

Is there an Optimum Size for a Social Housing Provider

By Sally Turner



THE BUSINESS OF HOUSING

IS THERE AN OPTIMUM SIZE FOR A SOCIAL HOUSING PROVIDER?

A Discussion Paper by Sally Turner

SHSC's mandate is to support best practices in the social housing sector. As such, SHSC works to provide relevant research on topics of interest to social housing stakeholders. SHSC commissioned this paper to stimulate discussion about the challenges facing smaller social housing providers in Ontario. SHSC welcomes comments and critiques of the paper and is hopeful that it will serve as a springboard for further dialogue among social housing stakeholders. Comments may be sent to SHSC at feedback@shscorp.ca.

In 1996, the 'Who Does What' initiative sought to exchange a number of provincial services with municipalities for increased provincial funding for the cost of education. The outcome was the transfer of a number of services, including social housing, to Ontario's municipalities in 2000 seeking to provide 'better service at lower costs' and reduce duplication and waste¹.

This paper discusses whether devolution to municipal management has improved social housing service and reduced program duplication and waste, and then uses international examples to suggest ways in which these goals can best be met within the current social housing framework in Ontario. It is suggested that increasing economies of scale of Ontario's non-profit housing providers will not only provide better service at lower costs, reducing duplication and waste, but will also help community groups to achieve their goals quicker than they would otherwise.

1. Social Housing in Ontario

Over the past two decades social housing in Ontario has been transformed from a centralized program, to today's decentralized municipal administration. The implications of this shift have not only affected funding levels and unit availability, but have fundamentally changed the way social housing is financed, produced and administered in Ontario. The majority of municipal authorities now rely to some extent on non-profit organizations to provide and manage growing numbers of subsidized units. Non-profit housing provision has been shown to provide tangible benefits to communities and residents alike: traditional social housing projects, non-profit organizations offer more than simply subsidized units. Many organizations offer services in

¹ SHSC, "Social Housing and the Provincial-Municipal Fiscal and Service Delivery Review: Sustaining a New Partnership". Feb 2007, SHSC, 5 Jan, 2008

addition to housing units such as employment search assistance, daycare, meal programs, translation services, community centres, legal advice clinics, and assistance obtaining government documents, to list only the most common programs (for a more detailed look at the contribution of non-profit organizations, please see the SHSC/CPRN publication ‘*Sustaining Ontario’s Subsidized Housing by Supporting Non-Profit Organizations*’²).

Non-profit organizations are often considered to be more innovative than government agencies, typically having to juggle numerous funding sources and a limited number of staff members to produce and maintain complex arrangements of subsidized and market-rent housing in addition to income-generating and free local services. Many of Ontario’s non-profit housing providers can only afford one or two staff members, working two or three half-days each week. As the only staff on hand, they are typically responsible for overseeing the technical and financial aspects of running a building, along with their more traditional roles as property managers and human relations officers. As a result of these challenges many non-profit organizations have had to develop innovative strategies to continue and expand their operations. Local authorities may not always face such immediate and pressing challenges and therefore have not had to develop such innovative practices.

A definite (but not inherent) drawback to non-profit housing delivery however is its often small-scale nature. Seventy-three percent of housing providers across Ontario have a portfolio of only a single project. Of this number, fifteen percent operate twenty or less units, and fifty percent operate fifty units or less (see Table 1).

Table 1: Ontario Non-Profit Housing Providers with One Project

Provider Type	20 units or less	21-50 units	51-100 units	100+ units	Total
Federal	76	137	65	83	361
Municipal	8	23	4	0	35
Private	45	142	131	69	387
Co-operative	3	67	123	59	252
Supportive	33	10	1	3	47
Independent	1	1	0	1	3
Total	166	380	324	215	1085

Table courtesy of Allan Cox.

