

Keeping human services in community hands: Why nonprofits deliver better

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About ONN and the nonprofit sector

The Ontario Nonprofit Network (ONN) is the independent network for the 58,000 nonprofits and charities in Ontario, focused on policy, advocacy, and services to strengthen Ontario's nonprofit sector as a key pillar of our society and economy. ONN works to create a public policy environment that allows nonprofits and charities to thrive. We engage our network of diverse nonprofit organizations across Ontario to work together on issues affecting the sector, and channel the voices of our network to government, funders, and other stakeholders. Our work is guided by the vision that a strong nonprofit sector is the foundation of thriving communities, and a dynamic province.

Ontario's nonprofit sector plays a vital role as an economic driver, contributing \$50 billion to our province's GDP [1]. As a sector, Ontario nonprofits receive less than half of their revenues from governments, which means they can leverage public investments - via business activities, donations, and the contributions of volunteers - into significantly higher value in the services they deliver, all while creating jobs locally. Nonprofits employ almost a million people in Ontario -- of which a large majority are women -- and provide meaningful volunteer opportunities to another five million. Nonprofit social enterprises provide avenues for entrepreneurs to innovate, while creating jobs for people facing barriers, and adding value to local economies by reinvesting any surplus revenues back into enterprise development and mission-oriented work. Nonprofits are "anchor institutions", firmly committed to their communities, keeping jobs and purchasing local where possible. Nonprofits are an essential part of a strong economy for the future.

[1] Imagine Canada and Canadian Council on Social Development. "The Nonprofit and Voluntary Sector in Canada: Regional Highlights of the National Survey of Nonprofit and Voluntary Organizations." p. vi.
<https://imaginecanada.ca/sites/default/files/2019-11/Regional%20Report%20-%20Ontario.pdf>



Our care services are damaged when they are privatized. Profit is not a suitable motive for delivering services to the vulnerable in our society, be they older people or those with chronic conditions. The motivation should be to help and care for those in need, rather than to exploit their situation. As such, the future care sector should not include organizations paying shareholder dividends.

James Scott, "Taking Care." 2016 [2]



Introduction

Human services focus on serving the well-being of individuals and families in their social settings. These services are the heart of what we might call “care work.” They include child care, long-term care, services for people with developmental disabilities, home care, employment and training services, and more. A high standard of human services is critical to maintaining people’s quality of life, particularly for the most vulnerable in society. Traditionally, these services have been provided by nonprofit providers. However, years of austerity governments have allowed large, for-profit chains to expand their footprint into human services.

The growth of chains had been happening largely out of the public eye until COVID-19 illuminated the devastating impact of profit over quality of services in the long term care system [3].

This policy brief outlines the risks of for-profit chains providing human services and offers alternatives to safeguard quality for public interest.

[2] James Scott [“Taking Care: A Co-operative Vision for Social Care in England”](#) 2016.

[3] Ontario Health Coalition [“COVID-19 Death Rates in Ontario Long-Term Care Homes Significantly Higher and Increasing in For-Profit Homes vs. Non-Profit and Publicly-Owned Homes: New Data Analysis”](#) May 6, 2020.

What is the difference between nonprofit and for-profit providers?

Nonprofit service provider	For-profit service provider
<ul style="list-style-type: none">• No profit; revenue put into services• Members and supporters, not shareholders• Governed by volunteer community board members• Mission to serve community• Sold only in extraordinary circumstances; assets must be given to another similar organization	<ul style="list-style-type: none">• Profit from service efficiencies• Shareholders• Governed by board of directors made up of investors• Mission to create revenue for shareholders• Frequently sold to extract investment and profit

What is behind the rise in for-profit human services?

Large for-profit providers promise efficiency of scale and choice in the marketplace. This is appealing to governments because it is easier for government staff to manage fewer contracts. Private sector bidders often come in at a lower initial cost. As the Ontario government's commissioned report from EY in 2018 notes, most public spending happens via transfer payment agreements, agreements where the government funds an organization to provide services [4]. This is the case with school boards, health care organizations, social service organizations, and other nonprofits. With the government focus on reducing public spending, it seems like an obvious advantage to manage a smaller number of agreements with big for-profit providers at (initially) a lower cost.

A second reason for their growing popularity is that these corporations can easily attract investment capital, which expedites the process to get a new service up and running or a facility built. Partners who can bring investment capital to the table are appealing because they help reduce the need to use government funds.

[4] EY "Managing Transformation A Modernization Action Plan for Ontario Line-by-line Review of Ontario Government Expenditures 2002/03 - 2017/18" September 21, 2018.

