Charity and Law in Canada

DISCUSSION PAPER

Seizing the Opportunity: A Path to Meaningful and Future-Focused Funding Reform for Canada's Charitable Sector

Joanne Cave

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Law Commission of Canada
P.O. Box 56068, Ottawa RPO Minto Place, Ottawa, ON K1R 7Z1
info@lcc-cdc.gc.ca | https://www.canada.ca/en/law-commission-canada.html

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Charity and Law in Canada

This is one discussion paper in a collection produced for the Law Commission of Canada's *Charity and Law in Canada* project.

Charity is part of everyday life for people across Canada. They may participate in the governance of charitable organizations, be employed in the charitable sector, make charitable contributions, or benefit from the work of charities. From food security to housing, migration supports to education, environmental protection to culture, charities deliver essential services, sustain and connect communities, and often act as a critical backstop when other systems fall short. The *Charity and Law in Canada* project undertaken by the Law Commission of Canada (LCC) explores the legal, regulatory, and funding architecture that governs this vital sector of Canadian public life.

Authored by scholars and practitioners with expertise and experience in Canada's charitable sector, the discussion papers shed light on the complex world of charity and law over time and across jurisdictions and legal traditions. Together, they enrich understanding of the ways in which law enables, promotes, and restrains charitable action. In addressing foundational questions, these papers commissioned by the LCC support ongoing conversations and suggest potential pathways for the future of charity and charities in Canada.

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ABSTRACT

Canada's charitable sector is at a pivotal moment, facing unprecedented demand for services in an increasingly precarious funding environment. Post-pandemic, 66 per cent of charities report sustained increases in demand, yet only 12 per cent feel financially stable. This combination — increased demand for services, short-term and unpredictable funding, and workforce recruitment and retention challenges — exacerbates the existing cycle of chronic underfunding of operational costs, which undermines the long-term positive impacts of non-profit organizations and charities.

Through three case studies of registered charities across Canada, this paper illustrates the systemic challenges that continue to exist in federal funding relationships: short funding cycles, limited or inflexible cost recovery for overhead costs, onerous application and reporting requirements, and complex, sometimes contradictory legal obligations. These constraints erode organizational capacity, hinder innovation, and weaken trust between charities and the federal government.

The paper then examines promising practices from Canada, Australia, the United States, and New Zealand, including a standardized national chart of accounts, a single federal funding portal, "funding for outcomes" contracting models, and unrestricted, trust-based grants. These practices have the potential to reduce administrative burden, foster collaboration, and align funding with community priorities for registered charities in the Canadian context.

To modernize Canada's charitable funding landscape, the paper recommends implementing a single federal application portal, adopting a national chart of accounts, increasing funding without the customary restrictions and requirements, introducing flexible overhead ratios, allowing discretionary reallocation of funds, and extending funding cycles for charities that have proven to be responsible stewards of government resources.

As the current federal government prioritizes streamlined, efficient service delivery, this is a timely opportunity to rebuild a collaborative, trust-based funding relationship between charities and the federal government that enables charities to focus on their core mission: strengthening communities across Canada.

I. INTRODUCTION

This paper[1] explores the current federal government funding landscape for registered charities in Canada through the lens of three case studies of Canadian registered charities. The findings from this research paper validate and build upon ongoing advocacy efforts by Canadian charitable sector leaders to modernize and streamline federal granting processes, which continue to be onerous and complex for organizations to navigate.[2]

This research comes at an important time, as Canada's charitable sector is at a critical inflection point. Registered charities remain at the forefront of Canada's most pressing social, economic, and environmental issues, including poverty reduction, food insecurity, houselessness, social isolation, immigrant/refugee settlement and integration, and climate change. As the pace of change accelerates, these issues are becoming increasingly complex, systemic, and interconnected.

Charities need sustainable funding to meet the moment and respond to this growing complexity. Unfortunately, a lack of funding — or significant constraints and barriers to access it — remains the "most urgent capacity challenge" facing Canada's non-profit and charitable sector.[3] Post-pandemic, 66 per cent of charities across Canada report a sustained increase in demand for programs and services, with poverty relief, health care, and social services charities experiencing this increased demand disproportionately.[4] Further, 72 per cent of charities indicate that they cannot meet the current demand despite 55 per cent having increased their organizational capacity in recent years.[5]

Despite this increase in demand for services, economic uncertainty, rising inflation, and increased cost of living pressures have resulted in a more constrained funding environment, requiring registered charities to find ways to do more with less. In 2024, only 12 per cent of charities reported their organizations to be "very financially stable" — down from 21 per cent in 2023.[6] Fifty-three per cent of charities have expressed moderate to high concern about their organization's long-term sustainability.[7] Carleton University's Charity Data Insights Project recently described this phenomenon as a "trilemma" for Canada's charitable sector: the compounding effect of increased demand for services; short-term, unpredictable, and constrained funding sources; and emerging challenges with workforce recruitment, retention, and volunteer engagement.[8] This trilemma often manifests itself as internal and external pressure for charities to reduce overhead costs in an effort to maximize program and service delivery.

