



HANDBOOK

Community Development Corporations: Guidance for Municipal Accountability



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The primary goal of economic development activities is to encourage the development of a municipality or region by promoting the sustainability and success of business and industry, fostering employment and economic opportunities for residents, and enhancing quality of life.

Councils can support economic development by:

- developing and adopting an economic development strategy
- entering into agreements that will support economic development within and outside the municipality
- supporting the creation of a community development corporation (CDC) to address the implementation of the economic development strategy

A council may also enter into agreements with a person, an agency or other level of government, First Nations or another municipality for the purposes of economic development.

Entering into a joint agreement for economic development has several benefits, such as:

- combined strength through the pooling of expertise and resources
- a broader economic development perspective
- enhanced public accountability through a broader community approach

A joint agreement may also enhance municipalities' abilities to create and support a CDC.

This guide provides information about community development corporations and their management for municipalities and municipal councils.

About CDCs

A CDC is a company incorporated under Part XXI of The Corporations Act. As such, a CDC can make a profit, but the profits or assets must be retained by the CDC and used only to foster social and economic development in the community. CDCs are accountable to the local government(s) because municipalities are the primary shareholders or members of CDCs. Additionally, there can be only be one CDC in any municipality, though two or more municipalities may support one CDC.

To view Part XXI of The Corporations Act, visit: https://web2.gov.mb.ca/laws/statutes/ccsm/c225_2e.php#262.

The role of a CDC is to encourage community-based (i.e. controlled at the local level) economic development. For example, CDCs can undertake activities to:

- organize for community economic development (CED)
- create and retain jobs
- stabilize or increase the local population base
- take advantage of opportunities for small business development
- mobilize community resources to solve issues facing the community
- engage in community capacity building
- reinvest profits into the local economy

CDCs may not deliver other municipal services or purchase equipment on the municipality's behalf in an effort to circumvent the rules that would normally apply to the municipality.

Advantages of Establishing a Community Development Corporation

One of the greatest benefits of forming a CDC is the ability of municipalities to give support to economic development at arm's length. CDCs establish their own plans and priorities for implementing economic development strategies, and can offer a wide range of functions and services to help communities achieve their economic development goals. This enhances the community's ability to quickly respond to the needs of business and industry interested in the community and provides flexibility in the actions that can be taken.

CDCs can also serve as a liaison between interest groups both within and outside of the community. The ability to coordinate collaborative efforts to enhance economic development is thus another key benefit of CDCs. Municipalities may wish to explore the benefits of establishing a CDC with the participation of other municipalities and community organizations, as broad community participation and support can significantly strengthen a CDC's ability to implement its plans.

Financing Community Development Corporations

CDCs often generate revenues of their own to fund their operations, at least in part. However, municipalities also have legislative authority to provide financial assistance to CDCs in the form of grants, loans and tax credits. These financial assistance "tools" can be used to support CDCs, or to provide incentives to undertake activities that address particular municipal objectives.

Not all financial assistance tools will be applicable to every municipality, and municipalities must choose the tool that best meets their needs. Councils should first determine their objective, then decide on the most appropriate tool(s) to meet that objective.

Grants for CDCs

Section 258 of The Municipal Act provides authority to municipal councils to enter into a grant agreement with a CDC. Grants for economic development cannot be used to directly or indirectly reduce or reimburse municipal or school taxes.

Council may provide grants by following its usual process for grants. Typically, this would be to pass a resolution indicating the purpose, recipient, amount, and any conditions on the grant.

Loans for CDCs

Section 180 of The Municipal Act provides municipalities with authority to make loans to CDCs.

Loans are best suited to support major projects. Municipalities would need to evaluate each loan on a case-by-case basis.

Council must first pass a by-law to provide a loan. The by-law must set out:

- the amount of money being loaned, and the purpose
- the name of the organization or corporation to whom the loan is being made
- the interest rate and terms of repayment
- the source of the money being loaned

Financial Assistance Programs

Section 261.2 of The Municipal Act provides authority for municipalities to establish financial assistance programs for any purpose that a council determines appropriate.

Financial assistance programs differ from one-time grants and loans in that a municipality can establish grant and/or tax credit programs to provide multi-year support. Councils can also establish the eligibility criteria, terms, amounts, and any other conditions deemed appropriate for providing financial assistance. Financial assistance programs can target support to a specific property, or can apply more broadly to a number of properties, depending on the program criteria.

