

Building Local Prosperity through Nonprofit Social Enterprise

An ONN primer for Ontario Budget 2020

Ontario's nonprofits continue to innovate, partner, and create public value while also contributing to Ontario's economy, providing meaningful work and volunteer opportunities, and maintaining bridges between government and communities. A supportive public policy environment would enable Ontario's nonprofits to maximize their social and economic contributions.

ONN recommends that, to promote inclusive job creation and support rural, remote, and urban self reliance across Ontario, Budget 2020 should include a commitment to develop a made-in-Ontario social enterprise strategy with the nonprofit and co-operative sectors, starting with the following concrete steps:

- Require all ministries and the broader public sector (including school boards) to list surplus lands on the Nonprofit Lands Registry as part of the updated surplus land disposal process.
- Include a social procurement policy in regulations under the new Supply Chain Management Act - with targets for the first and second tiers of the supply chain - to ensure that the centralization of supply chains does not undermine local economies generally and nonprofit social enterprise in particular.
- Promote financial sustainability and human service continuity by enabling nonprofits that deliver services on behalf of government to retain any surpluses for program investments or capital asset purchase and maintenance.

Background

For Budget 2020, ONN offers recommendations under three broad themes:

1. RED TAPE REDUCTION: Continue to tackle red tape that has the nonprofit sector (and government) spending too much time on paperwork.
2. INCLUSIVE LOCAL ECONOMIES: Build local prosperity across Ontario through nonprofit social enterprise.
3. DECENT WORK: Support the hard-working people who staff the nonprofits that help communities thrive.

This primer is about *Inclusive Local Economies*, or how Budget 2020 can build local prosperity through nonprofit social enterprise.

Opportunity: Build local prosperity through nonprofit social enterprise

While the informal not-for-profit economy has kept human civilisation running since time immemorial, through care-giving and forms of non-monetary exchange, the emergence of the formal not-for-profit [NFP] economy is now fully under way. To fund the work they do, NFP institutions are increasingly generating their own income, as opposed to the traditional non-profit approach of depending on grants and philanthropy ... Not-for-profit businesses don't have to pay dividends, and can often offer lower prices, primarily because they are not-for-profit.

- Donnie Maclurcan and Jennifer Hinton¹

One of the most important trends for the future of the nonprofit sector, and the future of work more generally, is the consistent growth of social enterprise, even during recessions.² While Canada's economy overall has seen ups and downs over the past decade, the economic output of the nonprofit sector has seen a steady rise.³ What this suggests is that we should pay attention to the role of nonprofits as economic actors: employing local people (often with barriers), reinvesting surplus revenues in job-creating activities, generating public value, and making life more affordable for residents.

The development of the nonprofit and co-operative sectors of a local economy makes life more affordable because nonprofit services remove the cost of profit from big-ticket household expenses such as housing, child care, elder care, and food. For the foreseeable future, care-work and other nonprofit jobs are also less vulnerable to automation than other sectors such as manufacturing.⁴ A local economy that is rich in nonprofits and co-operatives, supported through an enabling public policy framework, can grow an inclusive job market, meet more of its needs locally and affordably, and contribute to communities' economic self-reliance - even in the face of automation and technological disruption.

The Ontario Government should enact policies to support this sector so as to keep more people working during recessions (or automation-induced employment declines) and to promote affordability and local self-reliance. In Quebec, where the sector has framework legislation in place to support it, nonprofits and co-operatives generate eight per cent of the province's GDP⁵ (nonprofits make up three-quarters of the

¹ Donnie Maclurcan and Jennifer Hinton. "Not-for-profit business ethos motivates sustainable behaviour." The Guardian. October 1, 2014.

<https://www.theguardian.com/sustainable-business/2014/oct/01/for-profit-capitalism-selfish-unsustainable-behaviour-inequality>

² Carlo Borzaga, Gianluca Salvatori and Riccardo Bodini. "Social and Solidarity Economy and the Future of Work. International Labour Organization. July 2017. p. 15.

https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---coop/documents/publication/wcms_573160.pdf

³ Statistics Canada. "Chart 1: Real and nominal non-profit gross domestic product (GDP), by subsector, 2007 to 2017." Non-profit institutions and volunteering: Economic contribution, 2007 to 2017. March 2019.

