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The nonprofit difference in publicly-funded services

Why the nonprofit business model means better service for Ontarians

Government, for profit, and nonprofit actors each have distinct characteristics that make them uniquely suited to deliver different kinds of services. In this brief, we will explain why the purpose, governance, and ownership structure of nonprofits (“the nonprofit difference”) makes them uniquely positioned to deliver publicly-funded services. We will conclude by recommending how government can leverage the nonprofit difference across all publicly-funded services by investing in nonprofits.

What makes nonprofits different?

| | Nonprofits | For profits |
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| Purpose | Nonprofits exist to meet a need for a public good/benefit. Decisions must be made prioritizing this community need. As a result, a systems approach can be taken that finds, and fills the gaps in our province. | Businesses exist to make profit, while this can incentivize initial capital investments, higher quality or quantity of services, it can also incentivize lower quality or quantity services where doing so is more profitable. It is rarely profitable to serve the most complex needs. |
| Governance | Nonprofits are accountable to community members, and a volunteer board of directors. This helps ensure accountability and responsiveness to those served locally, and beyond. | Businesses are accountable to shareholders who are unlikely to have any ties to the community or needs. |

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| <p>Ownership</p> | <p>Revenues are reinvested in services, and assets must remain in the hands of a registered charity if the nonprofit dissolves by giving to other nonprofits or government (“asset lock”).</p> | <p>The maximum amount of revenue possible goes to shareholders, and key infrastructure may be sold at any time if it is profitable to do so. Profits may flow out of the province/country.</p> |
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How does the nonprofit difference impact publicly-funded services?

When it comes to delivering publicly-funded services, especially in times of crisis, the nonprofit difference means:

- Reinvesting revenue in services that will result in safer, more reliable services. During COVID-19, we saw decades of under-investment for the sake of profit result in the deaths of thousands of seniors. [Canadian research](#) found that the older building standards, and chain ownership among for profits was a significant factor in explaining the larger, and more fatal outbreaks in for profit long-term care homes.
- Nonprofits often have the knowledge, trust, and relationships to engage those who are hardest to reach. As Community Response Tables in Peel, Ottawa, and [other municipalities](#) demonstrated, in a crisis, the efficiencies of a tech savvy conglomerate cannot replace the hands-on knowledge of a community-based nonprofit.
- Nonprofits won’t simply leave when things get tough. Quality, publicly-funded services, such as deeply affordable housing, are often not profitable. This does not deter nonprofits from meeting public needs, but for profits will either not be able to deliver, or would only do so if there is a subsidy of asset acquisition that can be sold at a profit. Where nonprofits can deliver permanent affordability, for profits offer limited affordability, and only if there is a profit to be made.

What are the risks of not entrusting essential services to public or nonprofit organizations?

The following are just some examples of the dangers of failing to use a nonprofit business model in publicly-funded service delivery:

- Individuals with the most complex needs will not be served as these are the most expensive, and therefore least profitable to serve. For example, homeless individuals being turned away from private surgery clinics.

- Quality of service will be compromised in service of the bottom line. B.C.'s Office of the Seniors Advocate [found](#) that while receiving on average the same funding from government, nonprofit operators spend \$10,000 or 24 per cent more per year on care for each resident compared to for profit providers. Money that goes towards more staff, equipment, and necessities for patients.
- Assets acquired by for profits with significant public investment will be sold off. Recently, [for profit nursing homes](#) faced with the cost of mandatory upgrades to their building and equipment have instead chosen to sell to developers. After much public investment, Ontario may simply lose its critical care infrastructure.
- Costs are higher over time. Provincial auditors general, and researchers have found that the public pays more for infrastructure when it's through [the for profit sector](#).

How can governments harness the potential of the nonprofit difference to deliver services?

Governments can take the following steps to ensure that the nonprofit difference is integrated across all publicly-funded services:

1. If organizations receive public funding to obtain real estate for essential services, government should either retain a property interest in the real estate or organizations should be prohibited from selling it to be used for other purposes.
2. Enforce legally mandated quality standards with meaningful financial penalties, so organizations are not incentivized to cut corners.
3. Grow essential services through nonprofit organizations by focusing scarce funds on loan guarantees, and strategic capital grants for nonprofits.
4. Prioritize investments in nonprofit care by increasing funding for operations.