In the United States, this "race to the bottom" that non-profit organizations and charities experience has been described as the "non-profit starvation cycle."[9] In 2009, Ann Goggins Gregory and Don Howard described the non-profit starvation cycle in the *Stanford Social Innovation Review* as follows:

> Our research reveals that a vicious cycle fuels the persistent underfunding of overhead. The first step in the cycle is funders' unrealistic expectations about how much it costs to run a nonprofit. At the second step, nonprofits feel pressure to conform to funders' unrealistic expectations. At the third step, nonprofits respond to this pressure in two ways: They spend too little on overhead, and they underreport their expenditures on tax forms and in fundraising materials. This underspending and underreporting in turn perpetuates funders' unrealistic expectations. Over time, funders expect grantees to do more and more with less and less — a cycle that slowly starves nonprofits.[10]

Numerous academic researchers have engaged with this theoretical framework to better understand how non-profit organizations are impacted by pressure to reduce overhead cost ratios.[11] One of the most salient findings across several studies is that increased spending on overhead tends to *improve* non-profit program outcomes, with diminishing returns after a certain overhead cost ratio is achieved (35 per cent for arts-based organizations in the United States, based on one such study).[12] While Canadian research on the non-profit starvation cycle is limited, it provides a useful theoretical framework for this research.

Within this theoretical framework, this research paper uses case studies and cross-jurisdictional research to explore the current landscape of federal funding for registered charities in Canada and identify opportunities for policy and law reform. This paper focuses primarily on federal funding, due to the unique role that the federal government plays in regulating Canada's charitable sector as a whole[13] and to the significant history of sector advocacy on this issue at the national level. The funding environment across provincial and territorial governments in Canada is very regionally nuanced, worthy of its own further research and analysis.

Despite more than twenty years of persistent advocacy from the Canadian charitable sector on funding reform issues, the needle largely has not moved. This paper explores why, and how, charitable funding reform can get back on the federal government's radar. As this paper will discuss further, the current political environment is ideal for federal funding reform to re-establish a relationship of trust and collaboration between the federal government and the Canadian charitable sector.

A. Scope of Research Paper and Key Definitions

This research paper focuses primarily on the legal and policy regime that governs federal transfer payments for registered charities in Canada. The terms "registered charity" or "charity" refer specifically to non-profit organizations that have received registered charitable status from the Canada Revenue Agency. The term "non-profit organization" refers to organizations incorporated under provincial or federal non-profit legislation, which can include registered charities. Currently in Canada there are more than 170,000 non-profit organizations, of which approximately 86,000 are registered charities.[14]

Some research cited in this paper discusses broader themes regarding municipal, provincial/territorial, and federal government funding for the non-profit sector as a whole. These broader themes have been used to inform some of the findings and recommendations in this paper, noting the relevant distinctions where appropriate. When the term "government funding" is used in this paper, it broadly refers to federal transfer payments, which include grants, contributions, and other payments to non-profit organizations where the federal government does not receive goods, services, or assets in return.[15] Contribution-based funding agreements are subject to performance conditions, financial reporting requirements, and audit requirements, while grant-based funding agreements are generally unrestricted once the recipient organization has met specified eligibility requirements.[16] Reporting on results achieved may be required for both types of funding agreements.

B. Overview of Government Funding Landscape for Registered Charities

In the Government of Canada's 2024 fiscal year (ending March 31, 2024), more than $32 billion in transfer payments were provided to non-profit organizations.[17] Transfer payments represent a large proportion of the federal government's spending and are a key part of the federal government's strategy to fulfill its policy objectives and priorities.[18]

For many charities, government remains a key funding partner. In 2023, 18 per cent of revenue received by registered charities in Canada was from federal, provincial/territorial, or municipal government sources.[19] In every province, the provincial government contributes to a greater percentage of registered charity funding than the federal government does. The territories are an exception to this, where the federal government is the most significant contributor.[20] As demonstrated in the table below, the proportion of revenue received by registered charities in Nunavut, Yukon, and Northwest Territories from federal funding sources was significantly higher than in the rest of the country, at 18.3 per cent. Registered charities in Alberta and British Columbia reported the lowest proportion of their revenue deriving from federal funding sources at 2.7 per cent and 2.5 per cent respectively.

Figure 1.0: Regional Differences in Federal Funding as Proportion of Revenue for Registered Charities[21]

Province/Territory/Region	Proportion of Revenue from Federal Funding for Registered Charities (2023)
Atlantic Canada	3.3%
Quebec	5.1%
Ontario	2.8%
Manitoba and Saskatchewan	2.9%
Alberta	2.7%
British Columbia	2.5%
Territories	18.3%

Some charities are more likely than others to receive government funding. For example, charities that serve Indigenous communities or provide welfare, education, or health services are much more likely to receive government funding compared to religious or other charities.[22]

The proportion of funding that many charities receive from government sources is very significant; in some cases, it is their primary source of funding. For some of the charities that participated in interviews as part of this research paper, 50 to 75 per cent of their annual budgets were comprised of government grants and contributions. This reflects broader funding trends, with 52 per cent of respondent charities indicating in a 2024 Charity Insights Canada Project survey that they have only one to five funders.[23]