<https://www150.statcan.gc.ca/n1/daily-quotidien/190305/cq-a001-eng.htm>

⁴ Elizabeth Weingarten. "The last human job." New America. July 27, 2017.

<https://www.newamerica.org/weekly/edition-172/last-human-job/>

⁵ Chantier de l'économie sociale. "La contribution de l'économie sociale au développement local." 2018. p. 7.

<https://chantier.gc.ca/wp-content/uploads/2018/01/revue-des-poles.pdf>

enterprises in this sector⁶). The recommendations we offer are related to nonprofits' role in these important local economies.

a. Develop a made-in-Ontario social enterprise strategy with the nonprofit and co-operative sectors to drive local job creation and to support rural, remote, and urban self-reliance

Nonprofits find themselves increasingly turning to enterprise activities in the wake of declining government funding and donations relative to GDP.⁷ The transition can be difficult, however, and many traditional human services nonprofits are challenged to operate in market-oriented environments when previously they have derived a majority of their revenues from transfer payment agreements (TPAs). The challenges of this shift are exacerbated in sectors where rapid funding transformation has recently occurred, for example, in health care services (with the transition to Ontario Health Teams), child care (with the decision to grow the proportion of spaces offered by for-profit providers⁸), employment and training (with the transition to Service System Managers⁹), and autism and developmental services (with the shift to direct funding), leading many nonprofits to conclude that “we are all social enterprises now.”

Given the advantages of nonprofit service delivery outlined above, it should be a priority for the Ontario Government to foster procurement from nonprofit social enterprises, to ramp up business development supports for nonprofits, and to encourage the availability of new forms of loan financing for nonprofit social enterprises to scale and replicate. Recognizing the importance of business development for the nonprofit sector in our present context, we are disappointed to point out that the barriers to developing these enterprises in Ontario have actually increased in the wake of the provincial government's April 2019 decision to end the Five-Year Social Enterprise Strategy, including the cancellation of the \$15 million Procurement & Investment Readiness Fund (PIRF) and the third round (\$5.6 million) of the Social Enterprise Demonstration Fund (SEDF). The strategy, including SEDF and PIRF funds, along with a provincial commitment to increasing procurement from nonprofit social enterprises, arguably could have supported some nonprofits during a period of funding uncertainty in Ontario as they increased enterprise activities, and reduced their dependence on transfer payment agreements.

We recommend that the Ontario Government re-commit to supporting nonprofit social enterprise development across Ontario through a made-in-Ontario social enterprise strategy, co-developed with the nonprofit and co-operative sectors so that together we can drive local, inclusive job creation, and support rural, remote, and urban self-reliance.

⁶ Institut de la Statistique du Québec. “L'économie sociale au Québec. Portrait statistique 2016.” 2019. p. 20. <https://www.stat.gouv.qc.ca/statistiques/economie-sociale/portrait-economie-sociale-2016.pdf>

⁷ Imagine Canada and Rideau Hall Foundation. Thirty Years of Giving in Canada. 2018. <https://www.imaginecanada.ca/en/research/30-years-of-giving>

⁸ ADM Partners Memo. August 20, 2018. <https://www.scribd.com/document/386988336/ADM-Partners-Memo-Aug-20-2018>

⁹ Ontario Ministry of Colleges and Universities. “Employment Services Transformation.” Updated October 21, 2019. <http://www.tcu.gov.on.ca/eng/eopg/programs/est.html>

There are opportunities in the development of such a strategy to leverage the federal Social Innovation and Social Finance Strategy,¹⁰ including the launch of the \$755 million federal Social Finance Fund¹¹ in 2020 that may require investment matching of up to 2:1. We urge the Ontario Government to consider ways to support nonprofits and co-operatives to become “investment ready”: trained, equipped, and connected to scale up or replicate good programs and services so as to benefit from the influx of “social finance” (that is, low-cost loans, often over longer repayment periods, from foundations, governments, and others) to the province’s economy.¹² ONN and our partners are prepared to convene nonprofits, co-operatives and government representatives to ensure that a new Ontario social enterprise strategy would achieve the goals of attracting investment, developing local jobs, and sustaining inclusive local economies and community self-reliance across Ontario. The following recommendations can be considered as important building blocks of a strategy to support nonprofit social enterprise.