² Available online at www.shscorp.ca/content/research/resources/DOCSCPRN_Sally_Turner_FinalReport.pdf

The data clearly indicates that Ontario has a social housing system dominated by small-scale providers. Perhaps the most pressing concern with small-scale delivery is its inherent lack of economies of scale and duplication. At this point in time, it seems unlikely that the province will reverse its decision to download the responsibility for social housing to the municipal levels. Administering social housing at the municipal level has clear advantages, including the ability to better monitor supply and demand, and to offer a clearer understanding of local needs. Allowing this relatively new system to continue in the fragmented direction in which it has developed however would perhaps be an avoidable oversight. It is clear that some level of non-profit capacity building is necessary to allow our social housing programs to continue to offer high quality service at reasonable cost.

2. ‘Effective’ Service Delivery

Our discussion of an ‘optimum’ size for housing providers is focused on an organization’s ability to provide ‘effective’ service delivery. In this context, it is important to define which services we are referring to, and what an ‘effective’ level of delivery may be.

2.1: Deliverable Services

The preceding section provided a brief overview of the wide variety of services offered by some non-profit organizations in addition to housing units. While these services are a highly valuable contribution to local communities and a tangible benefit to non-profit housing, they are not integral to the provision of units themselves. This paper is more concerned with the delivery of essential services necessary to run a building, including both tenant management, and maintenance and asset management. Tenant management typically involves the duties of RGI administration, dealing with tenant complaints and concerns, rent collection and arrears, preparing and advertising vacant units, and marketing. Alternatively, maintenance and asset management call for the creation and execution of preventative maintenance plans, insurance, health and safety updates, security, contract management and tenders, capital planning, on-call systems, training and education, equipment, and technical personnel. To run a non-profit housing development then, it is necessary to understand budgets and building envelopes, legislation, IT and contract management at the very least, in addition to possessing the interpersonal skills required to liaise between tenants, directors, the public, and the service manager.

2.2: ‘Effective’ Delivery

The Chartered Institute of Housing in the UK suggests that ‘effectiveness’ is often used interchangeably with the concept of ‘value for money’. Value for money involves three key components; ‘economy’, ‘efficiency’ and ‘effectiveness’. ‘Economy’ refers to keeping the costs of inputs as low as possible, whereas ‘efficiency’ is used in the context of transforming inputs

into outputs, ensuring that the services produced are high in both quality and quantity³. The institute defines ‘effectiveness’ as achieving desired goals.

Social housing is a long-term public investment funded by tax payers and, in some cases private donors, so it is important to ensure that monies spent achieve the greatest value for money possible. In an examination of non-profit business models, Sarah Murray from the Financial Times (UK) suggests that organizations often neglect to invest in administrative training, acting on wishes to contribute the majority of their finances to helping the communities they are invested in. This actually decreases the value of money that donors receive for their monies, and hinders organizations from reaching their goals, due to the inefficiencies that arise from small-scale back-office management⁴.

The scale of operations of housing providers plays a considerable role in its ability to provide service delivery with value for money. Problems arise with both small-scale and large-scale delivery: Large-scale delivery has the potential to alienate tenants, making them feel unimportant and uninvolved in decisions surrounding the project and their units. Moreover, large-scale projects may ‘become too big for their own good’ so to speak, whereby administration becomes so large that diseconomies of scale occur. This could manifest itself in confusion among burdened staff as to who certain responsibilities rest with, and a lack of accountability under a complex management structure.

In Ontario however, the vast majority of non-profit housing providers are small-scale in nature. While these organizations can offer a more personalized approach to landlord-tenant relations, many may find their operations hindered in some regards by their small size. Small providers may only be able to hire one or two members of staff, who must juggle management, maintenance and administration. In addition, lack of funding may mean that the organization can only afford to pay these staff members to work for a few days a week, and as a result tenant complaints and concerns may not always be addressed as quickly as desired. These staff members have to not only ensure the project is run smoothly day-to-day, but also that it remains financially viable in the future. Selecting informed investment strategies, managing a capital fund for future maintenance issues, and fundraising to secure next year’s finances, become difficult when mediating frustrated tenants and completing RGI administration.

2.3: Towards an ‘optimum’ size

What then is an ‘optimum’ size for a housing provider to allow both a degree of personalization in tenant services, but also sufficient economies of scale to offer effective delivery that satisfy both tenants and an organization’s financial limitations?

