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Building on Ontario's transfer payment directives and policies for more effective service delivery

Briefing note on next steps for modernizing Transfer Payment Agreements

Ontario's nonprofit sector and the Ontario government share the goal of maximizing impact of and accountability for government investment, while minimizing inefficiencies. However, inconsistencies, lack of transparency of risk assessments, and hesitancy to scale up proven pilots is getting in the way.

Introduction

A minority of nonprofits in Ontario (approximately 12,000 to 15,000) have transfer payment agreements (TPAs) with the Ontario government or its agencies and 95 per cent of social services expenditures flow through transfer payments.¹ There are approximately 5,000 Ontario nonprofits that have agreements with more than one provincial ministry.²

When done well, TPAs are simple, flexible, contain proportional oversight, and are built on accountability, and reciprocal respect. TPAs should efficiently ensure accountability for the delivery of defined results while allowing flexibility for innovation and rapid response on the ground.

When not done well, TPAs divert resources from producing results without delivering any additional accountability. For example:

- Funding applications that ask for information the government already has on file.
- Delays in delivering crucial funding, creating cash flow challenges.
- Onerous approval processes for small budget changes that are inevitable when delivering innovative and flexible programs, and in times of crisis.
- Duplicative reporting requirements outside of the streamlined Transfer Payment Ontario system, particularly for nonprofits with multiple TPAs.

Stories from nonprofits during the COVID-19 pandemic proved how resourceful and nimble transfer payment recipients were when allowed flexibility with their budgets. Where appropriate, nonprofits pivoted to online delivery and shifted funds to provide responsive and adaptable services in their communities. TPAs were improved, in part, by the willingness and ability of nonprofits to speak candidly with government officials and of government to listen and move quickly. We need to continue to build on this momentum rather than shift back to onerous practices.

¹ Ministry of Government and Consumer Services, Enterprise Financial Services Division, Transfer Payment Ontario Branch. "[Engagement with ONN and Member Organizations](#)". June 2021.

² Treasury Board Secretariat (TBS). "Proposed Operational Policy for Transfer Payment Administration: ONN Update." September 29, 2017. Slide deck. P. 3.

Building on previous modernization work

Transfer payment agreement modernization is not new and has been a subject of consultation between government and the nonprofit sector since at least 2012. Significant progress was made in 2015 when the Transfer Payment Administrative Modernization (TPAM) Office undertook a consultation process to develop principles to guide the modernization of transfer payment agreements. As outlined in the [final engagement report](#), representatives from the Ontario Public Service and Ontario's nonprofit sector co-designed a set of six principles that are now embedded in the Transfer Payment Operational Policy.

Since 2018, the province has introduced and implemented more streamlined practices through the [Transfer Payment Accountability Directive](#) (rules governing how transfer payments are made to nonprofits), the [Transfer Payment Operational Policy](#) (policy on operational requirements and best practices to support effective and proportional oversight of transfer payment activities), and the [Transfer Payment Consolidation Smart Initiative](#).

The issue

While these frameworks represent critical improvements, there remains much work to be done. Over the years we continue to hear about significant issues that nonprofits - whether large or small - continue to encounter with their transfer payment agreements.

Nonprofits are spending too much time applying for the renewal of funding, waiting on agreements and budget line approvals, and reporting on government program investments. This is particularly true of nonprofits that manage more than one agreement and have to report on their spending in different budget categories across different programs and ministries. Administrative burdens waste time and resources that nonprofits can better utilize for serving Ontarians, especially now when services are stretched thin and the demand has increased.

Three broad issues are emerging from the sector:

1. There is not consistent application and uptake across ministries of TPA directives, policies, and initiatives, and there remain too many exceptions and loopholes that mean rules and regulations are not consistent across programs. For example it is a best practice and not a requirement for program areas in the same or different ministries funding the same recipient for an activity to work together to identify opportunities to streamline and consolidate reporting.
2. Across ministries, departments, and programs funding allocated through provincial budgets and/or transfer payment agreements can take several months to flow to the recipients, jeopardizing planning and stability of service delivery to Ontarians while causing increasing costs and administrative burdens on the nonprofit organizations waiting on funds.
3. Flexibility is only provided to organizations deemed low risk on the Proportional Oversight Matrix. The matrix is meant to be a supportive tool to determine the level of oversight of the transfer payment recipient and activity based on risk. Ministries use the matrix to determine whether budget flexibility, streamlined reporting, and/or streamlined agreement renewal can be provided. Other approaches can be employed outside of these three as well. However, it is not clear nor transparent how nonprofits are assessed, how many are assessed at which level and, more broadly, if the risk assessment is working for both nonprofits and the government. Moreover, nonprofits are not told where they are on the risk matrix and/or how they can improve.

Background

Factors shaping transfer payment agreements

Apart from the Accountability Directive and Operational Policy, many factors influence the contents of transfer payment agreements as well as the procedures, behaviours, and attitudes of government funders, including:

- The mandate and priorities of the Ministry providing funding.
- Legislation that specifically regulates service and program provision for specific types of services.
- Ministry/department history and program staff's personal experience working with nonprofits receiving the funding.
- Other ministry departments such as legal and financial/audit officials.