b. Require all ministries and the broader public sector to list surplus lands on the Nonprofit Lands Registry as part of the updated surplus land disposal process

Public lands and buildings owned by the province, school boards, and other broader public sector (BPS) organizations are still too often sold to the highest bidder without consideration for the value they hold for local communities and the possibility of leveraging them for public benefit. With the price of real estate continuously on the rise, many nonprofits (including housing providers and arts groups, for example) are getting priced out of their communities, whether they are looking for land or just trying to keep their rented space. Many nonprofits rely on other nonprofits (notably places of faith) to provide affordable rental space, but these sources are also under pressure and disappearing. According to the National Trust, “over the next ten years, 9,000 churches and other faith-owned buildings in Canada will be shutting down.”¹³ Preliminary results from a survey of Ontario nonprofits that use these faith spaces suggest that over 90 per cent would have nowhere else to go that was accessible, affordable, and well located.¹⁴ Meanwhile, governments underestimate the potential savings generated by using public lands for nonprofit housing development in costly real estate markets: one study found that the break-even cost for a one-bedroom home is 48 per cent higher when developed by a for-profit developer compared to a nonprofit housing development.¹⁵ Vancouver’s Community Land Trust began over twenty-five years

¹⁰ Employment and Social Development Canada. “Social Innovation and Social Finance Strategy.” August 31, 2018. <https://www.canada.ca/en/employment-social-development/programs/social-innovation-social-finance/strategy.html>

¹¹ Employment and Social Development Canada. “Backgrounder: The Social Finance Fund.” November 28, 2018. <https://www.canada.ca/en/employment-social-development/news/2018/11/backgrounder-the-social-finance-fund.html>

¹² For more information, see the Canadian Community Economic Development Network (CCEDNet), “Getting Ontario Ready for the Social Finance Fund.” April 17, 2019. https://ccednet-rcdec.ca/sites/ccednet-rcdec.ca/files/getting_ontario_ready_for_the_social_finance_fund_v2.pdf

¹³ Bonnie Allen. “From sacred to secular: Canada set to lose 9,000 churches, warns national heritage group.” CBC News. March 10, 2019. <https://www.cbc.ca/news/canada/losing-churches-canada-1.5046812>

¹⁴ Preliminary data shared at Nonprofit Driven, November 27, 2019. See slides 10-18 in “Community needs a home.” https://drive.google.com/open?id=1o7VJGdBCHZrFafq4eXq6E_U5zR65k3dj

¹⁵ Coriolis Consulting Corp. “Reducing the Barrier of High Land Cost: Strategies for Facilitating More Affordable Rental Housing Construction in Metro Vancouver: Phase 2 of The Transit-Oriented Affordable Housing Study.” Prepared for Metro Vancouver. March 2019. p. 72. <http://www.metrovancouver.org/services/regional-planning/PlanningPublications/ReducingBarrierHighLandCost.pdf>

ago using surplus provincial land and has since grown to 2,600 homes for low- and modest-income families.¹⁶ If the Ontario government used its own surplus land for affordable housing in partnership with nonprofit developers and housing corporations, it would cost far less per unit to create the level of affordable housing that Ontario's housing crisis demands than if they were developed by the for-profit sector.

Beyond housing, it benefits all of us when Ontario communities are well served by facilities like concert halls, child care centres, seniors' drop-ins, recreation centres, community food centres, and soccer fields. To ensure these facilities are widely available, nonprofits must be able to access land and space at reasonable prices. One strategic way to do this is to ensure that public property, whether municipal, provincial, or federal, finds its way into community hands when it is no longer needed.

The Ontario government announced in 2018 that it would accelerate the disposal of surplus lands, with 243 properties listed as soon becoming available. A backgrounder released at the time stated that the sale of these properties, totalling 14,600 acres, would generate approximately \$105 to \$135 million in one-time revenues.¹⁷ It is ONN's position that if the majority of these lands were sold (whether at or below market value) to nonprofits, then the public value generated by keeping these assets in community hands would be many times greater than this one-time gain.