³ Chartered Institute of Housing, “Defining Efficiency: Embedding Value for Money in Housing Association Services”, 2007, CIH, 22 Mar, 2008. www.cih.org/policy/EmbeddingValue.pdf

⁴ Sarah Murray, “Charities take their cue from businesses”, 1/Mar/2008, Financial Times.

In the UK where non-profit housing providers are more established, a case study on Walterton and Elgin Community Homes (WECH) suggested that an ideal size for a non-profit provider would be around 1500 units⁵. This was justified on the principle that a non-profit provider needs not be so big as to make it difficult to develop personal relationships, but big enough to benefit from economies of scale and house enough residents for there to be people with both the range of skills needed and the willingness to participate actively in the organization. At the time the report was published in 1996, WECH operated 654 homes and was looking to expand their operations to their predicted optimum of 1500 homes over a number of years, primarily through acquisitions⁶. In addition, WECH offers form filling and debt counselling services, a community centre, 'police in residence' program, and a social committee involving 70 residents in a range of activities⁷. WECH stressed the vital importance of tenant involvement in projects to improve the fixed costs of offered services, motivate residents to contribute to the community (which had the joint effect of helping tenants gain tangible skills as well as improving the general atmosphere of the buildings), and to further personalize tenant services.

In the UK, non-profit organizations have the option of acquiring units from Local Housing Authorities (councils) as a part of the continuing privatization of British social housing. This potentially makes the acquisition of units easier than in Ontario, where former federal and provincial units are now under municipal management. For non-profit providers to expand their operations in Ontario today, they must either acquire units from existing organizations who no longer wish to manage them (of these, very few exist), or develop or convert new developments. The difficulties associated with merging and acquisitions among Ontario non-profit providers will be discussed in section 3.4.

Elsewhere in the UK, the Chartered Institute of Housing suggests that different optimum sizes exist for different services, arguing that larger organizations are better equipped to expand the housing supply, invest in capital reserves, and achieve economies of scale through bulk purchasing⁸. Alternatively, it is the small and medium size organizations that provide the best housing management and small-scale maintenance operations with their ability to quickly respond to complaints and minimize rent-loss through their personal connection with tenants⁹. This study put forward a number of 'optimum sizes' for providers depending on these different aspects of housing delivery, all of which were greater than 1000 units. With housing providers operating on a significantly smaller scale in Ontario, it is the generalizations from this study as to

⁵ Renewal.net, "Case Study: Walterton and Elgin Community Homes", 2007, Renewal.net, 4 Jan, 2008. www.renewal.net/Documents/RNET/case%20study/Waltertonelgincommunity.doc p.11.

⁶ Ibid, p.2

⁷ Ibid, p.10

⁸ Chartered Institute of Housing, "Delivering Efficiency: Is big really best – or can small & friendly deliver? A briefing on the size, efficiency and effectiveness of housing associations", 2007, CIH, 22 Mar, 2008. www.cih.org/policy/IsBigBest.pdf

⁹ Ibid.

the strengths and weaknesses of small and large housing providers that are useful to our discussion.

Here in Ontario, the Ontario Non-Profit Housing Association (ONPHA) suggests that programs operating below 100 units face significant challenges for fiscal survival and viability. In particular, buildings with small numbers of units are inefficient due to their fixed costs. In addition, a program with one building of 100 units for example will have lower fixed costs than a program with a similar number of units scattered between four developments, each with associated fixed building costs. Research carried out by SHSC demonstrates the financial realities of administration in small-scale projects that ONPHA alludes to in their estimation. A typical calculation of a maximum administration budget for a twenty-unit project shows a projected annual budget of \$11,059.20 (see appendix 1). This suggests that a project under sixty units will be able to afford only a very limited administration capacity. Based on this formula, housing analyst Allan Cox suggests that housing providers with 125 units would be a minimum size.

3. Mediating a system of predominantly small-scale providers

Considering the predominantly small-scale nature of Ontario's non-profit housing providers, how then can we best build capacity to increase economies of scale, improve tenant service delivery, and in the process help to eliminate some of the waste and duplication in our social housing system? This section presents a series of international (and home-grown) solutions that could prove useful in increasing the financial viability of Ontario's non-profit providers, as well as the level of service they can offer to their tenants.