Key pilots

1. The Human Services Demonstration project (2016-2017) focused on programs delivered across four ministries by 36 low-risk nonprofit organizations that, between them, were managing 57 agreements with the government. These organizations had good track records in terms of meeting service and budgetary requirements. The project tested three modest TPAM process improvements: eliminating the first-quarter report, enabling the budget to roll over from one year to the next, and reduced manual data submission while maintaining accountability. With these small changes, the project found that:
 - Ministries saved an estimated 4.4 hours per agreement, and nonprofits saved 45.3 hours, when rolling over the budget/agreement.
 - Nonprofits reduced time spent producing quarterly reports by an average of 11.3 to 55.0 hours, depending on the ministry. This is staff time they would then be able to reinvest in front-line service delivery if first-quarter reports were eliminated.³
 - Overall reporting frequency was reduced by 50 per cent and contracts by 60 per cent.⁴
2. The Consolidated Audit and Reconciliation (CAR) pilot (2015-2016) was tested by the Treasury Board Secretariat and approximately 30 nonprofits. Nonprofits usually have to pay for a separate audit report for each provincially-funded program on top of the audit they conduct for their whole organization. This results in incremental administrative costs and the need to prepare various reports with different formats and levels of detail. One nonprofit estimated that government's additional audit requirements cost them 100 staff hours, plus \$37,000 in external audit costs at year-end.⁵
 - The CAR pilot allowed each of the approximately 30 participating nonprofits (all in good standing) to commission a single audit of all programs submitted to different ministries that ensured traceability of all funds, without having to duplicate reports. The pilot was a success from the nonprofit sector's perspective, but was not repeated.

³ Treasury Board Secretariat (TBS). "Human Services Demonstration Project: Pilot Results." Teleconferences with Participating Transfer Payment Recipients. January 19 & 25, 2017. Slide deck.

⁴ Ministry of Government and Consumer Services, Enterprise Financial Services Division, Transfer Payment Ontario Branch. "[Engagement with ONN and Member Organizations](#)." June 2021.

⁵ In 2016, the Ontario Federation of Indigenous Friendship Centres did their own internal study and documented how much staff time and extra auditing fees it was costing their centres to do funder-specific audit reports on top of their organizational audit. They concluded that "Elimination of additional program specific reporting at year end would save \$37,000 and more than 95 hours of OFIFC finance staff time," (email correspondence).

These pilot projects addressed several issues underlying the administrative burden of TPAs, provided positive results that could be scaled up and in part informed current TPA policies and directives. More importantly, the pilots demonstrated how well the sector and government can work together on modernization efforts.

ONN's ongoing partnership with the Transfer Payment Ontario portal branch is another critical example of the sector and government working alongside each other to improve TPAs. Over the last few years, ONN has provided feedback from the sector on TPON initiatives and improvements while TPON has readily engaged with the sector on TPA administrative burdens.

Learnings from other jurisdictions

At the federal level, nonprofits have praised Immigration, Refugees, and Citizenship Canada for scaling up programming during the Syrian refugee crisis without cumbersome TPA changes. As the provincial government moves forward with emergency management and preparedness priorities, it would be critical to review the TPA change procedures to see if they are well suited for rapid scaling during emergencies.

South Australia has had great success in taking a partnership-based approach to their funding relationships. Research highlights how flexibility in funding lines, and emphasizing trust, relationships, and outcomes, is better than a top-down control mindset, when South Australia is compared to other Australian states.⁶

Opportunities for nonprofits and Treasury Board Secretariat to work together to streamline transfer payment agreements

The modernization of transfer payment agreements cannot end with the launch of the directives and policies. Modernization that has sustained results for nonprofits and government requires ongoing collaboration, particularly in this implementation stage. Below are some short and long-term solutions for Treasury Board Secretariat consideration:

Short-term:

- Create a joint government-nonprofit table on Transfer Payment Agreement (TPA) modernization within the Treasury Board Secretariat.
- Incentivise ministries to align with the Transfer Payment Accountability Directive and Operational Policies while empowering an office to see its implementation across government.
- Share transfer payment agreement data related to the nonprofit sector. For example, how many receive TPAs, for how much, through which ministry, and what percentage of the overall budget do they make up.
- Be transparent about the assessment criteria and data related to the Proportional Oversight Matrix so the sector can inform implementation. Consider a pilot project related to matrix transparency.
- Resurface completed pilots to deem applicability of learnings across ministries.

Medium-term:

- Deliver transfer payment agreements on time and at the beginning of the fiscal year and/or agreement. Consider a prompt payment incentive for ministries/departments and/or penalties.

⁶ Curtin University of Technology. ["Redefining Government-Community Relations through Service Agreements."](#) 2003.

- Apply TPA changes piloted in the Transfer Payment Administrative Modernization pilots across all TPAs such as reduced reporting requirements, budget flexibility, and streamlined agreement renewal for funded nonprofits.

Long-term:

- Implement global budgeting (i.e., fewer, larger budget categories instead of micro-budget categories that are not consistent across programs) that enables nonprofits to focus on performance management and rapid response instead of duplicative compliance requirements.
- Implement a common chart of accounts, including cross-government standards to guide indirect/administrative cost definitions and thresholds, which currently vary widely across ministries/programs.
- Only ask for data through TPAs that the government plans on using and sharing back with nonprofits, as collecting data is costly and time consuming and nonprofits should have access to the data they collect for evidence-based program delivery.

Conclusion

ONN looks forward to continuing working with the Ontario Government to modernize transfer payment agreements so that Ontarians are provided the best services in a timely fashion.

About ONN

ONN is the independent nonprofit network for the 58,000 nonprofits and charities in Ontario, focused on policy, advocacy and services to strengthen the sector as a key pillar of our society and economy. We work to create a public policy environment that allows nonprofits to thrive. We engage our network of diverse nonprofit organizations to work together on issues affecting the sector and channel the voices of our network to government, funders, and other stakeholders.

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