There is currently an opportunity to formalize the requirement for the BPS to offer to sell surplus land to nonprofits on a first-refusal basis. The Ontario Legislature recently passed Bill 138, which included the enactment of the Supply Chain Management Act (Government, Broader Public Sector and Health Sector Entities), creating a legal framework for the disposal of surplus assets by the Ontario government, BPS, and provincially-funded community health sector and child welfare organizations.¹⁸ While many details are still to come via regulations, a related backgrounder includes references to coordinating real estate across the public service, developing a real property inventory across the BPS, and speeding up the process to sell properties.¹⁹

ONN recommends that the Ontario government pass regulations under the Supply Chain Management Act to require the public service and BPS to list surplus properties on the existing Realty Disposal Publication Website, managed by Infrastructure Ontario, and by extension on the Nonprofit Lands Registry. ONN maintains this registry for eligible nonprofits to access provincially-owned properties listed on the Realty Website (for 30 days) before they are listed for public sale. Currently, few surplus properties are listed on this site because ministries and BPS entities tend to manage their own property disposal. We are encouraged that the Ontario government has decided to centralize this process and we hope that the new legislation will result in public entities taking every opportunity to transfer surplus lands to nonprofits so they can create permanently affordable housing and other community amenities like

¹⁶ Community Land Trust. "Our history." <https://www.cltrust.ca/about/history/>

¹⁷ Ontario Ministry of Government and Consumer Services. "Backgrounder: Reducing Red Tape and Accelerating Sales of Surplus Government Properties." December 4, 2018. <https://news.ontario.ca/mgs/en/2018/12/reducing-red-tape-and-accelerating-sales-of-surplus-government-properties.html>

¹⁸ Government of Ontario. Supply Chain Management Act (Government, Broader Public Sector and Health Sector Entities), 2019. <https://www.ontario.ca/laws/statute/19s15b>

¹⁹ Ontario Treasury Board Secretariat. "Backgrounder: Smart Initiatives." October 23, 2019. <https://news.ontario.ca/tbs/en/2019/10/smart-initiatives.html>

daycare centres, recreation facilities, and cultural spaces. And if for some reason it is not feasible for the public entity to arrange an outright sale to a nonprofit, the regulation should mandate the consideration of 99-year leases to ensure the future increase in land value remains an asset held by the public.

c. Include a social procurement policy in regulations under the new Supply Chain Management Act, with targets for the first and second tiers of the supply chain, to ensure that the centralization of supply chains does not undermine local economies generally and nonprofit social enterprise in particular

When it comes to procurement decisions, “value for money” goes beyond getting a good deal; it includes giving our business to enterprises that create good jobs and keep wealth in Ontario communities. Buying local food, for example, has now become mainstream for Ontarians, who want to support local farmers.²⁰ Beyond individual households, governments hold billions of dollars of purchasing power; consequently, the impact of where they spend is that much greater.

The Ontario government spends approximately 20 per cent of its annual budget on procured goods and services. With an overall budget of almost \$140 billion, that translates into purchasing power of approximately \$28 billion annually. This, of course, does not capture the billions in provincial spending that could be counted as procured if it is shifted from TPAs to a third-party contract-based system,²¹ as in the employment and training sector.

The new Supply Chain Management Act, enacted as part of Bill 138, aims to modernize group purchasing across the public sector and BPS (along with some provincially-funded nonprofits). This initiative is intended to “use our collective public sector buying power to deliver projected savings of \$1 billion annually, while also adopting leading supply chain processes and practices.”²² The bill empowers the Ontario government to direct one public or BPS entity to provide supply chain management on behalf of another, and/or for government to create a new organization to perform this function.

ONN would like to see the Ontario government consider how the consolidation of purchasing arrangements across the public service and BPS could affect the ability of government to commit a portion of its purchasing power to procurement from nonprofit and co-operative enterprises, as well as other small businesses, to leverage spending and create jobs in Ontario communities. Consider, for example, the procurement of food services: If government cafeterias and schools are all using the same food services corporation, what is the likelihood that the enterprise will be locally-owned and nonprofit run, or that the food will be locally-sourced and -processed, as FoodShare’s²³ student nutrition programs currently are? Similarly, if all ministries must use the same contractor for building maintenance, what are the odds that a local social enterprise like Building Up²⁴ will win the contract? If all BPS entities across