3.1: Holland: Financial Guarantees and Organizational Autonomy

In a similar vein to recent transformations in Ontario, the Dutch social housing sector has undergone a process of downloading since the early 1980s. The central government first stopped providing loans and guarantees to social housing providers, leaving this role solely to local authorities. Then in 1993 the central government initiated the 'brutering' (balancing out) agreement whereby it removed itself from all financial obligations to the social housing sector: Housing associations were to pay all remaining money owed to the central government in return for an individually calculated number of years worth of subsidies. The agreement was a huge financial transfer whereby the central government paid out USD 18 billion¹⁰ to housing associations, at which point all subsidies ended. In return, a new guarantee structure was set up

¹⁰ Davis, Duane, "Comparing the Social Housing Sectors of the Netherlands and the United States", 2001, Neurus Paper, 11 Jan, 2008 p.12

to give new financiers confidence in investing in the social housing sector, and to allow housing associations to acquire loans at fair rates in the private market.

The guarantee structure consists of three levels, the lowest being the Central Housing Fund and the central government as the highest:

- (1) **Central Housing Fund:** This provides financial support to housing associations whose futures are in jeopardy. It is a solidarity fund that every housing association must pay in to annually.
- (2) **Social Housing Guarantee Fund:** This is a voluntary fund set up by and for housing associations to request guaranteed loans from the Federation of Housing Associations at very low interest rates.
- (3) **Government** (both central and local levels): Provides a guarantee in the case that the social housing sector itself cannot overcome its financial problems.

This guarantee structure allows for the financial autonomy of social housing associations from the Dutch government. A central facet of the Dutch social housing reform has been 'liberalization' – the process of making housing associations independent entities from the government, and more accountable for their own actions. As a result Dutch housing associations have had to become increasingly entrepreneurial in nature. Today they develop and sell housing, in addition to managing low-rent units, in order to generate income for current projects and future developments. In addition, housing associations work closely with private parties including developers and investors to finance their activities.

While Dutch housing associations act increasingly as entrepreneurs, their mission remains inherently social, generating profits through their business models to offer greater numbers of subsidized units to their clients. As associations they are bound by their obligation to work exclusively for the good of social housing. The financial autonomy of Dutch housing from the government means that they can no longer afford to partake in unprofitable activities. Operating at small-scales significantly hinders their ability to generate profits to subsidize housing units for their clients. Social housing associations are now expanding the volume of units they develop and manage to improve their economies of scale and ability to attract private investment. Overall, the curtailment of direct government support has improved the financial viability of Dutch social housing by forcing housing associations to adopt entrepreneurial practices and increase their economies of scale to generate profit to support their activities.

3.2: USA: Intermediary Organizations

US housing policy has historically concentrated on providing incentives for homeownership over investments in social housing stock. The Federal Housing Authority (FHA) has not focused on addressing those too poor to enter into homeownership. In the 1960s Section 221 provided the first major opportunity to involve the private sector in the development of subsidized rental housing production, offering below market interest rate mortgages. Later, in 1986 the Low

Income Housing Tax Credit was developed, and went on to be the largest and most successful federal programs to fund the development and rehabilitation of low-income housing, providing investors with tax credits. 1990's National Affordable Housing Act built on this program, giving non-profit housing providers the first right to make an offer to purchase federally subsidized developments whose subsidy program had expired¹¹.

Intermittent federal funding for low-income housing and a complex mix of programs has encouraged the development of a number of intermediary organizations. These organizations exist as non-profit entities themselves, and work to help increase the ability of non-profit housing providers to access resources to maintain their existing programs, and expand their operations. Relatively large in scope compared to non-profit housing providers themselves, these intermediary organizations are able to leverage greater funding from both public and private sources to offer their members resources these groups would not have access to otherwise. An example of such an organization is the Enterprise Foundation. According to their website, the Enterprise Foundation has a four-part mission:

- (1) Facilitate partnerships to leverage private funds to assist non-profit housing development¹²
- (2) Pioneer innovative solutions to assist non-profit organizations in the development of low-income housing¹³
- (3) Advocate federal and local policy in support of affordable housing and community development¹⁴
- (4) Offer financial products and services that support affordable housing and community development¹⁵

The Foundation's focus is on increasing the capacity of non-profit housing providers to access resources that their size may inhibit them from utilizing. For example, in New York City the Enterprise Foundation created the New York City Acquisition Fund – a USD200 million fund to enable non-profit organizations compete in one of the tightest housing markets in North America¹⁶. The aim of this fund is to help non-profit organizations develop 30,000 low-income homes.