What are the risks with for-profit human services?

Large chain providers prioritize expediency over quality of care and long-term value. This risks the quality of life of our most vulnerable people and communities.

At first glance, for-profit human services may not seem like a bad deal for families and communities. If the service is available locally, a family may not pay attention to whether it is for-profit or nonprofit, or whether the owners are in the community or far away. However, the promise of expediency means government pays a price in terms of accountability and, ultimately, the public pays in terms of cost and quality [5].

The ease of startup, an advantage in the early days of private service delivery, becomes a liability as large for-profit providers control a growing portion of vital community assets and services [6].

What looks like an attractive bid for services at a lower cost at the outset in fact creates an ongoing flow of public dollars toward private shareholders. For-profit providers must prioritize this return on investment (ROI).

Paying shareholder dividends is a waste of taxpayer dollars that would be better spent expanding services to meet additional or new needs of clients.

The business models of chain for-profit providers offer large returns for investors. In one recent analysis, a think tank found that the cost of profit amounted to 29 per cent of expenditures in the five largest care home chains in the UK - the second largest draw on expenditures after staff wages [7]. In addition, once these corporations have market share, they tend to seek larger returns.

The public is often told “we can’t afford it” when they ask for more and better child care, home care, or services for people with developmental disabilities. In nonprofit service delivery, 100 per cent of funds goes into the programs and services. When services are provided on a for-profit basis, a significant portion of public dollars are diverted to shareholders.

[5] Ontario Nonprofit Network “[Not for sale: The Case for Nonprofit Ownership and Operation of Community Infrastructure](#)” November 2018.

[6] Steven Chase and Justine Hunter “[Chinese conglomerate Anbang defends takeover of B.C. retirement-home chain](#)” Globe and Mail February 23, 2017 (Updated May 17, 2018).

[7] New Economics Foundation “[£115m of Budget cash for social care will go to investors in five biggest firms: The private investors profiting from public funds](#)” March 10, 2017.

The current pandemic has made this clear in Ontario. Large chain nursing homes are having poor outcomes in managing outbreaks, and the three largest retirement home chains involved have paid \$1.5 billion to shareholders [8].

Even more concerning, though, is the fact that these big for-profit providers have a history of providing lower quality care than nonprofit providers [9].

Quality is also affected by the problem of “cream-skimming,” or two-tier service provision, as for-profit providers prioritize facilities for those who can most readily pay, leaving low-income communities underserved [10]. Locating services in well-to-do neighbourhoods is a better investment for them.

Lastly, since the facilities and services are owned by the for profit, they can be sold - and often are. These sales provide handsome returns for investors and capital to buy more facilities, while loading the debt repayment onto the operator [11]. Nonprofit providers, on the other hand, have volunteer board members whose interest is serving the community, so do not sell except in extraordinary circumstances.

There is a further risk to government that we must avoid in Ontario: the risk that a for-profit is leveraged for debt, abandoned by its parent corporation as a write-off, and left for government funders to pick up the pieces. When a corporation abruptly shutters a long-term care home or child care centre, public outcry often causes government to fill the gap by purchasing the asset or providing emergency alternative services for the community left in the lurch [12].

What are the results in other jurisdictions?

The United Kingdom has outsourced many human services to the private sector [13]. The case of Four Seasons, the UK’s biggest care home operator, is an instructive example. It served 17,000 elderly residents across 343 homes.

[8] Marco Chown Oved, Kenyon Wallace, and Brendan Kennedy “[For-profit nursing homes have had far worse COVID-10 outcomes than public facilities- and three of the largest paid out \\$1.5 billion to shareholders](#)” Toronto Star May 16, 2020.

[9] See for example: Amy Hsu et al “[Staffing in Ontario’s Long-Term Care Homes: Differences by Profit Status and Chain Ownership](#)” Can J Aging 2016 Jun, 35 (2) pp. 175-89; Peter Tanuseputro et al “Hospitalization and Mortality Rates in Long-Term Care Facilities: Does For-Profit Status Matter?” Journal of Post-Acute and Long-term Care Medicine October 1, 2015 (Volume 16, Issue 10) pp. 874–883; Childcare Resource and Research Unit “Briefing note: What research says about quality in for-profit, non-profit and public child care.”

[10] Pierre Koning and Carolyn J. Heinrich “[Cream-Skimming, Parking and Other Intended and Unintended Effects of Performance-Based Contracting in Social Welfare Services](#)” Institute for the Study of Labor Discussion Paper Series No. 4801 March 2010.