Programs should address specific municipal objectives and be designed to encourage activities that would otherwise not occur in the absence of the program. For example, a municipality that is seeking to attract new commercial enterprises could establish a tax credit program to lower the municipal taxes on these businesses. This could provide an incentive for new businesses to move into the community, thus supporting a municipality's efforts to promote economic growth.

Financial assistance programs must be established by by-law.

Best Practices: Strategic Planning and Annual Reporting on Goals

Strategic Planning for CDCs

Strategic plans help organizations set a clear direction, identify their priorities and measure their progress towards their goals.

A strategic plan is a proactive approach to economic development that:

- establishes a framework that guides the economic vision for the municipality
- involves the appraisal of opportunities, resources and constraints
- sets out short and long-term economic development goals, and defines ways to achieve those goals

It is a good practice for CDCs to create, implement and regularly update strategic plans. A CDC should ensure that its strategic plan complements other existing municipal planning documents, such as the municipality's strategic plan, local planning district development plan, regional tourism strategy and watershed management plan. Because municipalities are the primary shareholders or members of CDCs, it is a best practice for municipalities to encourage strategic planning in their CDC and support alignment with the municipality's own strategic planning.

Strategic planning should be an ongoing process. At its most basic, the strategic planning process involves:

- collecting data and gathering input from stakeholders
- creating the plan
- implementing the plan's actions and priorities
- evaluating and reporting the results
- repeating the process, and adapting the plan as necessary

A good strategic plan should:

- be based on a clearly defined vision that comes from the community's priorities
- include a roadmap with feasible strategies and actions to take based on the available resources, and the community's strengths and weaknesses
- build consensus with stakeholders, and take the opportunity to incorporate their views
- include data
- place the community in a larger context

Reporting on Strategic Plans and Goals

Good strategic plans help build consensus and create a supportive environment for economic development in a community. To that end, it is a best practice to make strategic plans available to the public so that the community is aware of what is going on and are not working at cross-purposes.

For the same reason, it also is a best practice for CDCs to report publicly on their results and whether their strategic plan met its goals. Regular public reporting can help celebrate successes and build support for economic development, and will ensure that people are aware of pitfalls or unsuccessful strategies to change or avoid in the future. Public reporting can also help the public understand the CDC's purpose and progress, and supports the need for transparency in the CDC's operations.

Municipalities and CDCs should be as transparent with the public as possible about the CDC's financial results and progress towards its goals. When municipalities and CDCs discuss the type and frequency of reporting expected from the CDC, they should also consider a mechanism to identify whether the reporting is sensitive and should be kept confidential by the municipality, or whether its publication would be acceptable.

A municipality may request quarterly reports from the CDC on progress towards the outcomes defined in the CDC's strategic plan. Quarterly reporting ensures continued engagement and accountability between the CDC and council, and enables council to provide active guidance to ensure the CDC's strategic plan remains consistent with council's economic vision for the municipality.

Frequent reporting ensures the CDC is held accountable to the goals outlined in the strategic plan, and enables the CDC to quickly re-evaluate and realign their plan to respond to the needs of business and industry interested in the community, and the municipality's economic goals.

Strategic plans and annual reports are good candidates for posting on the CDC or municipal website to ensure the information is easily available to the public, if there is no compelling reason to keep information confidential. CDCs can also undertake ongoing communication efforts through social media, events and advertising to keep the community updated on their efforts throughout the year.

Municipal Relationship with Community Development Corporations

An effective CDC operates at arms' length from the municipality and has a significant degree of independence. This enables the CDC to engage with a variety of stakeholders, actively pursue economic development opportunities, and establish its own organizational structure and procedures to deliver economic development.

However, this independence does not mean that CDCs are completely autonomous. In many cases, municipalities are responsible for appointing members to the CDC's Board of Directors, and can influence or control a CDC's overall direction based on their appointments.

Independence also does not mean that CDCs should not be accountable. Municipalities and CDCs should maintain a good working relationship and be aligned in their goals and actions. CDCs should also provide sufficient information for the municipality to be comfortable with the CDC's direction and performance. Municipalities may wish to access information about finances and outcomes in order to monitor the CDC's performance.

Board of Directors

A CDC is governed by a board of directors. The board of directors are responsible for making decisions and establishing policies for the organization. The directors are appointed in accordance with the CDC's articles of incorporation, policies and by-laws. In many cases, municipalities are responsible for appointing some or all of the directors of a CDC.