A lack of stable government support for low-income housing has resulted in American non-profit housing providers having to develop entrepreneurial practices. Compared to other countries, the US has historically provided a lower level of financial support to these groups, particularly when

¹¹ Ibid, p.13

¹² Enterprise Community Partners, "What We Do", 2008, Enterprise Community Partners Inc., 21 Jan, 2008. <www.enterprisecommunity.org/about/what_we_do/>

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Enterprise Community Partners, "Innovations", 2008, Enterprise Community Partners Inc., 21 Jan, 2008. www.enterprisecommunity.org/about/what_we_do/innovations.asp

compared to Canada, Holland and the UK. As a result, non-profit groups are typically more experienced in running their organizations on sound, accountable business practices. Intermediary organizations have developed as a way to increase the capacity of small-scale providers with resounding success.

3.3: UK: Collective Housing Groups

Social housing in the UK has traditionally enjoyed greater government support than in North America, at one point accounting for 32%¹⁷ of total housing stock. However, beginning in 1979, the central government began a process of disentanglement, selling much of its social housing stock to existing tenants under a ‘Right to Buy’ program. Today a significantly diminished stock is managed by a combination of non-profit organizations (Housing Associations) and local councils, with 1.4 million subsidized homes under private management, and a further 2.2 million owned by local authorities¹⁸. To increase their economies of scale, UK Housing Associations have tended to group together, for example The Sovereign Group, in the south of England, is made up of Sovereign, Twynham and Vale Housing Associations¹⁹, along with several smaller non-profit providers. Together they own and operate over 20,000 homes²⁰. Members explain that grouping together allows them to ‘increase their efficiencies, while still maintaining their identity and local autonomy²¹’. Groups offer shared services and joint procurement efforts to increase their members’ economies of scale, purchasing and lobbying power. A similar example is The Hyde Group – a collection of seven member associations that provide a total of 30,000 homes, and plans to develop a further 3000 over the next two years²².

Much of the move to increase economies of scale in the non-profit housing industry is being driven by the UK’s National Affordable Home Agency; an agency created by the national government to fund new affordable housing and regulate housing associations in England. One of its three goals is to ‘drive improvements in housing association efficiency and performance, and to help to ensure that associations continue to attract private finance at competitive rates to build and improve affordable homes²³’. To this end, the agency has created its own ‘Efficiency Agenda’ which includes a 120 page ‘toolkit’ designed to help housing associations cut costs and operate more efficiently. The toolkit provides advice on budgeting, benchmarking, the efficient use of staff, improving procurement, reducing consumption, good financial management, pricing

¹⁷ Stone, Michael E. “Social Housing in the UK and US: Evolution, Issues and Prospects”, October 2003, Centre for Urban and Community Research, University of London. p.14.

¹⁸ SHARE, “Social Housing in the UK”, 2007, Social Housing Action to Reduce Energy Consumption, 4 Jan, 2008 www.socialhousingaction.com/social_housing_in_the_uk.htm

¹⁹SHG, “About Us”, 2007, Sovereign Housing Group Ltd., 11 Jan, 2008 www.sovereign.org.uk/group/about.htm

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

²³The National Affordable Homes Agency, “What We Do”, 2006, Housing Corporation, 11 Jan, 2008. www.housingcorp.gov.uk/server/show/nov.374

and organizational structure (for more information on this toolkit please visit www.housingcorp.gov.uk/server/ConWebDoc.1181).