[11] See for example: Juliette Garside “[Private equity firm made struggling care home operator take costly loan](#)” The Guardian November 8, 2017

[12] Helen Penn “[Analysis: Australia - Childcare reformed in wake of ABC collapse](#)” Nursery World January 19, 2010.

[13] Sonia Sodha “[Old and vulnerable people and financial whiz-kids don’t mix](#)” The Guardian December 17, 2017.

Four Seasons has passed through the hands of a succession of owners, including the Qatar Investment Authority and the Royal Bank of Scotland, all operating a heavily leveraged model. This means that the value of the chain's real estate can be used as a source of cash - like a line of credit on a house [14]. In 2015, Four Seasons was on the verge of running out of money in the wake of government cuts to local spending on social care, which had dropped 17 per cent between 2009 and 2015 [15]. In 2018, Four Seasons' owner, hedge fund H/2 Capital, ordered the sale of the care home chain because the company had failed to make a payment on the debt owed to the hedge fund [16]. With rising overhead costs and a previous looming debt, Four Seasons collapsed into liquidation in April 2019 and stopped payments to its landlords, generating fear that homes would be closed [17]. This would leave its residents stranded unless local authorities came to the rescue.

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The result, in this case, is that control of the biggest care homes operator in the land will probably pass from a private equity outfit that made a rotten bet on financial leverage to an opportunistic US hedge fund that hunts for junk bonds to buy at a discount. It's a shocking way to fund provision of care homes for the elderly.

Nils Pratley, "A shocking way to fund UK care homes. [18]"

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Child care operators are also being actively bought and sold. This is how one private equity firm marketed an investment opportunity in child care to its global clientele: "It is no surprise that the sector continues to attract private equity interest - positive underlying structural dynamics, barriers to entry through regulation and what remains a highly fragmented marketplace with buy-and-build opportunities and tangible economies of scale represent the textbook hallmarks of an investment-friendly environment." "Epiris' successful £93m exit from Treetops Nurseries to Ontario Teachers Pension Plan-backed Busy Bees in March represents one of the largest single deals in the sector in recent years [19]."

To put it simply: There is a lot of money to be made buying and selling child care centres.

[14] Rob Davies "[Urgent talks over future of Four Seasons care homes in UK](#)" The Guardian December 10, 2017.

[15] Adam Barnett "[UK's biggest care home operator sells £20m of assets to US hedge fund](#)" The Independent December 27, 2015.

[16] Press Association "[US hedge fund puts Britain's biggest care home operator up for sale](#)" The Guardian October 29, 2018.

[17] Alex Ralph "[Fear for Four Seasons as it stops paying rent to care-home landlords](#)" Financial Times October 4, 2019.

[18] Nils Pratley, "[A Shocking way to fund UK care homes](#)" The Guardian December 12, 2017.

[19] Arrowpoint Advisory "[Childcare - are nurseries becoming Private Equity's playground?](#)" November 8, 2017.

Australia learned the hard way what happens when large for-profit child care providers are mismanaged. In their case, ABC Learning went bankrupt with 1,000 centres left hanging. It cost the government \$100 million (AUS) to keep the centres open and took years to re-engineer their child care system [20].

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“It has taken the receivers over a year to sort through the business and to decide about the future of the nurseries. The government has bailed out well over \$100 million (AUS) to keep the nurseries open while the mess is being unravelled.”

Helen Penn, "Childcare reformed in wake of ABC collapse [21]"

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If vital community services are allowed to be bought and sold as for-profit businesses, the tendency is for investors to see them as dividend-generating machines. Once the debt load mounts, governments must bail out the service so that the public is not left in the lurch. Governments actually increase their risk exposure allowing human services to be bought and sold in this way.

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Our social care system will soon be dominated by a handful of chain care providers offering low-quality care. We deserve better than this investor-driven factory farm operation. Unless we take action now, millions will end up suffering at the hands of a system that values neither our dignity in old age nor our lifelong tax contributions.

Sarah Lyall, New Economics Foundation, UK [22]

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[20] Helen Penn, *ibid.*

[21] Helen Penn, *ibid.*

[22] Will Brett [“£115m of Budget cash for social care will go to investors in five biggest firms”](#) New Economics Foundation March 10, 2017.

The Ontario context

COVID-19 has exposed flaws in systems that support our most vulnerable people. The spread of the virus in retirement residences and long-term care homes has been in part due to infected workers working in multiple homes. This part-time staffing model is used by operators because it is cheaper [23]. Part time staff do not need to be paid benefits and often receive lower wages, to keep labour costs down and increase profit. These challenges are not new. The quality of care in for-profit care homes, who make up the majority of the sector, has been well documented over the years [24].