An effective board should be composed of directors who reflect a variety of backgrounds and perspectives. CDC boards are often comprised of community leaders, representatives from stakeholder organizations (e.g. a chamber of commerce), and people with experience in economic development.

The board is responsible for determining how the day-to-day operations of the CDC will be carried out, and who will be responsible to the board for carrying out those objectives.

Ownership of the Community Development Corporation

CDCs are incorporated under The Corporations Act as corporations with share capital. Normally, the only shareholder of a CDC is the municipality where the CDC operates (or several municipalities if the CDC covers a larger geographic region). While

a CDC normally operates at arms' length, if there are issues with CDC governance, the shareholder(s) ultimately have significant authority over the CDC. This includes the ability to amend the CDC's by-laws and change directors in accordance with The Corporations Act.

If there is uncertainty about who the shareholder(s) of a CDC are, a municipality should consult its own records or the CDC. If records are incomplete, municipalities may wish to consult the Companies Office, where information and various filings about corporations in Manitoba can be accessed for a nominal fee. Information about the Companies Office is available at <https://companiesoffice.gov.mb.ca/>.

Promoting Financial Transparency in Community Development Corporations

Financial Reporting Expectations and Documentation from CDCs

A council should make its expectations for reporting on financial and other matters clear to the CDC.

At minimum, The Corporations Act requires CDCs to report their financial position to shareholders on an annual basis. They must also report the results of the corporation's operations for the preceding financial year. Municipalities also need CDCs' financial information to prepare municipal audited financial statements. Public sector accounting standards require the financial results of organizations – including CDCs – that are ultimately under the municipality's control to be consolidated and included in the municipality's annual audited financial statements.

Manitoba's Red Tape Reduction and Government Efficiency Act, 2018 eliminated the provincial requirement for organizations such as CDCs to have their financial statements audited if they receive grants or loans of \$5,000 or more from a municipality and have a council-appointed representative. However, the municipal auditor may still expect the CDC's financial information to be audited for consolidation into the municipality's financial statements, and municipalities should consult their auditor as to whether an audit of the CDC will be necessary.

In addition, councils may be interested in obtaining more frequent reporting from a CDC, such as the CDC's financial position and results on a quarterly basis, or the CDC's progress in meeting goals established in its strategic plan. In particular, councils should consider more frequent reporting if there is a higher level of risk associated with the CDC. Some indicators of higher risk include:

- the CDC is large, or its results would have a material effect on the municipality's consolidated financial statements
- the CDC is receiving significant financial support from the municipality beyond what would normally be provided to other community organizations
- the CDC is actively engaged in risky, large or high profile development projects
- the CDC's board of directors has recently experienced significant turnover or other governance issues

Normally, an informal discussion between the municipality and CDC should be sufficient to outline the nature of reporting that the municipality's council expects. If an informal approach does not work, municipal grant funding could be made conditional on specific reporting requirements, or the shareholder(s) could amend the CDC's by-laws, in accordance with The Corporations Act, to make regular reporting mandatory for the CDC.

Enhancing Accountability – Public Reporting on CDCs

Citizens need access to information to understand how their municipalities operate. This includes information about:

- the decisions of council
- the services and programs available
- how the municipality delivers those services and programs
- how the public can get answers to their questions

CDCs are separate legal entities from the municipality. This means that the CDC's financial reports do not have to be automatically disclosed by the municipality under section 263 of The Municipal Act. Similarly, any request made to a municipality for a CDC's financial information under The Freedom of Information and Protection of Privacy Act should be carefully reviewed to ensure that the information does not fall under a mandatory exception to disclosure, particularly the exception relating to the business interests of third parties.

Further Resources

Further resources related to economic development are available online, including:

Handbook for Municipal Councils <https://www.gov.mb.ca/agriculture/rural-communities/community-planning/pubs/municipalguide.pdf>

Handbook for CDCs <https://www.gov.mb.ca/agriculture/rural-communities/community-planning/pubs/devcorps.pdf>

CDC Manual for Northern Affairs Communities <https://www.gov.mb.ca/inr/publications/community/pubs/community-development-corporation-manual.pdf>

CDC Manual https://ccednet-rcdec.ca/sites/ccednet-rcdec.ca/files/community_development_corporation_manual.pdf