their funding relationship with municipal government had changed since the implementation of local services realignment. Thirty-one percent (31%) stated that it had, 37% reported no change, and the other 32% had no funding relationship with local government. Organizations that reported a change in their funding relationships with municipal government were asked to explain

how things had changed. We identified several common threads from their responses:

- Funding now seems insecure and tenuous as a result of capped and reduced funding for specific programs and the requirement for organizations to apply for funding every year (i.e. lack of multi-year contracts). Organizations find it difficult to plan in this environment despite having a good relationship with the municipality.
- There is a hands-on relationship with municipalities, which was not the case with the provincial government. Some respondents noted that reporting requirements are more onerous, although it should be noted that the province mandates many of these requirements. As well, some municipalities had no prior experience with specific organizations or programs and did not understand their services or their operations. This resulted in extensive and time-consuming questioning by municipal staff about program operations.
- A few respondents commented that some municipalities fund their own operational costs first and then distribute the limited funds remaining to nonprofit organizations. These funds do not cover administrative or operating costs, which means that organizations must subsidize the real costs of running these programs.
- The municipality is the sole funder for some organizations (e.g. providers of permanent or temporary housing and support services). Some agencies believe that the municipality tends to see the total amount of funding to one organization as needing extensive monitoring. In the past,

agencies with multiple funders were able to use several inadequate funding sources to create one adequate staff position or program. This may no longer be possible and has reduced the flexibility to meet changing community needs, and the degree of control volunteers have over how they should respond.

- Some agencies commented on the positive relationship between themselves and the municipality, particularly when they had previously had a more limited relationship.

[Factors Affecting Recruitment and Retention of Board Volunteers](#)

Our survey explored potential factors that motivate or deter people from participating on governance boards of nonprofit organizations, including organizations that now deliver services under local services realignment. The responses demonstrate the complexity of the current environment in which boards of directors and other leadership volunteers must function.

Respondents were asked what impact they thought a range of factors had on the ability of organizations to attract and retain leadership and governance volunteers. We asked respondents to rank the impact in one of these categories: very positive, positive, neutral, negative, and very negative.

- Three quarters (74%) said that the cost and availability of liability insurance has had either a negative or very negative impact.
- More than two thirds (67%) said that the shift from core to project funding has had either a negative or a very negative impact.

- Seventy percent (70%) of respondents stated that downloading of service management to municipalities has had neither a positive nor a negative impact on leadership and governance.
- Twenty-four per cent (24%) indicated that downloading had a negative effect.
- Forty-eight percent (48%) said that changing expectations of the funders was having a negative or very negative effect.
- Fifty-one percent (51%) of respondents agreed or agreed strongly that local services realignment has had an impact on the ability of board members to maintain focus on the mission of their respective organizations.
- Forty-seven percent (47%) agreed or agreed strongly that funders do not understand the governance responsibilities of boards.

[Impact of Local Services Realignment](#)

Overall, many organizations believe it is difficult to separate the impact of local services realignment on their organization from the impact of other changes in their environment (e.g. cutbacks, changes in funding processes) and their capacity to recruit and retain leadership and governance volunteers. However, some respondents did feel that local services realignment has had a negative or very negative effect in a number of areas, including:

- the stability and sustainability of the organization (57% of respondents);
- the number of programs offered (57%);

- the reporting requirements of funders (54%);
- the number of clients served (47%);
- involvement in social planning activities (42%);
- involvement in advocacy (37%);
- the ability to retain board members (39%); and
- ability to recruit new board members (39%).
- address issues such as loss of control and real or perceived lack of respect for the role of the leadership and governance volunteers; and
- improve the relationships among nonprofit organizations, municipalities, and funders.

Factors Affecting Organizations

Nearly two thirds of respondents (64%) agreed, or agreed strongly, that local services realignment has had an impact on the ability of organizations to respond to changing community needs (a key responsibility of boards). Fifty-five percent (55%) said that it has had a major impact on the levels of funding provided to organizations.