C. Where We've Been: A Brief History of Government Funding Reform Efforts

Through the 1970s and 1980s, the charitable sector in Canada received significant financial support from the federal government. The federal government saw the sector as a key partner in delivering essential services to the public, and as such were willing to make significant contributions to its work. However, in the late 1980s and early 1990s policies supporting smaller government, fiscal constraint, and services offered through voluntary citizen engagement rather than government financing increasingly became the norm across Canada as the strong economic growth originating in the Second World War began to slow down.[24]

Government funding models reflecting this new philosophy encouraged non-profit organizations to diversify their funding base and decrease dependency on tax revenue.[25] This new approach to non-profit funding was intended to ensure that government funds were used as efficiently as possible. Instead of funding non-profit organizations through a grant process in which funding was granted broadly and without specific conditions, governments changed to a contract-based model. Under the new regime, projects that directly reflected government priorities were funded on the condition that non-profits could show that they were meeting contracted conditions. For the first time, non-profits were required to allocate significant resources to reporting on their activities to ensure sustained funding from what previously had been their main source of revenue. Furthermore, they needed to find new and diverse sources of funding to match their previous level of income and sustain the services they provided.[26] The former partnership dynamic between government and the charitable sector deteriorated, leaving significant service gaps and a culture of distrust.

In the years that followed, several panels and reports were commissioned by both the government and the voluntary sector on how to restore the relationship. In 2000, the federal government announced the creation of the Voluntary Sector Initiative (VSI), a $94.6-million initiative intended to collaboratively reinvigorate the charitable sector.[27] The Voluntary Sector Initiative brought together an equal number of representatives from the government and the charitable sector to assess and make recommendations for improvements to the funding and policy-design models. In 2002, the Voluntary Sector Initiative established the *Code of Good Practice on Funding* (the Code), a framework intended to guide funding practices towards a more collaborative approach. Among the recommendations made in the Code were increased collaboration between government and non-profit organizations in funding program development and evaluation, extended timelines for funding agreements with simplified application processes to ease the burden on applicants, and increased support for the development of organizational capacity to deliver effective programs and services.[28] While significant resources were allocated towards the initiative, funding was not provided for project implementation after 2005. The legacy of the Voluntary Sector Initiative continued over the subsequent decades with the creation of more panels and committees with similar missions.

Following the Voluntary Sector Initiative, the Blue Ribbon Panel was tasked with evaluating the federal government's administration of grant and contribution programs. Its 2006 report, *From red tape to clear results: the report of the Independent Blue Ribbon Panel on Grant and Contribution Programs*, identified a need for change from current, ineffective funding models.[29] The panel made 32 recommendations, many of which echoed those advocated in the Code four years previously. The government responded in 2008 with the release of its *Action Plan to Reform the Administration of Grant and Contribution Programs* (the Action Plan). The Action Plan announced several policies based on the Blue Ribbon Panel's

recommendations, targeted towards a reduction in the volume and complexity of reporting requirements, a movement away from the one-size-fits-all, risk-averse funding approach, a streamlining of the number and complexity of funding applications, and the use of technology to simplify the application process through electronic sources.[30] The federal government assessed the results of the Action Plan in 2013 and 2017, and found that the burden on funding recipients had been reduced, program delivery service standards had been implemented, and funding practices across departments were now more consistent.[31]

In 2019, the Special Senate Committee on the Charitable Sector compiled a final report entitled *Catalyst for Change: A Roadmap to a Stronger Charitable Sector.* The committee heard from 160 witnesses, received written briefs from over 90 individuals and organizations, and analyzed 695 responses to a questionnaire designed to assess the experiences of workers in the charitable sector.[32] The Committee observed sector-wide frustration resulting from "complex, outdated rules and a lack of coordinated support within the federal government."[33] The report provides 42 recommendations, including many that once again echo those of the Code from 2002 and the Blue Ribbon Panel report in 2006. Recommendations include creating a national volunteer strategy, developing portable pensions for non-profit workers, funding full administrative costs in grant agreements, ensuring grants and contributions are multi-year and proportionate to the size of the recipient organization, revising the "direction and control" rules that limit partnerships with non-qualified donees, updating the *Income Tax Act,* and improving the service and transparency of the Canada Revenue Agency. Despite continued advocacy from within the charitable sector since the 1990s, significant action remains necessary in order to align government funding policy with the needs of the sector and its beneficiaries.

D. Current Context

Canada's current social and economic environment has created a "perfect storm" for charities. Post-pandemic, Canadians report an increased prevalence of mental health concerns and social isolation and ongoing concerns about their ability to afford housing and basic needs.[34] Shelter costs for Canadians increased nationally by 20.6 per cent between 2018 and 2022, with one-third of Canadian households reporting in 2022 that they found it difficult to make ends meet.[35] In 2022, 16.9 per cent of Canadians reported experiencing food insecurity — a significant increase from 12.9 per cent in 2021.[36] In 2023, 5.2 million Canadians (17 per cent of Canada's population) reported not having access to a regular health-care provider, with low-income Canadians disproportionately impacted.[37] These social determinants of health and well-being are reflected in the increased prevalence of unsheltered houselessness (particularly outdoor encampments)[38] and Canada's drug toxicity crisis, in which premature opioid-related deaths doubled between 2019 and 2021.[39] For all of these issues, charities are on the frontlines.