²⁰ By 2016-17, half of Ontario’s households had incorporated locally-grown food into at least one meal per day. Ontario Ministry of Agriculture, Farming, and Rural Affairs. “Ontario’s Local Food Report, 2016/2017 Edition: Tastes of Home.” 2017. http://www.omafra.gov.on.ca/english/about/local_food_rpt17.htm

²¹ See p. 14. <http://www.tcu.gov.on.ca/eng/eopg/publications/cm-est-call-for-proposal-cfp-en.pdf>

²² Ontario Treasury Board Secretariat. “Backgrounder: Smart Initiatives.” October 23, 2019. <https://news.ontario.ca/tbs/en/2019/10/smart-initiatives.html>

²³ FoodShare. “Student Nutrition Toronto.” Undated. <https://foodshare.net/program/snt/>

²⁴ Building Up. “Welcome to Building Up.” 2017. <https://www.buildingup.ca/#about>

Ontario must use the same staffing and interpretation services, how can hospitals choose a health-focused social enterprise like SE Staffing Solutions²⁵ or Ottawa organizations choose the services of local nonprofit, Ottawa Language Access?²⁶ If all office supplies are purchased through one large contract, how can a main street stationery store stand a chance against a foreign-owned multinational? We are not saying that consolidation should not happen, but rather that any unintended consequences for nonprofits, co-operatives, and other local businesses should be considered in advance to avoid missing critical opportunities.²⁷

With an ambitious target of saving \$1 billion on procurement, the Ontario government could eliminate the cost of profit in key areas, like food services, child care, courier services, staffing and interpretation solutions, and community housing development, where there are nonprofit suppliers already in existence. Even if the Ontario government committed to raising its procured spend from social enterprises by *half a percentage point* (approximately \$140 million) each year for three years, that would inject \$840 million over three years into locally-owned organizations that support job creation and public benefit - without any increase in overall public spending.

The Ontario government should also set a second-tier target, requiring (or promoting through procurement point systems) that its own suppliers (such as construction companies, food services, cleaners, and couriers) increase their own social purchasing by half a percentage point each year. This would be an excellent starting point for creating the greatest public value with our public dollars.

There are many examples and templates available to develop a social procurement policy. The Government of Scotland²⁸ is considered a world leader. The Government of Wales has its own National Procurement Service that provides a central service to promote “a good deal for Wales.”²⁹ The City of Preston in the UK was named the “Most Improved City in the United Kingdom” in PwC’s 2018 Good Growth for Cities guide as a result of its work on local procurement.³⁰ Closer to home, Buy Social Canada has just produced a guidebook³¹ for Canadian governments at all levels to undertake this approach to procurement.

²⁵ SE Health. “SE Staffing Solutions.” 2019. <https://staffing.sehc.com/>

²⁶ Centre for Social Enterprise Development. “Ottawa Language Access.” August 25, 2019. <https://csedottawa.ca/ottawa-language-access-ola/>

²⁷ One opportunity is to reconfirm the commitment to local food purchasing across the BPS, as documented in OMAFRA’s most recent local food report, “The Faces of Ontario Local Food: 2018-2019 Local Food Report.” http://www.omafra.gov.on.ca/english/about/local_food_rpt18.htm#7 The Local Food Act, 2013, enables the Ontario Government to establish goals or targets for encouraging increased use of local food by the public service and BPS. <https://www.ontario.ca/laws/statute/13l07> According to the Local Food Report, tracking progress on local food use by BPS organizations is currently voluntary.

²⁸ Scottish Government. “Public sector procurement: Sustainable procurement duty.” Undated. <https://www.gov.scot/policies/public-sector-procurement/sustainable-procurement-duty/>

²⁹ Welsh Government. “National Procurement Service - What we do.” Undated. <https://gov.wales/national-procurement-service>

³⁰ Preston City Council. “The definitive guide to ‘the Preston Model’.” 2019. <https://www.preston.gov.uk/article/1791/The-definitive-guide-to-the-Preston-model->

³¹ Buy Social Canada. “A Guide to Social Procurement.” 2018. https://buy-social-canada.cdn.prismic.io/buy-social-canada%2F47fa7b64-c5f0-4661-9a00-93a936f38dd0_bsc_socialprocurement_screen-opt.pdf