More than two thirds (67%) agreed, or agreed strongly, with the statement “*devolution has increased the pressure on nonprofit organizations to drift from their mission and mandate in order to obtain funding.*” Almost half (46%) agreed, or agreed strongly, that “*devolution has limited the capacity of nonprofit organizations to speak out on community issues.*”

Development of Resources and Activities

The survey also sought to identify resources and activities that would:

- enhance the capacity of organizations to attract leadership and governance volunteers;
- development of municipal, social development networks to advise a planning process (identified by 32% of respondents);
- development of consistent municipal policies and procedures across service sectors (25%); and

Respondents were provided with a list of measures (suggested in the key informant interviews) that could help nonprofit organizations and municipalities affected by local services realignment. They were asked to identify their top three priorities. Overall, respondents clearly saw a benefit in nonprofit organizations, provincial government, municipalities, and funders learning more about each other and collaborating on planning. Nearly three quarters (74%) identified regular discussions between municipalities and nonprofit organizations on service and funding issues as a priority. This demonstrates the opportunity for partnership development and may prove especially timely as municipalities continue to pressure senior levels of government for support to address the needs of their residents. As well, over half (51%) identified the development of a municipal, social development plan jointly lead by nonprofit organizations, as a priority.

Other priorities are:

-
- development of consistent provincial policies and procedures governing municipalities (27%).

The priority given to the initiation of municipal social development networks indicates the importance of local social planning organizations, many of which were devastated or forced out of existence by funding cutbacks.

Respondents were also provided with a list of tools and resources that would help them achieve these outcomes, and were asked to identify their top three priorities. Stakeholders in two communities (York Region and Niagara) suggested that they had successfully developed workshops or forums at which funders (municipal, provincial, and federal; United Ways; Trillium Foundation; other foundations) were available to discuss their priorities, eligibility criteria, application deadlines, and other information with local nonprofit organizations. Over half of survey respondents (59%) identified funders' forums as a priority.

Other resource ideas supported by respondents included:

- fact sheets and workshop material on how government functions might be made available electronically online (identified as a priority by 65% of respondents);
- printed forms (14%); and
- facilitated problem solving between nonprofit organizations or boards and local funders (9%).

Conclusion and Recommendations

Findings from this study suggest that nonprofit organizations are dealing with a complex environment in which no single factor can be definitively identified as the one affecting their capacity to recruit and retain leadership and governance volunteers. Instead, factors such as local services realignment, changes in funding approach (e.g. core versus project funding), funding cutbacks, the introduction of managed competition, and the changing relationship between public sector officials and nonprofit organizations must also be considered.

The study also showed the growing importance of municipal governments as partners for the nonprofit and voluntary sector within local communities and the importance of these two sectors developing good practices for dealing with one another.

In this situation, it is essential that leadership and governance volunteers and senior staff in nonprofit organizations understand how local government works in terms of its legislative framework, powers, and limitations. Similarly, local government officials and staff should understand the responsibilities of nonprofit boards of directors and the potential for working constructively and collaboratively with them to serve the community. After a decade of change, municipalities and the nonprofit and voluntary organizations now have an opportunity to develop new strategies to address community needs.

We suggest that the following five recommendations be considered as a way of supporting the development of new strategies.

1. Municipalities and nonprofit organizations should engage in regular discussions on service and funding issues.
2. Municipalities should work with nonprofit organizations in developing social (as opposed to land use) plans.
3. Develop municipal social development networks to advise community planning processes.
4. The provincial government and municipalities should develop greater consistency in policies and procedures across different service sectors to reduce administrative complexity for nonprofit organizations under service contracts.
5. Funders should hold workshops at which they can provide information (programs, priorities, eligibility criteria, application deadlines, and other information) to local nonprofit organizations.
6. Prepare fact sheets and hold workshops for nonprofit organizations on how provincial and municipal governments work.