Charities are currently facing unprecedented levels of demand for their programs and services, particularly in the human services sector. The 2024 Giving Report observed that one in five Canadians were using charitable services to meet their essential needs in 2023, with almost seven in ten doing so for the first time.[40] PriceWaterhouseCoopers predicts that global economic uncertainty will further increase demand for services, particularly in the areas of health care, mental health, and crisis supports, and in geographic regions with tariff-exposed economies that rely on small and medium-sized businesses as sources of employment.[41] PriceWaterhouseCoopers also predicts that in the future, charities that provide basic needs (food, clothing, and shelter), community safety and crime prevention programs, and workforce development and employment services will face the greatest increases in demand.[42] Unfortunately, the resources of the non-profit sector are already strained from years of the non-profit starvation cycle, and are currently not well equipped to meet the rising demand for their services. Combined with a potential reduction in up to $100 million of philanthropic giving resulting from ever more volatile global economic circumstances, this under-resourcing will likely result in substantial gaps in the delivery of increasingly essential services.[43] These themes clearly emerged in the three organizational case studies, discussed further in the following section.

II. CASE STUDIES

As part of this paper, our research team interviewed senior leaders from three registered charities across Canada who agreed to provide their organization's experiences with government funding relationships as anonymized case studies. These organizations were selected to represent diverse geographies, subsectors, and service delivery models (e.g., federated chapters, regional service delivery hubs). We also interviewed one senior leader from the philanthropic sector in Canada, who provided general insights about the current funding landscape and a more high-level perspective on opportunities for policy and law reform. The insights from these interviews are summarized below.

A. National Environmental Charity

A national environmental organization with a network of regional chapters faces mounting administrative burdens due to fragmented and restrictive government funding relationships. After the federal government eliminated grant-based funding for the organization, it began managing a complex array of contracts from multiple departments across different orders of government through contribution-based funding agreements. Each agreement imposes different reporting timelines, financial restrictions, and accountability requirements.

Federal contribution-based agreements often include rigid rules regarding fund allocation, which prevent chapters from shifting even modest amounts between categories such as travel and salaries. Many of these government funding agreements also fail to cover the administrative infrastructure needed to meet compliance obligations. In response, the national office expanded its finance and communications teams and developed internal systems to support basic operating costs tied to contract administration. The national office now spends significant time navigating compliance processes rather than focusing on long-term strategic planning for the organization as a whole.

The process of managing contribution-based agreements within the organization's federated structure adds a layer of administrative complexity. The national office receives most government funding and redistributes it to regional chapters, which are responsible for meeting reporting requirements with support from the national office. Delays in disbursement, especially from federal departments, can create cash flow problems for chapters that do not have financial reserves. In one example, it took two years to finalize a federal agreement, and the funds arrived only after the reporting deadline had passed. Short-term contracts often arrive late in the fiscal year, making it difficult to plan and spend effectively. Additionally, small adjustments to how funds are allocated require funder approval, which slows down decision-making and limits flexibility. These administrative constraints reduce the organization's capacity to adapt to changing priorities and respond to emerging needs.

B. National Poverty Reduction Youth Charity

A national youth-serving organization delivers programming through a network of community-based partners and receives a substantial portion of its funding through federal and provincial government contracts. Until recently, the organization operated under a grant model that allowed for predictable funding with limited conditions. This approach changed when federal funders shifted to contribution-based agreements, which now require the organization to apply through a competitive process and follow detailed cost guidelines. These contribution-based agreements typically cap administrative costs at 15 per cent.

As a result, the organization must separate core operational expenses from program delivery, even though both are closely connected in practice. This distinction creates challenges because operational functions such as staffing, communications, and compliance remain essential to effective service delivery. Staff must treat each government-funded project as a separate accounting stream and often receive detailed questions from funders about specific budget items. Funders often question small budget line items, such as translation services, and require detailed explanations for projected expenses. These practices place a significant burden on the national office and strain the administrative capacity required to meet contract conditions.

The organization manages government funding across more than thirty program delivery sites, which also adds significant administrative complexity. The national office is responsible for tracking expenditures and ensuring that each local partner meets the conditions set by funders. When adjustments are required, such as reallocating funds due to staffing changes or unexpected costs, the organization must obtain funder approval and may need to amend the funding agreement. Legal requirements across jurisdictions further complicate this process. In some provinces, privacy laws prohibit the sharing of individual-level data, while federal contracts require the collection and reporting of this information to demonstrate program outcomes. These inconsistencies create uncertainty and force the organization to navigate conflicting rules without clear direction. Although local partners retain some flexibility in managing their operations, the national office invests heavily in oversight and compliance. This ongoing coordination reduces the organization's ability to respond quickly or reallocate resources as priorities change.

