

A New Financial Framework for Sport in Canada: Addressing the Capital Deficits in Sport

A Submission to the Standing Committee on Finance
Pre-Budget Consultations, August 15, 2008

EXECUTIVE SUMMARY:

Recommendation to the Government of Canada:

For the Government of Canada to work with leaders in sport, business, and philanthropy to implement a new financial framework for sport in Canada.

To achieve this recommendation, the Government of Canada is singularly or best able to contribute the following tax policy changes and seed investments:

- extending the benefits of charitable status to community sport,
- introducing incentives for business contributions to amateur sport organizations,
- creating a designated capital program for national sport institutes, sport and recreation community infrastructure, and public private partnerships
- enabling debt-financing for not-for-profit sport enterprises
- extending individual tax credits to coaches and officials for the costs incurred in their training and certification

These aforementioned contributions will target gaps not currently addressed by the following Government of Canada tax policy and investment instruments, namely:

- investing through grants and contributions into national sport programs
- providing a non-refundable tax credit to parents when they register children in allowable sport/fitness programs
- ad hoc one time investments in major sport events or projects

Recommended by the Sport Matters Group: www.sportmatters.ca

The SMG is a voluntary group of individuals and organizations that work together to maximize the public benefits of sport for Canadian communities, society, and the economy, and to collaborate on various sport policy issues on an ad hoc basis.

The Group has actively worked together on the Canadian Sport Policy, the Sport and Physical Activity Act, and on increasing the resources available for sport in Canada.

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Sport matters to Canadians

This summer Canadians are once again caught up in the Olympic moment. Few things capture our imagination and showcase what is best about Canada than sport, and the Games concentrate our attention as we tune in to cheer on our homegrown athletes and coaches.

It should come as no surprise that Canadians are passionate about our athletes and our sports. That's because it is Canadians who have worked together in building some 34,000 sport and recreation organizations over the past number of decades, encouraging sport participation, personal excellence, and healthy living as a vital part of our culture. Millions volunteer through over 5.3m volunteer positions to make sport a daily activity in every community in the country. Parents know the benefits of sport for their children – the role models they encounter, the health benefits that result, the social connectedness that it brings to their lives – and so they pay, when they can afford to do so, for the opportunity, and they give their time.¹

Despite this high level of activity, Statistics Canada recently released two alarming studies that shed light on the challenge that we face in providing sport opportunities for those without the requisite level of disposable income, discretionary time, and access to public infrastructure. Sport participation rates are down by as much as 17% over the past 15 years², and in turn physical activity rates plummet and obesity rates rise.³ When coupled with our challenge to reach the podium on the international stage,⁴ it is clear to many Canadians that we have more work to do in order to maximize the benefits of sport for Canada.

Moving forward together

In the intervening weeks between when this submission is filed and when the Standing Committee holds its first hearings, there will no doubt be much prognostication in living rooms, sport clubs, and on talk radio about how to move down the path towards increased podium performances and increased sport participation.

There will be calls for quick fixes and short term remedies. This proposal suggests a different path.

The Sport Matters Group recommends that we implement a new financial framework for sport in Canada. We ask the Committee to prioritize this recommendation and to seek the inclusion of its component parts in the coming federal budgets. This new framework will only come about by working together and we recommend this as the vital next step in the process. That is, it is essential that we complete the work that has begun by identifying and implementing the various financial tools, tax policies, legislation and spending strategies that will enable the Canadian sport enterprise to move towards sustainability and to move beyond a subsistence paradigm.

¹ Hall, M. H., de Wit, M. L., Lasby, D., McIver, D., Evers, T., Johnson, C., et al. (2005). *Cornerstones of community: Highlights of the National Survey of Nonprofit and Voluntary Organizations*. (No. Catalogue No. 61-533-XPE). Ottawa, ON: Statistics Canada.

² Ifedi, F. (2005). *Sport Participation in Canada, 2005*. (Catalogue No. 81-595-MIE — No. 060). Ottawa, ON: Statistics Canada.

³ Active Healthy Kids Canada. (2008). Canada's Report Card on Physical Activity for Children and Youth for 2008.

⁴ "Canadians position themselves for weekend podiums," *Globe and Mail*, August 15, 2008, URL:

<http://www.theglobeandmail.com/servlet/story/RTGAM.20080815.wolymcanround15/BNStory/beijing2008/home>

If we stall or stand still, and rest on recent progress, the outcomes are predictable – low marks from Canadians for our fiscal policy on sport.

The current situation

Canada's sport system is currently constrained by a narrow resource base that is largely dependent on consumer fees and, to a far lesser extent, government grants and business sponsorship.

Because of existing policy that excludes amateur sport from full charitable status, Canadian sport institutions are rarely, if ever, able to access debt-financing, to secure donations towards capital sport campaigns at the community level, to benefit from recent federal tax incentives which encourage gifts of capital, and to compete internationally with incentives for business contributions to sport initiatives.