Before COVID-19, the Government of Ontario was in the process of restructuring how government funds human services, opening the door to more large business chains [25]. While the restructuring may have slowed due to the pandemic, the government's approach has not changed and local nonprofit providers are scrambling to respond to the changing system. Some nonprofits are forming service consortiums to be more competitive with large chains in the bidding process to provide services. However, these consortiums are bidding against multinational corporations whose deep pockets they likely cannot match. These corporations can afford to lose money in the short term knowing they can generate significant revenue over the long term.

Employment and training

In the employment and training sector, the Ontario government is instituting a new model using regional "service system managers". The purpose of the new model is for government to manage fewer service agreements with companies and nonprofit organizations. The provincial government has opened bidding for the roles and is using a scoring system that favours private sector firms [26]. Once selected, the service manager will be responsible for delivering employment and training services across various communities via local contracts with specific deliverables. After the initial pilot stage, the service manager may contract the services out with a local nonprofit provider, an organization outside of the community (either for-profit or nonprofit), or continue to deliver services itself.

[23] Star Editorial Board "[Failure in long-term care was tragically predictable](#)" Toronto Star May 5, 2020.

[24] Star Editorial Board, Ibid.

[25] Government of Ontario "[Ontario Moving Ahead with the Reform of Employment Services](#)" Backgrounder February 14, 2020.

[26] Government of Ontario "[Transforming Ontario's Employment Services](#)" Backgrounder February 12 2019.

This transformation is being implemented at the same time as a \$54-million cut to provincial employment and training funding [27], much of which was used by nonprofit providers to train and support workers to find jobs. If more large chains win the bids for the manager role, as it is expected, there will be even less funding available for service, as these corporations focus on profit. Nonprofit providers face an uneven playing field. Most nonprofits do not have access to the capital, digital systems, or physical infrastructure to compete with multinational corporations.

Child care

The average cost of child care in Ontario is \$12,800 annually, the highest for families anywhere in Canada except British Columbia [28]. This is a cost many parents cannot afford, yet child care funding to Ontario municipalities that subsidize the costs for families has been reduced and municipalities will be further expected to cover future expenses. For example, as of January 1, 2020, municipalities must cover 20 per cent of costs to expand child care to meet growing community needs, which was previously covered by the province. In the next two years, municipalities will also have to fund a larger portion of the administrative amounts, while keeping costs down [29].

While municipalities face increasing costs to support child care locally, the province has relaxed limitations on for-profit providers entering the child care sector to take on services, even in publicly funded schools [30]. These large chain providers focus on areas where parents can afford to pay full fees, leaving affordable child care gaps in less-affluent areas [31].

Autism services

In autism services, nonprofit providers with long histories in their communities are being replaced by a direct funding model. In this model, the Ontario government provides financial allocations to individual children for families to purchase the services they need [32]. The challenge with this new system is that families do not always know where to find the services, how much they will cost, and whether they have enough money to purchase the quality of services they need.

[27] Ontario Nonprofit Network "[Provincial budget analysis](#)" 2019.

[28] Financial Accountability Office of Ontario "[Child Care In Ontario: A Review Of Ontario's New Child Care Tax Credit And Implications For Ontario's Labour Force](#)" September 24, 2019.

[29] Teviah Moro "[Provincial cuts jeopardize Hamilton's child-care affordability plan](#)" Hamilton Spectator September 7, 2019.

[30] Kristin Rushowy and Laurie Monsebraaten "[Ontario opens door to more public funds for 'big box' child care](#)" Toronto Star September 19, 2018.

[31] Bright Horizons "[Expanding our portfolio development](#)"

[32] Caroline Alphonso "[Northern Ontario autism-service provider no longer offering therapy to new families, blames Ford government's cuts](#)" Globe and Mail. September 17, 2019.

As existing nonprofit providers wind down, the door is open for more for-profits, especially since they have the capital to build and market services under this new system, unlike nonprofits which likely don't have revenue to spend. In other jurisdictions, this individual funding model has eroded accountability for services purchased with government funds [33].

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By scrapping the public model, the government can no longer ensure that the private services received by any given child/family will be truly integrated and coordinated within and across systems of care.

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Stelios Georgiades, former member of the Government of Ontario's ASD (Autism Spectrum Disorder) Clinical Expert Committee and the Government of Canada's Autism Working Group [34]

Direct funding models have a long history and the nonprofit sector has a good grasp on which services work within this model. The more complex the service needs and the greater the vulnerability of the client, the less effective the direct funding model [35]. Autistic children and their family situations have a wide range of need and vulnerability. One size does not fit all.