C. Regional Immigrant/Refugee Settlement Services Charity

A large regional charity serving newcomers operates with a complex blend of government grants and contribution-based agreements, fee-for-service models, and community fundraising. Although having multiple funding sources improves funding diversification, the administrative burden of managing numerous contracts has grown significantly for this organization. Most government funding arrives through tightly structured contribution-based agreements that limit flexibility and impose extensive compliance demands. Contracts often include detailed conditions about eligible expenses and require prior approval for any adjustments, even when needs shift. Program managers are responsible for writing reports, preparing audits, and navigating grant renewals, while finance and IT teams handle increasingly technical requirements such as cybersecurity protocols. Despite the size and experience of the organization, many of

these obligations are unfunded. Federal contracts require extensive detail and oversight yet often exclude funding for administrative support. The disconnect between contract expectations and operational realities has made it difficult to retain staff, plan for the long term, or innovate service delivery.

Staff burnout and instability have become recurring issues under the current funding model. Frequent turnover among program and administrative staff erodes institutional memory and forces the organization to continually train new employees to meet funder expectations. In some cases, employees have expressed reluctance to apply for certain grants because of the high level of complexity and lack of flexibility involved. Funders also rarely cover the cost of managerial or support roles, even though these positions are critical for running complex service programs. This emphasis on direct program funding at the expense of operational sustainability creates a disconnect that undermines overall service quality.

Inconsistent timelines for contract approvals and reimbursements often lead to short-term cash flow challenges, which limit the organization's ability to invest in long-term planning or retain experienced staff. While provincial funders tend to allow more flexibility, both orders of government continue to rely heavily on post-spending audits and narrowly defined eligibility rules.

III. LESSONS LEARNED

While these case studies constitute a small sample size, they reflect broader trends in the Canadian charitable sector, as discussed below.

A. Short Funding Cycles

All of the senior leaders interviewed as part of this research paper expressed concern with short funding cycles, particularly as found in contribution-based funding agreements that need to be renewed annually by the federal government. This mirrors findings from a 2024 Charity Insights Canada Project survey, in which the most frequent types of funding contract reported by respondent charities were a one-year contract with no guarantee of renewal (52 per cent) and a multi-year contract with no guarantee of renewal (46 per cent).[44] Dialogue with funders is not always successful: while 15 per cent of respondent charities indicated there were some changes to their contracts as a result of funder discussions, 25 per cent of respondent charities attempted to discuss the issue of contract length with their funders with no success.[45] Provincial government funding agreements were the most likely to be multi-year (45 per cent), followed by federal government (32 per cent) and municipal government (23 per cent).[46]

As our interviews with senior leaders in the charitable sector demonstrated, short funding cycles create numerous challenges for registered charities. Organizations expend significant resources completing interim and final reports and applying for new funding within the same fiscal year. In most circumstances, it is difficult to implement a new program and evaluate its effectiveness within the same fiscal year due to time and resource constraints, resulting in organizations reporting superficially on program outputs (e.g., the number of program participants or phone inquiries). While these outputs are conducive to short-term data collection and reporting, they may not accurately reflect whether the program is achieving its intended short- and long-term outcomes. Short-term funding cycles also inhibit opportunities for innovation or experimentation where a new program or service has longer implementation timelines and may not be able to demonstrate success within one fiscal year.

B. Limited Core Funding for Operational Costs

All of the senior leaders interviewed as part of this research paper reported that operating expenses such as rent, insurance, staff salaries and benefits, IT equipment, and office furniture are largely unfunded by federal contribution agreements or only funded partially. Many non-profit funders, including federal government contributors, prefer to provide funds for specific projects rather than contribute to the core operating costs associated with running a non-profit organization, meaning that non-profits often have no choice but to bury these core costs in project budgets or make do without federal funding.[47] This is corroborated by a 2024 survey of the Charity Insights Canada Project, in which 60 per cent of respondent charities indicated that they relied on individual donors to cover their core operating costs.[48] Only 30 per cent of respondent charities reported using federal government funding to cover these costs.

In our interviews, senior leaders in registered charities indicated that federal funders often apply an overhead cost ratio to charities as part of their contribution agreements, generally in the range of 15 per cent. In other words, 15 per cent of federal funding is allocated towards the basic costs of running the non-profit, including staff salaries, office-space rentals, technology, and maintenance, while the majority of funds are intended to support one-time costs associated with a particular project. Most charities must augment this overhead cost ratio to fund the true cost of operating a program or service through multiple grants or cost recovery through unrestricted funding sources, such as their individual giving program. This creates a significant accounting burden for finance teams, who maintain separate budgets and charts of accounts for each funder and must reallocate resources as required to ensure staff positions are funded. Any reallocation of funding across budget line items generally requires funder approval, which can be onerous for charities and reflects a broader lack of trust in the funder-charity relationship.

Piecemeal overhead cost ratios create a highly fragmented funding environment for charities to sustain, grow, and adapt to changing circumstances. Unexpected events or crises such as the COVID-19 pandemic or emergency wildfire responses require flexibility and adaptability so charities can quickly adjust their program budgets to respond to community needs. For the senior leaders we interviewed, seeking funder approval for minor reallocations of budget resources proved to be a significant barrier to flexible and responsive program delivery.