This limited scope of financial activity and dearth of fiscal policies that facilitate investment creates a subsistence economy in which Canadian sport organizations from playground to podium are operating without the ability to access capital and its benefits, especially in the provision of infrastructure that supports sport excellence, sport participation and physical activity by Canadians. Canadian sport contributes \$15.6 billion towards GDP and yet we have a severely limited sponsorship industry (estimated at less than \$1b⁵) and less than \$500m in secured federal and provincial investment, combined.⁶

Despite our passion for sport, our appreciation for sport's value, and our new understanding of its economic imprint, we have yet to introduce a comprehensive fiscal policy and plan that supports the current enterprise, let alone one that promotes innovation to meet future demand. Not a single order of government has a comprehensive economic policy on sport or a comprehensive financial plan.

The result is a system-wide physical and financial capital deficit.⁷

Exacerbating this situation is the labour force and human resource dynamic in Canadian sport. Sport in Canada is developed and delivered as a volunteer movement. While voluntarism is a fundamental strength of the sport system, one that creates opportunities for many, it also creates significant disparities in the supply and distribution of these opportunities across all segments of society.

Not all Canadians can afford to participate let alone volunteer, not all communities can tap into volunteers, and not all sport volunteers can continue to absorb the costs of training and certification that enhance productivity.

⁵ O'Reilly, N., & Seguin, B. (2007). *Canadian Sponsorship Landscape Study*. Sudbury, ON: The Institute for Sport Marketing, Laurentian University Research Centre.

⁶ Bloom, M., Grant, M., Watt, D. (2005). *Strengthening Canada: The Socio-economic Benefits of Sport Participation in Canada*. Ottawa, ON: The Conference Board of Canada.

⁷ Canadian Intergovernmental Conference Secretariat, News Release. (2006). *Ministers Call For Action To Increase Opportunities In Canadian Communities Through A Designated National Sport, Physical Activity and Recreation Infrastructure Program*. Conference of Ministers responsible for Sport, Physical Activity and Recreation Toronto, ON: September 28, 2006. URL: http://www.scics.gc.ca/cinfo06/860527004_e.html

This presents a classic case where a system's greatest strength – in this case, volunteers in sport – is also one of its most limiting factors. Policy changes can help to militate against those limits by reducing the financial barriers that constrain the human capital – the volunteer – investment.

In the absence of such fiscal policy changes, Canadian sport will continue its slide towards a human capital deficit and, over time, towards a social capital deficit too.

Building on success

The good news is that we're starting from a much better place than at the end of the 1990s. The Canadian Sport Policy unites the efforts of governments and sport communities around shared goals.⁸ The Physical Activity and Sport Act⁹ provides enabling legislation that supports federal policy and programs, as well as federal relations with provincial and territorial counterparts. Recent budget measures have also provided the necessary funds to establish meaningful operating partnerships, such as Podium Canada, Canadian Sport for Life, True Sport, and ParticipACTION, which bring together government, business, and sport & physical activity organizations around shared long-term goals.

While these recent improvements to federal financing of sport programs and the addition of individual tax credits are welcomed and applauded for their benefit to annual program and operating budgets, as well as modest tax relief for parents, it is important to highlight that these policy instruments do not target any of the aforementioned capital deficits (physical, financial, social and human) and nor do they address the root causes of what continues to be an unsustainable, subsistence sport system.

This means that we – governments, business, community, and citizens alike – continue to miss out on the positive outcomes that follow from a sport system that can sustain and extend the supply of quality sport opportunities – from playground to podium - which Canadians demand.

These missed opportunities are tangible and real. Most Canadians experience them in their daily lives.

For those who represent our country, the reality may be one less step up the international rankings or podium steps. For most, it's the all too normal prospect of 5:00 a.m. ice time for recreational minor hockey. Or it's the limits placed on the number of youth participants in a local soccer program because of shrinking field allocations or a lack of coaches, going so far as to exclude those who seek to participate. Perhaps it's the prospect of having to move away from your home city or province in order to represent your community and country. And for newcomers to Canada or Aboriginal youth or people with a disability, the failure of addressing our capital deficits means that sport opportunities narrow, not open up, and all those benefits go wanting for those that could benefit most.

⁸ Canadian Heritage. (2002). *The Canadian Sport Policy*. As endorsed by Ministers in Iqaluit, Nunavut on April 6, 2002. URL: http://www.pch.gc.ca/progs/sc/pol/pcs-csp/index_e.cfm

⁹ The Honourable Paul DeVillers, Secretary of State (Amateur Sport). (2002). On behalf of the Minister of Canadian Heritage, tabled on April 10, 2002, Bill C-54: An Act to promote physical activity and sport. Retrieved, on August 15, 2008. URL: http://www.pch.gc.ca/progs/sc/legislation/c-54_e.cfm

The recommendations that follow are meant to address these specific capital deficits and to help move Canadian sport systems beyond subsistence and towards long-term sustainability. The recommendations call on all segments of the sport enterprise to play a role and they spell out how the Government of Canada can be a part of creating a new financial framework for the sport enterprise.

Expanding on the solutions required

In calling for the Government of Canada to work with leaders in sport, business, and philanthropy to implement a new financial framework for sport in Canada, it is our contention that a combination of the following measures will effectively address the capital deficits currently faced and anticipated in future years.