ONN recommends that the Ontario government consult with the Ontario nonprofit and co-operative sectors to develop regulations under the Supply Chain Management Act, and to co-design a social procurement policy that supports these objectives.

d. Promote financial sustainability and service continuity by enabling nonprofits that deliver services on behalf of government to retain any surpluses for program investments or for capital asset purchase and maintenance

One of the most striking findings in our survey of Ontario nonprofits in 2019 was that 50 per cent of organizations surveyed said that they did not have the bare minimum of three months' reserve funds to weather the ups and downs of their cash-flow situations.³² When transfer payment agreements (TPAs) were in some cases signed as late as September³³ (five months into the fiscal year) or cancelled without notice, some organizations had to go to extraordinary lengths to continue to pay staff, or to pay costs out of pocket for expenses like severance pay that are not an eligible expense under TPAs, even though they are a legal requirement. These costs in a few instances meant that nonprofits shut their doors.

The structure of TPAs puts such constraints on nonprofit finances that it is hard to see how any organization that delivers services on behalf of government can achieve sustainability. Unlike a company that wins a contract to perform, for example, road maintenance or cleaning services for a government, nonprofits have to give back any money at the end of the year that is left unspent under a TPA. This is true even if the nonprofit generated efficiencies by automating or streamlining a process. Nonprofits have little incentive to invest in efficiencies because they often do not get to keep the resultant savings. And while a lack of upfront funds is often the cause for under-investment in technological and process modernization, any nonprofit that does manage to innovate in the context of a provincial program has no way to reinvest savings generated into becoming more financially sustainable because they have to give the money back at year-end.

The Ontario government recently created a mechanism to end "March Madness" within the Ontario Public Service, thereby generating \$153 million in savings at the end of 2018-19.³⁴ March Madness is the name given to spending in provincial ministries that happens at the fiscal year-end because there are few mechanisms to carry any unspent funds forward to the next fiscal year and - importantly - the *actual* spending amounts from one year inform the budget for the next. This spending restraint was a way to address the perverse incentives created within government to "use it or lose it."

Nonprofits face a similar perverse incentive because they are prohibited from managing spending as costs (and demand for services, in some cases) rise and fall from one year to the next. This constitutes a serious constraint on financial sustainability for organizations that are demonstrating good value for money. Nonprofits, knowing that they have to return any unspent TPA money if they generate

³² Ontario Nonprofit Network. "Sector 360° Survey 2019: Taking the pulse of Ontario's nonprofit sector." November 2019. <https://theonn.ca/our-work/sector-360-survey-2019/>

³³ Pooran Law. "DS Sector Budgets Released But Wage Cap Legislation Looms: What do we do with Bill 124?" September 23, 2019.

<https://pooranlaw.com/ds-sector-budgets-released-but-wage-cap-legislation-looms-what-do-we-do-with-bill-124/>

³⁴ Ontario Treasury Board Secretariat. "News Release: Ontario Government Saves Taxpayer Dollars Through Year-End Expenditure Management and Ending March Madness Spending." August 29, 2019.

efficiencies, do their best to use funds well within a TPA's restrictions, but they would likely make better long-term decisions if they could allocate any surpluses to a reserve fund.

Our recommendation is therefore that nonprofits should be allowed to retain any surpluses they generate through TPAs in a reserve fund for program investment or capital asset purchase and maintenance. Building up a fund for these purposes would enable a nonprofit to manage the variability of program investment - and demand - or to pay severance in the event of layoffs (severance pay is legally required but not considered an eligible expense under transfer payment agreements). Alternately, a reserve fund might enable a nonprofit, after a few years, to come up with a down payment on a property and/or leverage social finance to create a more sustainable organization that will be there for its community through economic ups and downs. We see this as a win-win-win: clients are better served if organizations that deliver services on behalf of government have an incentive to streamline processes. Organizations become less precarious because they can use any surplus generated through efficiencies to better manage program cycles or to create a community-owned asset and enterprises, enabling a stable base for community services. Finally, government can rest easy knowing that organizations are no longer engaging in "March Madness" year-end spending, but rather investing in what makes sense for the sustainability of services over the long haul.

The ONN is the independent nonprofit network for the 58,000 nonprofits 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 across Ontario to work together on issues affecting the sector and channel the voices of our network to government, funders, and other stakeholders.

January 2020