Constrained overhead cost ratios can also create human resources challenges for charities, such as the inability to offer competitive salaries relative to the private or public sector, cover leaves of absence (e.g., parental leave) with some overlap for staff training, or index salaries to inflation. One of the senior leaders interviewed indicated that they had been successful requesting the federal government to permit cost-of-living increases to staff salaries but noted that this is not a universal practice and said that many of their sector colleagues have had similar requests declined by government funders.

C. Resource-Intensive Application and Reporting Requirements

The senior leaders we interviewed reported that grant-writing and reporting functions were largely performed by frontline program delivery staff, as few organizations employ staff members whose principal role is to apply for funding and report on grants. This is corroborated by a 2025 report from the Charity Insights Canada Project, in which 60 per cent of respondent charities indicated that the work of grant-writing is primarily a responsibility shared among staff.[49] Almost a third of respondent charities indicated that on average, more than 16 staff hours are required to prepare a single grant application, with only 45 per cent of respondent charities indicating that they had a 50 per cent or greater success rate with applications that were submitted.[50]

When asked about the administrative burden created by funder requirements, 43 per cent of respondent charities in a 2024 Charity Insights Canada Project survey described the administrative burden as “moderate” (noticeable, requiring significant time or effort) and 14 per cent described the administrative burden as “high” (difficult to manage alongside other responsibilities).[51] These responses indicate that over half of Canadian charities must limit service delivery to contribute significant time and effort towards administrative work required to receive funding. This administrative burden largely manifests as increased staff time or workload (69 per cent of respondents), complex financial tracking and reporting (40 per cent), and duplicative reporting for multiple funders (36 per cent).[52]

One senior leader in the charitable sector emphasized that onerous grant-writing and reporting requirements have an adverse impact on staff retention. In this particular organization, staff have reported symptoms of burnout and will resist completing grant applications for certain funders who have overly onerous reporting requirements. Losing key fund development staff results in a loss of institutional memory, resulting in reduced organizational efficiency and additional costs for staff recruitment and training. Another senior leader reported that while the size of federal funding has not increased, the administrative burden required to fulfill funding obligations has increased disproportionately. Staff from across the organization (communications, finance, contract management, program delivery) are required to participate in the grant-writing process, exacerbating workplace stress at a time when demand for services is at an all-time high.

D. Complex Legal Obligations

All of the senior leaders we interviewed expressed concerns with the complex legal obligations imposed by government funders, while recognizing the importance of mitigating risk and managing liability. For one charity, the federal government has introduced significant network security requirements as a condition of funding acceptance, requiring additional investments in IT staff, infrastructure, and professional development for the organization. These investments were largely unfunded by the contribution agreement itself. Further, the charity has had difficulty recruiting skilled IT staff to fulfill these requirements due to compensation differences between the non-profit and private sector.

Similarly, another senior leader reported challenges navigating contradictory privacy obligations between a federal and provincial funder. While the provincial funder was very protective of personal information and requested the charity to not collect personally identifiable information about program participants, the federal government requested personally identifiable information (with participants' consent) as part of broader research and evaluation efforts. In this circumstance, the charity was unsure of how to navigate contradictory funder requirements and its own obligations in accordance with privacy legislation and had limited resources to obtain legal advice. The senior leader stated that it would be preferable for provincial and federal governments to align on these types of requirements, so charities do not feel caught in the middle.

IV. PATHWAYS FOR REFORM

As the three case studies demonstrate, the funding relationship between the federal government and charities remains challenged by significant administrative burdens and rigid reporting requirements. Despite widespread recognition within the sector regarding issues arising from current funding models, cultural change in the federal government's approach towards the charitable sector has developed slowly.[53] There are, however, promising practices emerging within Canada and internationally that provide opportunities to streamline processes, reduce red tape, and renew a culture of trust and partnership between the federal government and the charitable sector through federal policy and law reform. These practices are "promising" because they have been applied successfully in other jurisdictions or because they rely on innovative approaches that would align well with Canada's policy context.

A. Promising Practices

i. Australian National Standard Chart of Accounts

The Australian National Standard Chart of Accounts (NSCOA) is a tool for standardizing data terminology and accounting systems across non-profit organizations and their funders, including government funders, to simplify the financial reporting process.[54] The NSCOA was created to respond to complications experienced in the funding of the charitable sector caused by the differing forms and formats used by contributing government agencies. In April 2010, the Council of Australian Governments agreed to accept the standardized format laid out in the NSCOA when requesting financial reports from non-profit organizations.[55]

Charitable organizations are not required by law to use the NSCOA, but there are benefits to doing so. Such benefits include less duplication and clearer data, a reduced burden and cost on administration responsible for reporting to multiple funding agencies, increased clarity resulting from standard definition use, and ease of understanding within non-profit organizations for decision-making purposes.[56] The NSCOA is used broadly in community services, with certain funders having imposed it as a requirement for increased reporting clarity.