1. Extending the benefits of charitable status to community sport.

A recent ruling by the Supreme Court of Canada determined that amateur sport, as governed by current legislation, is not a charitable activity¹⁰. Guidelines published by the Canada Customs and Revenue Agency followed on with this view¹¹. This means that the task to modernize Canadian charities law resides with Parliamentarians – not the common law and not through administrative measures.

We recommend the extension of charitable status to community amateur sport given its direct public benefit. By amending the Income Tax Act to include amateur sport in the definition of charity, the Government of Canada would follow the example established in the United Kingdom¹² and it would enable Canadians to “direct their own largesse as they see fit to their charitable cause” of choice¹³, including their community sport initiative.

2. Introducing incentives for business contributions to amateur sport organizations.

Canada is not competing on an even playing field when it comes to encouraging business contributions to amateur sport. Preferred tax policies amongst our competitors facilitate increased corporate investments that realize public benefits. To that end, we support the initiative of Imagine Canada¹⁴ to examine how to increase business contributions to community organizations and the public goals that they share with governments and business alike.

As in past years, we continue to recommend that Canada introduces a 150% tax deduction for the sponsorship of non profit amateur sport by private corporations. (The allowable deduction is currently 100%).

¹⁰ The Supreme Court of Canada. (2007). A.Y.S.A. Amateur Youth Soccer Association v. Canada (Revenue Agency), 2007 SCC 42. October 5, 2007 Docket: 31476. URL: <http://scc.lexum.umontreal.ca/en/2007/2007scc42/2007scc42.html>

¹¹ Canada Revenue Agency. Consultation on proposed Guidelines for Sport and Charitable Registration under the Income Tax Act. Ottawa, ON: Charities Directorate. Retrieved on Aug. 15, 2008: <http://www.cra-arc.gc.ca/tx/chrts/cnslttns/sprt-eng.html>

¹² Charity Commission. (2007). *Commentary on the Descriptions of Charitable Purposes in the Charities Act 2006: The advancement of amateur sport*. Liverpool, England. Retrieved on Aug. 15, 2008. URL: <http://www.charitycommission.gov.uk/spr/corcom1.asp#9>

¹³ Department of Finance, News Release. (2006). Address by the Honourable Jim Flaherty, Minister of Finance, to the Canadian Institute of Chartered Accountants Commodity Tax Symposium. Ottawa, ON: October 16, 2006. URL: http://www.fin.gc.ca/news06/06-057_1e.html

¹⁴ Kirk, T. (2008). *Contributions to Community: A Submission to the Standing Committee on Finance: Pre-Budget Consultations*. August 15, 2008. Ottawa, ON: Imagine Canada.

3. Creating a designated capital program for national sport institutes, sport and recreation community infrastructure, and public private partnerships.

Canada needs a long-term plan to resolve the substantial nation-wide problem of aging facilities and insufficient facilities and infrastructure to support physical activity, community sport, and high performance sport. As a country, we can't expect to attract the next generation of participants and athletes if today's generation has insufficient, inadequate, and inaccessible places to play, to practice, and to train. Part of the solution must come from dedicated public funds, in complement with the philanthropic and business strategies identified above, that address these national priorities.

We welcome and support the proposal of the Federation of Canadian Municipalities that targets the elimination of the sport and recreation infrastructure deficit through a dedicated fund profiled over 5 years.¹⁵

4. Enabling debt-financing for not-for-profit sport enterprises.

Imagine trying to operate a small business or conduct long term financial planning with your family if you were prohibited from accessing capital. No mortgage. No loan to take your business to scale or to market. This is the case for nearly all sport organizations in Canada where debt-financing is inaccessible and the equivalent of a home mortgage for the development of new infrastructures is beyond reach. Innovative policy options, such as the Charity Bank or other social finance strategies that mirror those provided to small business, could greatly accelerate the sport system's shift towards self-sufficiency and increased productivity.

We recommend a continued examination of federal government debt-financing vehicles, proposed policy instruments, and institution that would free up capital markets with the aim to serve non profit and charitable organizations, including amateur sport organizations.¹⁶

5. Extending individual tax credits to coaches and officials for the costs incurred in their training and certification.

The current tax credit initiative (Childrens Fitness Tax Credit) aims to increase demand for sport and fitness by reducing the cost of sport and physical activity programs by 15% through a non-refundable tax credit. Pairing the Children's Fitness Tax Credit with a new tax credit that supports coaches and officials in their development would increase the supply side of the equation where human resource needs – more coaches, more officials - are a limiting factor for sport participation rates and high performance results.

We recommend that the tax credit be extended to the coaches and officials that require training, certification, and professional development in order to contribute to amateur sport programs for all children and amateur athletes.

¹⁵ The Federation of Canadian Municipalities (FCM). Policy position on Municipal Infrastructure. Ottawa, ON: Retrieved August 15, 2008, URL: <http://fcm.ca/english/View.asp?mp=467&x=707>

¹⁶ Draimin, T. (2007). *Enabling Social Entrepreneurs with Social Finance*. Social Entrepreneurship Summit, Toronto, ON: December 4th, 2007. Toronto, ON: Tides Canada Foundation.