



Lessons in Finance: Pay Your Bills!

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It is budget season in Canada, as the federal, provincial and municipal governments table their estimates of revenues and expenditures for the coming year. Budget time focuses our attention on how governments plan on using our tax dollars, and periodic auditor general reports shine a light on how governments actually spend money.

Budgets and audits tend to focus on the big expenditures of governments, the so-called “material” items which often are valued in the billions of dollars. Most people and community organizations, though, have financial arrangements with governments that fall well below the billions, and even below the millions. Instead, they receive amounts in the hundreds and thousands, amounts which allow them to work with the government with their personal set of financial tools and assumptions.

Canadians generally are not very well schooled in financial matters. There is little in our school lessons that teach us much more than the difference between a nickel, dime or quarter, and caution us to always count our change. When we get into the financial realm of compound interest or discounted cash

flow, we embark on a whole new learning curve. Much of our education comes from the financial institutions of which we are clients. We learn to manage our bank accounts, we learn how a mortgage works, and we learn how credit and debit cards work.

One of the chief lessons we learn about financial responsibility is that we have to pay our bills. And if we don't pay our bills on time, that is **our** problem and we have to pay a penalty. So, if we're smart and responsible, we pay on time.

This is not a lesson that many governments have learned. In fact, a number of government funding or granting practices actually give themselves permission not to pay their bills on time. Some arrangements feature a “holdback”, which lets them keep the last installment of funding until they satisfy themselves that the money has been spent properly. Other arrangements hold back funding until a final report on a project is filed and approved. Often that approval to release the funds gets delayed because the government has failed to make the necessary review. (It must be said that some other funders, like foundations, employ similar tactics.)

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Holding back funds may also result from changes in the administration of the government in question. The Queen's University Centre for Democracy recently reported that frequent systematic shuffling of personnel in the federal government was leading to significant process gaps in getting government work done, not to mention creating a deficit in institutional knowledge. And often the delays turn out to be that it just took longer than people thought to get a required signature, or to get the document to the top of a pile on someone's desk.

Governments can make an argument that in the expenditure of public funds it is good to ensure that there is a high degree of accountability, even if that takes some time and causes some inconvenience.

The problem for the community sector is that the inconvenience is shifted to them. The sector is thinly financed and managed, and does not have surpluses or contingencies to see them through interruptions or delays in cash flow. Much of the funding flows to salaries, mostly to middle and low income positions. There is little fat in the system. There is little capacity in the workforce to absorb gaps in income, particularly when rent has to be paid, kids clothed, and food put on the table.

In effect, government concern with accountability and process has shifted the onus onto those with the least capacity to absorb it. Rather than creating funding processes which recognize the fragile financial realities of the community sector, they have exacerbated them.

It is time for governments, as they contemplate the new fiscal realities during the budget season, to revise the funding procedures to make sure that the weakest financial links in the system don't bear the greatest pressure. One way to start is by deciding to pay their bills on time.