By implementing a national standardized tool like the NSCOA, Canada would be able to increase efficiency and reduce the reporting burden experienced by Canadian charities working with multiple funders. The Special Senate Committee on the Charitable Sector recommended implementing a national standard in its June 2019 *Catalyst for Change: A Roadmap to a Stronger Charitable Sector* report.[57]

ii. United States Streamlining Federal Grants Act

The U.S. *Streamlining Federal Grants Act* (the *Act*) is a proposed piece of legislation intended to simplify and standardize the federal grant application and reporting processes, including the creation of a single digital portal. The Grants.gov website was established in 2022 "to deliver a system that provides a centralized location for grant seekers to find and apply for

federal funding opportunities,"[58] and the Act was introduced to the Senate in July 2023,[59] though it was not enacted into law. Had the Act become law, it would have legislated planning and evaluation processes to ensure the ongoing streamlining of federal grant administration, including the creation of a Grants Council, regular evaluations of the accessibility of the grant application process, and studies on how to improve the Grants.gov portal. Although the Act never came into effect, the Grants.gov portal remains active at the time of writing, and many federal grants are listed there in a standardized format. The Blue Ribbon Panel, an independent panel tasked with finding measures to improve the efficiency and accountability of Canadian federal grant delivery, recommended the implementation of a "single window" approach similar to the one advocated in the Act and found on Grants.gov.[60]

In Canada, the creation of a single digital portal on which non-profit organizations can find and apply for all available federal grants would simplify the process of obtaining funding by making funding opportunities easier to find. Following the example of the Grants.gov portal, the process for applying for grants would also be standardized, making it simpler and thus less costly for organizations to train staff to apply for grants, increasing the amount of federal funding accessed overall. Uniformity in the completion process for all grant applications significantly alleviates the burden on non-profit applicants. The time and resources currently being used to locate and apply for government grants could then be reallocated to service delivery, resulting in a more effective non-profit sector.

iii. New Zealand Treasury Guidelines for Contracting with Non-Government Organisations

The Guidelines for Contracting with Non-Government Organisations (the Guidelines) are contained in a document prepared by the New Zealand Treasury, which outlines best practices for government departments. The Guidelines were first issued in 2001, but after review processes involving consultation with non-government organizations, government departments, and other agencies, they were revised and updated in 2003. Further updates in April 2009 resulted in the current version of the Guidelines, which are still in use. Rather than adopting traditional approaches to contracting, the Guidelines advocate a "Funding for Outcomes" approach in which contracts are designed through a collaborative process with a specific, shared end goal in mind, rather than being based on the completion by service providers of tasks prescribed by their funders that may not be well aligned with their core mandate.[61]

The "Funding for Outcomes" approach emphasizes the agency of service providers and ensures that the conditions of their funding are aligned with actual efforts instead of creating additional work. While non-legislative in nature, the Guidelines are intended as an outline to guide and encourage government agencies to use "Funding for Outcomes" contracting practices in their negotiations with non-government organizations.[62] The Guidelines encourage full-cost recovery, flexible agreements, and long-term partnerships, and have resulted in a gradual shift over time in the contracting culture between New Zealand governments and non-government organizations towards a more collaborative, trust-driven approach to funding.[63]

By adopting a similar set of guidelines, Canada would be able to encourage a less complex, more outcomes-based approach to the funding process across all government agencies and departments. The creation of a non-legislative best practice framework for government contractors is a relatively simple process, which could result in a drastic positive change over time in the relationship between the government and charitable sector partners.

iv. Toronto Foundation and Vancouver Foundation Unrestricted Grant Funding Pilots

The Toronto Foundation and Vancouver Foundation are philanthropic, non-government organizations which fundraise and oversee the distribution of funds to the charitable sector in Ontario and British Columbia respectively. Both have introduced pilot programs for Black and Indigenous-led non-profit organizations without the customary restrictions and requirements. In 2021 the Toronto Foundation introduced the Black and Indigenous Futures Fund, which offered a total of $80,000 in unrestricted funding to support grassroots groups and initiatives led by racialized people and organizations without the requirement of detailed project proposals.[64] A leadership table of sector experts representing Black, Indigenous, and People of Colour from across Toronto selected the recipients of the grants and were responsible for the development and implementation of the program.

The program was compliant with Canada Revenue Agency regulations and was highlighted in policy discussions regarding Bill S-216 reforms, which would allow charities to make resources available to third-party organizations as long as they take reasonable steps to ensure that those resources are used for charitable purposes.[65] This pilot program is an example of how government funders can have a greater impact by allowing communities agency in the distribution and management of their financial resources. It demonstrates a working model for trust-based and unrestricted giving in urban settings. Recipients of the grant reported that the program was inclusive and accessible, allowed them to broaden the scope of their work, and in many cases enabled them to receive support from other funders going forward.[66]

The Vancouver Foundation's Indigenous Priorities Granting Program was offered in 2021 to Indigenous-led initiatives that encourage community inclusiveness, belonging, or healing. It offered grants of up to $50,000 with a focus on rural and remote areas.[67] The funding was provided to support operational needs and priorities defined by the communities themselves. The program was a foundation initiative that complied with Canada Revenue Agency requirements. The foundation received over 240 applications, amounting to $11 million requested overall. The program was a leading example of decentralized, trust-driven funding for Indigenous communities, one that could be used as a model across Canada for improving equity in grant-making.