The Australian government implemented a direct funding model 10 years ago and there have been significant challenges. This includes problems with eligibility, complexity of the application process, long delays in processing applications, and disputes regarding level of funding [36].

Any time human service models are transformed in a way that invites large for-profit service providers to enter the market, there are risks that scarce public resources will end up as profits for corporations. It is important that the Ontario government recognize these risks and put safeguards in place to ensure that quality and service continuity are paramount, rather than allowing public resources to be diverted to shareholder profits.

[33] Stelios Georgiades [“The Ontario government is wrong to offload autism services onto families”](#) Globe and Mail June 21, 2019.

[34] Georgiades, *ibid.*

[35] New Zealand Productivity Commission [“More effective social services: Summary Version”](#) Government of New Zealand August 2015.

[36] Christopher Naus [“Damning report finds NDIS \[National Disability Insurance Service\] complaints ignored for months”](#) The Guardian May 15, 2018.

Alternatives to big for-profit human services

There are alternatives to big chains that can achieve economies of scale, provide quality care, and maximize the value of government investments in communities.

Multi-stakeholder cooperatives

Recognizing the need for coordination and support among service providers, groups of professionals have formed service cooperatives in a number of service areas. Midwives in Ontario, for instance, have worked under this model very successfully. More recently, some developmental service workers have combined their efforts to support each other and offer better service to their clients [37]. A cooperative of service providers can offer continuity of care, a depth of expertise, and a cost-effective way of operating, which keeps overhead manageable without introducing the need for profit-generating activities or remote management.



What makes social co-operatives unique is that they both celebrate and prove that 'small is beautiful' and they do so through dynamic forms of associative democracy. Most Italian social co-operatives have fewer than 30 worker-owners and less than 100 other stakeholder members. Remarkably they are able to maintain a human scale and operate efficiently by innovative systems of co-operative consortia that enable many local social co-operatives in a town or city to share back office services, pool training, transfer knowledge peer-to-peer and engage in joint tendering and bulk purchase of goods and supplies.



Pat Conaty, "Social Co-operatives: A Democratic Co-production Agenda for Care Services in the UK [38]."

Service consortiums

Nonprofit consortiums have proven very effective. In Italy, they have developed care co-ops where communities create service management organizations that contract for services with local providers. This has resulted in greater community ownership and engagement in assisting people in their communities. This has resulted in greater accessibility to services, more responsive services, and more creative local solutions. Communities and government share the task of supporting residents with effective services.

[37] Algonquin College "[Community Connections: DSW Cooperative reinvents support for people with developmental disabilities](#)" August 8, 2018.

[38] Pat Conaty "[Social Co-operatives: A Democratic Co-production Agenda for Care Services in the UK](#)" Report for Co-operatives UK 2014.

As these consortiums are nonprofit, all funding is invested locally to pay staff, while capital needs are covered by community investment financing [39]. In Ontario, some service providers are forming consortiums in the employment sector to bid on contracts for service managers. It is unclear yet whether they will be recognised as a viable and indeed preferable alternative to large chains.

Accountable care networks

The provincial government has recently introduced “Ontario Health Teams” as a model to bring different service providers together to offer a continuum of care for people moving across primary care (in the community) and acute care (in the hospital) [40]. There are many details still to be worked out as the first cohort of Health Teams begins its work. However, it is an opportunity for a collaborative nonprofit model in Ontario’s health system. It should be explored for other sectors where complex, multi-level coordination of care is required.

Conclusion

Providing quality human services is complex and critically important to people’s well-being. Human services can and should enhance and strengthen communities. These services should also be responsive to individual needs, and be accessible, flexible and cost-effective. Government should be encouraged to consider nonprofit service delivery that keeps the risks of large chain businesses out of the system and ensures that services stay in local communities. This is especially timely, given the devastating experiences with COVID-19 in for-profit, long-term care homes.

We have an important opportunity to rebuild and strengthen service systems with evidence here in Ontario and in other jurisdictions. Each of the alternative models outlined has the potential to provide quality care, while working with communities to meet their unique needs and ensure efficiency in the system.

We should not allow systems which treat care for our vulnerable populations as a market opportunity to be bought and sold. We risk the sustainability of our human services and the well-being of our most vulnerable if the focus is on short-term efficiency, rather than long-term value and quality of services.

Governments must keep the cost of profit out of human services and retain the focus on quality and long-term value so the people who need our care can maintain the best possible quality of life.

[39] Pat Conaty, *ibid.*

[40] See Ontario Ministry of Health. [“Ontario Health Teams: Guidance for Health Care Providers and Organizations.”](#)