

Submission

to the

Social Innovation  
and Social Finance Steering Group

Canadian Union of Public Employees

December 2017

## Introduction

The Canadian Union of Public Employees (CUPE) represents 650,000 workers in health care, social services, school boards, child care, municipalities and post-secondary education. CUPE has a keen interest in this consultation because we represent many workers who deliver services such as employment programs, health care, immigration, refugee and settlement services, and violence against women programs that may be affected by the proposed social innovation and social finance strategy. Our members continually seek to engage with agencies and government to help develop innovative solutions and provide the best services possible to those in need of support. At the same time, limited funding and moves to more restrictive funding models have limited the capacity of the sector to engage in innovation.

While CUPE supports the vision of the Social Innovation and Social Finance Steering Group, we do not consider social finance an effective tool to implement this vision. In fact, we consider forms of social finance like social impact bonds (SIBs) extremely harmful to workers and to those who use public services. We encourage the Steering Group to focus its work on creating the conditions in which innovation can flourish in the public and not-for-profit sector. This begins with good and stable levels of funding for human service delivery. Innovation can only be harnessed when service workers, partnering with the public they serve, have the resources to work with agencies and government to define problems, identify solutions and launch new approaches.

CUPE would like to provide feedback to the Steering Group on many of the questions asked in the consultation document. Here is a summary of our key recommendations.

### Key recommendations:

1. Lay the groundwork for social program innovation by providing long-term, sustainable funding to public and not-for-profit agencies.
2. Refrain from allocating public funding to social finance projects, particularly social impact bonds, that can replace public and not-for-profit service providers with for-profit entities.
3. Amend government grants to cover all program costs and to simplify and streamline the reporting requirements.
4. No legal or regulatory changes are needed, including the introduction of a hybrid corporate form or amendments to the *Income Tax Act*, that would blur the role and function of the charitable and not-for-profit sector.

## Capacity and skills

CUPE believes the capacity for human service innovations already exists in the sector. Unfortunately, the current context of service delivery fundamentally undermines innovation. The services being targeted for social financing are the very same that have faced chronic underfunding and public funding cuts in recent years. Services for Indigenous Peoples in Canada have never been adequately resourced nor provided for self-determination of affected communities. Women's shelters, another human service area funded in part by the federal government, have also been inadequately funded. On a single date in 2014, 338 women and

201 children were turned away from Canadian shelters. The shelter being full was specified as the most common reason for turn-aways at 56%.<sup>i</sup>

Social and community service agencies are extremely dependent upon government revenue.<sup>ii</sup> This is no surprise given that in many cases these agencies are tasked with providing core services that support the marginalized in our communities. In some cases, service-delivery structures have shifted with governments having transitioned services from public to third-party delivery. With funding reductions and frozen budgets, governments have forced agencies to increasingly turn to philanthropic organizations and individuals for basic levels of support in order to attempt to continue programs and services. In many ways, Canadian governments have attempted to shed their responsibility in maintaining the public's social welfare.<sup>iii</sup>

Government funding to agencies has shifted from providing base funding that allowed for long-term sustainability, towards a preference for shorter-term project funding that is meted out through competitive bidding processes.<sup>iv</sup> In many cases, core functions of service agencies, such as operational costs and program evaluation, are not covered by funding agreements. This funding context has resulted in increased precarity for the not-for-profit workforce with high levels of stress and job insecurity.<sup>v</sup> These shifts have also limited the capacity of social service providers to develop innovative new programs that respond to community needs.

Unfortunately, this context is not a major feature of the consultation regarding a social innovation strategy. Innovation in social programs generally occurs at the level of the worker—or small group of workers—collaborating with service users to make the best of available resources. The government should provide a sustainable funding environment that would foster the discussions and development of best practices that lead to innovative programs and services. CUPE believes that a rich network of public services—delivered by public and not-for-profit service providers—that is well-funded, provides good jobs and that genuinely involves those who access programs, is best placed to foster social innovation.