B. Pathways for Reform

Based on the issues and solutions identified in the above case studies and promising practices, we have identified several pathways for reform to Canadian law and policy that would support improvements to charitable sector funding. The recommendations that follow propose solutions for the federal government — specifically the Treasury Board of Canada Secretariat — to consider. The Treasury Board oversees the federal government's role in providing transfer payments and has historically been the primary target for prior federal policy and law reform efforts regarding the administrative burden of federal government funding.

Recent statements and policy signals at the federal level indicate that streamlining operations, reducing red tape, and increasing public sector efficiency are high on the federal government's agenda, providing a possible policy window for these issues to be revisited.[68] To advance this important work, we recommend to the federal government and specifically the Treasury Board of Canada Secretariat the adoption of the following options for law and policy reform.

1. **Implement one portal for charities to apply for all federal government funding, similar to the Grants.gov model in the United States.**

   A significant concern raised by charities we interviewed was the duplication of effort to complete separate grant applications and interim or final reports across multiple federal departments and ministries. The United States Grants.gov model has succeeded at streamlining this process for applicants, and a similar platform for federal funding opportunities in Canada would be beneficial.

2. **Introduce a national standard chart of accounts, similar to the Australian National Standard Chart of Accounts.**

   The Australian National Standard Chart of Accounts provides a common framework and vocabulary for all territorial, state and federal government funders in Australia and has proven to be very successful. A similar approach in Canada was included as one of the recommendations in the 2019 Special Senate Committee report *Catalyst for Change* (Recommendation 13)[69] and remains a viable option for the federal government to streamline reporting and auditing functions for charities.

3. **Increase the availability of unrestricted funding (grant-based funding agreements) for charities using a decentralized, trust-based funding model.**

   Pilot projects such as the Toronto Foundation and Vancouver Foundation's unrestricted grant funding initiatives have demonstrated that the sector responds well to decentralized, trust-based funding models in which the expertise and budget recommendations of community-based non-profit leadership are prioritized. To mitigate concerns about accountability and transparency regarding the use of public funds, the federal government could use what is known as a "regulatory sandbox" approach, wherein it experiments with unrestricted funding models in small sample sizes among charities that have a proven track record of complying with federal government reporting and auditing requirements.

4. **Implement a flexible overhead cost ratio for contribution-based fund agreements, developed in consultation with the charitable sector.**

   Most of the senior leaders in charities we interviewed reported a general expectation from government funders that approximately 15 per cent of their grant or contribution would be allocated to organizational overhead. This threshold is inflexible, fails to account for the full cost of administering programs and services, and falls well below the overhead ratio that many researchers have identified as the best practice for most effective program delivery (35 per cent).[70] An alternative approach would be to create a flexible overhead cost ratio in consultation with the charitable sector, which can be used as a general guideline rather than a fixed threshold.

5. **Create a discretionary threshold in which charities can reallocate previously approved funding based on emerging needs and priorities without funder approval.**

   Senior leaders in charities we interviewed consistently raised concerns about the requirement to have minor reallocations of funding to respond to emerging issues and needs receive pre-approval by funders. In alignment with a decentralized, trust-based funding model, federal funders could implement a discretionary threshold (e.g., 10 to 15 per cent of the total value of the contract) in which budget reallocations are permitted without funder approval. This could also be piloted using a "regulatory sandbox" model to assess whether it is viable to implement on a broader scale.

6. **Increase the duration of funding cycles for grants and contribution-based funding agreements with charities that have a proven track record of stewarding public funds effectively.**

   One fiscal year is rarely long enough for charities to plan, implement, and report on program or service outcomes. This is especially true if there are delays in the disbursement of the government funding, resulting in truncated program implementation timelines. This issue was also raised in the 2019 Special Senate Committee report *Catalyst for Change*, with the recommendation that federal funding agreements be a minimum of two years in length and renewable as appropriate (Recommendation 12).[71]

V. CONCLUSION

Canada's charitable sector stands at a pivotal juncture. As this paper has demonstrated, decades of well-intentioned reports and panel recommendations have not meaningfully shifted the federal funding environment that charities depend on to deliver critical services. The rigid reporting requirements and significant administrative costs described by sector leaders are not isolated case studies; they reflect a systemic and enduring culture of distrust between funders and charities. However, there is a clear path forward. By learning from promising practices and listening to the lived realities of charitable organizations, Canada has the tools and insights it needs to modernize its funding frameworks and rebuild trust between government and the charitable sector in a meaningful way.

The charitable sector has long provided necessary services and care to Canadians, and the need to fulfill that role is greater now than ever. As the demand for the services provided by non-profit organizations increases, simplifying the bureaucratic process for charities will enable them to reallocate their resources towards service delivery and allow them to spend these resources on improving the lives of Canadians.

The moment is ripe for reform. The federal government's stated commitment to operational efficiency and public sector innovation presents a timely policy window to revisit long-standing sector concerns. With bold leadership and collaborative implementation, Canada can move beyond incremental tweaks and toward a transformative funding ecosystem — one that is flexible, equitable, and designed to sustain impact. The recommendations in this paper offer a blueprint for a more responsive and resilient sector, enabling charities to focus on what matters most: building stronger, healthier, and more inclusive communities across the country.

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