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Appendix

Local Services Realignment

Beginning in 1998, the province of Ontario created a new division of financial and service management responsibility for local services such as childcare, social assistance and employment supports, housing and homelessness supports, public health services, education, and transportation. The province created 47 Consolidated Municipal Service Managers (CMSMs) or District Social Services Administration Boards (DSSABs) in northern Ontario. In the south of the province, CMSM areas frequently align with regional or county boundaries and include separated towns or cities, if any exist within its geographic boundary. The designated service manager is from the region, or the county, or the separated municipality.

The allocation of funding and administrative responsibility following local services realignment (also referred to as service devolution or downloading) changed in the following ways:

- The province assumed full responsibility for education funding.
- The province assumed 100% responsibility for Children's Aid Societies, homes for special care, long-term care facilities, shelters for abused women, dedicated supportive housing, and ferries.
- The province assigned municipalities 100% responsibility for GO Transit, municipal airports, municipal transit, police, property assessment services (with the province to pay transitional and appeal costs), septic system inspections and approvals, sewer and water, and social housing.

- The province funded homelessness initiatives but assigned the exclusive service responsibility to the municipality.
- Some services are a shared responsibility of the province and the municipalities. For example:
 - childcare and family resource centres are funded 80% by province and 20% by municipalities;
 - administrative costs for the Ontario Disability Support Program are shared 50-50 by the province and municipalities;
 - administrative costs for Ontario Works (social assistance and employment supports), domiciliary and emergency hostels, and Ontario Drug Benefits are shared 50-50 by the province and municipalities; and
 - land ambulances and public health services are funded 50-50 by the province and municipalities.
- Municipalities took on the responsibility of administering and prosecuting more *Provincial Offences Act* matters and keep net revenue from fines. As well, new property classes with reduced tax rates replaced farm tax, managed forests taxes, and conservation lands tax rebates (conservation lands to be exempt). The Gross Receipts Tax was transferred to the province.

The province promoted local services realignment as being revenue neutral for municipalities. The Ministry of Finance tracks the financial implications of local services realignment implementation through the Community Reinvestment Fund reconciliation. This fund provides grants to neutralize negative financial impacts. In subsequent analyses of the cost implications, municipalities have maintained that the results

are not revenue neutral and that pressures on the property tax base far exceed the capacity of the reinvestment fund to redress them.

Other Legislative and Regulatory Influences on Ontario's Nonprofit and Voluntary Sector

During the past ten years, the nonprofit and voluntary sector in Canada, and particularly in Ontario, has faced challenges that reflect both a lack of understanding of the sector as well as an ambivalent view of its contribution to communities. For example, between 1995 and 2003, the Ontario government identified volunteerism and the contribution of volunteers as one of the fundamental underpinnings of its policy approach. Yet many of its public policy changes increased the pressure on the nonprofit and voluntary sector to meet community needs while reducing its capacity to do so.

Federal and provincial health care reform initiatives have focused on primary and acute care delivered primarily through medical practitioners and traditionally in hospitals. Shorter stays in hospital and a parallel shift to care in the community and in the patient's own home reflect this approach to increased efficiency in the system.

Transferring acute care patients to community settings has resulted in these patients absorbing the funds originally allocated to long-term care. The nonprofit and voluntary sector, volunteers, and family members are expected to 'take up the slack' with diminished resources (one of the first program cuts in 1995 was the elimination of funding for managers of volunteers).

Canada's regulatory environment provides further challenges for the nonprofit and voluntary sector.

For example:

- legislative changes on the liability of directors in nonprofit organizations has resulted in increased insurance costs for organizations;
- ethno-specific organizations and women's organizations have had difficulty obtaining charitable status because they are not deemed to represent a broad enough cross-section of the population;
- privacy legislation will require the nonprofit and voluntary sector, with its comparatively high staff turnover and high volunteer turnover, to expand training and orientation programs in order to ensure compliance with the legislation at all times.

Notes

Notes

This and other Knowledge Development
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