#### Recommendation:

1. Lay the groundwork for social program innovation by providing long-term, sustainable funding to public and not-for-profit agencies.

#### Funding and capital

CUPE does not believe public funding should be used to create a social finance market. It is not the role of government to incentivize and subsidize private sector investments or profits. Major issues such as economic sustainability, fairness and risk have been raised regarding for-profit financing, delivery and assessment of publicly-funded social, educational and health services. Some of the issues of concern with using social financing models are as follows:

- profiting from social ills;
- using a for-profit business model approach to providing services for those most in need;
- carving-off easier to help service users for social finance projects to the exclusion of the most vulnerable or most in need;
- risk-averse nature of social impact bond financed programs;

- the unstable financing of long-term social programs with short-term funding mechanisms with no guarantee of continuation;
- misused and misapplied impact assessments based on poorly defined measures of efficiency;
- displacement of stable and professionally managed publicly-funded programs with short-term initiatives.

One particularly dangerous form of social finance, the social impact bond, allows investors to profit from social, health and education services. This model outsources the financing, planning and evaluation of social programs to consultants and corporations. Multiple consultants, earning hefty payments, negotiate the SIB contract, manage the project and evaluate the outcomes. Rather than being cutting edge, SIBs tend to favour programs that have extensive research showing their effectiveness.<sup>vi</sup> This is because investors are hesitant to risk their investment for new and unproven projects. SIBs can also limit access to services by creating a perverse incentive for service providers to seek out easier to help service users.<sup>vii</sup> Furthermore, SIBs base investor profits on a few easily measured outcomes to determine a project's 'success'. This can skew programs toward achieving simplistic outcomes rather than working toward holistic and comprehensive results.

Social impact bonds and social financing are designed to return a profit of 5%-30% to private investors.<sup>viii</sup> This amount dedicated to profit is either funding redirected from direct program provision, or an additional cost for service provision. We believe that these resources should be put into services for those in need, and not into private profit.

It is commendable that affluent and wealthy individuals want to address inequality and there are excellent ways in which they can contribute, without demanding a profit to themselves in return. We have a system by which the better-off in society can contribute to allow those who have not benefited from the current economic system: the progressive income tax and public services system.

Regarding the granting question, CUPE believes the process should be changed in fundamental ways to ensure greater sustainability and innovation for social service agencies. Secure long-term base funding should be provided that allows organizations to plan for the future, be responsive to community needs and provide stability for staff. Furthermore, all program costs should be covered, particularly employment costs such as severance pay, pay equity, replacement staff when workers are sick and parental leave top ups.

Reporting requirements for social service programs should be simplified and streamlined. Currently, much staff time is directed toward cumbersome reporting requirements. Furthermore, funding should be provided to engage in the regular evaluation of programs.

#### Recommendations:

2. Refrain from allocating public funding to social finance projects, particularly social impact bonds, that can replace public and not-for-profit service providers with for-profit entities.
3. Amend government grants to cover all program costs and to simplify and streamline the reporting requirements.

## Policy and regulatory environment

Social enterprises cover many different types of organizations or corporations structured as for-profits, not-for-profits, charities and co-operatives. CUPE does not consider it necessary or desirable to create an additional legislative framework for ‘hybrid’ social enterprises. This kind of change would inevitably lead to the creation of new profit-oriented organizations in a range of service areas long known for either their public or non-profit orientation. CUPE is also against any kind of tax advantages for corporations or individuals who invest in social finance projects. We should be working toward closing tax loopholes rather than adding new ones.

CUPE is not in favour of amendments to the *Income Tax Act* that would enable profit generation in unrelated activities in the charitable sector. Charitable organizations can already engage in “related” business activities without jeopardizing their tax exempt status. Restrictions on profit-making activity help ensure charities remain focused on their social purposes and activities. This is especially important given that these organizations are not required to pay taxes.

Not-for-profit organizations must be organized and operated for an objective other than profit according to the *Income Tax Act*. Again, CUPE considers it important to maintain a very clear distinction between organizations that are driven to achieve profit and those that are organized and operated for other purposes such as social good. Blending for-profit with not-for-profit organizations would shift the focus from important social problems that need to be addressed toward achieving profit. It would obscure whether government funding and charitable giving was going toward social ends or profit-making.

CUPE considers this interest in profit-making in community social services a reflection of the lack of sustainable public funding. It is time for the federal government and all provincial governments to step up their support for public and not-for-profit agencies that help enable good jobs and homes, healthy food and strong social connections in our communities.

### Recommendation:

4. No legal or regulatory changes are needed, including the introduction of a hybrid corporate form, or amendments to the *Income Tax Act* that would blur the role and function of the charitable and not-for-profit sector.

## Knowledge transfer, data and impact measurement

There is a great need for baseline data with regards to charities and not-for-profit agencies operating in Canada. This would enable better decision-making with regards to sector policy questions such as social innovation. CUPE urges the Steering Group to prioritize the need for baseline data from Statistics Canada on the charitable and not-for-profit sector in its strategy.

In terms of tracking the outcomes of social programs, this would be best achieved by funding an evaluation component for all federally-funded projects. New programs could be better assessed by developing robust and comprehensive evaluation measures with partners in the academic or

evaluation field. However, monetizing and paying profit based on outcomes, as is the case with social impact bonds, is a waste of public resources.

Recommendations:

5. Begin collecting better baseline data on the charitable and not-for-profit sector.
6. Include funding for the evaluation of public programs and grants.

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<sup>i</sup> Beattie, Sarah, Hutchins, Hope. "Shelters for Abused Women in Canada, 2014." *Statistics Canada*, 2015, <https://www.statcan.gc.ca/pub/85-002-x/2015001/article/14207-eng.htm>.

<sup>ii</sup> Eakin, Lynn. "An Overview of the Funding of Canada's Voluntary Sector." (for the *Voluntary Sector Initiative Working Group on Financing*), 2001, [http://www.vsi-isbc.org/eng/funding/pdf/overview\\_of\\_funding.pdf](http://www.vsi-isbc.org/eng/funding/pdf/overview_of_funding.pdf).

<sup>iii</sup> Evans, Bryan *et al.* "Structuring Neoliberal Governance: The Nonprofit Sector, Emerging New Modes of Control and the Marketisation of Service Delivery." *Policy and Society*, vol. 24, Issue 1, 2005, pp. 73–97.

<sup>iv</sup> Ibid.

<sup>v</sup> Baines, Donna *et al.* "Not Profiting from Precarity: The Work of Nonprofit Service Delivery and the Creation of Precariousness," *Just Labour: A Canadian Journal of Work and Society*, vol. 22, Autumn 2014, pp. 74–93, [http://www.justlabour.yorku.ca/volume22/pdfs/06\\_baines\\_et\\_al\\_press.pdf](http://www.justlabour.yorku.ca/volume22/pdfs/06_baines_et_al_press.pdf).

<sup>vi</sup> Whitfield, Dexter. "Alternative to private finance of the welfare state: A Global Analysis of Social Impact Bond, Pay-for-Success & Development Impact Bond Projects." *European Services Strategy Unit*, WISeR catalogue, n°2015.24, 2015, <https://www.european-services-strategy.org.uk/wp-content/uploads/2015/09/alternative-to-private-finance-of-the-welfare-state.pdf>.

<sup>vii</sup> "Social Impact Bonds: Promises & Pitfalls." Summary Report, *OECD, LEED, netFWD, European Commission*, April 15, 2015, <https://www.oecd.org/cfe/leed/SIBsExpertSeminar-SummaryReport-FINAL.pdf>.

<sup>viii</sup> Whitfield, Dexter. "Alternative to private finance of the welfare state: A Global Analysis of Social Impact Bond, Pay-for-Success & Development Impact Bond Projects." *European Services Strategy Unit*, WISeR catalogue, no2015.24, 2015, <https://www.european-services-strategy.org.uk/wp-content/uploads/2015/09/alternative-to-private-finance-of-the-welfare-state.pdf>.