Collective groups have allowed the UK's non-profit housing providers to significantly increase their economies of scale, to the point that they now enjoy efficiencies usually associated with large-scale operations. Individual housing associations themselves can be as small as a ten unit organization, however being a part of a collective group has afforded them efficiencies that allow them to survive in a sector that remains dominated by large-scale government-managed housing. In addition, such collective group arrangements have the added benefit of allowing the individual member associations to maintain their identity, target populations and financial autonomy; aspects that are usually lost in merging processes (see 'Canada' section 3.4).

3.4: Canada: The Merging Process

It is not only abroad however that we can find innovative solutions to help increase the economies of scale of Ontario's non-profit housing providers. Here in Toronto, 'Ecuhome' is proving that non-profit organizations do not always have to look inside their organization to try and increase their scope. Through the process of merging with similar groups, Ecuhome is slowly, but surely, increasing its economies of scale and offering growing numbers of tenants better service at lower costs.

As a non-profit housing provider, Ecuhome offers just over 400 units, specializing in assisting homeless and hard to house populations. Within the past year the group merged with a smaller non-profit housing provider, Start 103; an organization that provided 19 units divided between two developments to a similar target population as Ecuhome. As a result of its particularly small scale Start 103 had been relying on a property management firm to run its units. The organization's volunteer Board of Directors recognized the inefficiencies that resulted from such a small-scale operation and approached Ecuhome with an interest to merge operations.

The merging process between Ecuhome and Start 103 was a resounding success. Tenants previously managed by Start 103 were quick to acknowledge the vast improvement in tenant services under the management of Ecuhome. As a much larger and more established organization, Ecuhome provided standards, policies and practices that made expectations between landlord and tenant more defined than under small-scale management. Tenants now enjoy support services related to their 'hard to house' status that were previously unavailable to them, and as a result are receiving better service for the money they were already paying.

While Ecuhome's case study clearly demonstrates the success that can be achieved through merging, it is important to keep in mind the difficulties that can also be associated with the process. In the case of Ecuhome and Start 103, both organizations had similar target populations and goals, facilitating the transfer of tenants from one management system to another. Ecuhome Executive Director Angie Hains stresses the importance of recognizing that merging involves the joining of two separate corporate histories and styles of governance. The goals and culture of a

smaller organization can easily be ‘swallowed up’ by the relatively larger party. In a similar vein, a larger organization can expect to contribute more significantly to the process than the smaller party that may lack legal, financial and staff capacity. Most of all, it is important to recognize that the merging of two organizations with complex financial, employment and legal structures will always take longer than expected. These are all factors that need to be taken under consideration and planned for before the merging process begins.

These complexities aside, Ecuhome has found merging a very effective method in which it can build its capacity and increase economies of scale. Building on its success with Start 103, Ecuhome plans to merge with two further organizations specializing in homeless and hard to house populations within the next year, increasing its total volume of units by 84 to 499.

4: Conclusions

4.1 Towards an ultimate size for an Ontarian social housing provider

Ultimately, this paper wished to answer the question ‘what is the optimum size of a social housing provider?’ Examples from abroad suggest that any ‘answer’ to this question will be vary based on the history of the local social housing system, along with current legislation, funding formulas, and existing supply and demand for social housing in the area. In the case of Ontario, a culmination of past and present legislation has handed us a decentralized model of providing social housing, with a system dominated by small-scale projects.

Combining the skills necessary to effectively run a social housing project with the existing funding formula for administration budgets, a portfolio of approximately 125 units appears to be a minimum size. Appendix Two outlines a typical administration budget for a project operating with 125 units. This figure takes into consideration the financial ability of an organization to provide the key components of social housing management: technical, financial, human relations, property management, and computer applications. Many smaller projects across Ontario currently operate with one or two part-time staff members working two half-days or less each week. In order to fulfil these final four aspects of social housing management, one full-time staff member is required at the very least. The technical component required does not necessarily call for a highly technical person on staff, but the skill should be available, and staff members should have the ability to know when they need it. This may be where shared services and joint procurement efforts become useful.

4.2 Lessons from abroad: Reaching the optimum

The previous section outlined some of the ways in which social housing providers, both abroad and at home, have worked to increase their economies of scale and consequently their ability to provide adequate tenant, management and asset management. Three possible strategies that Ontario social housing providers could look to adopt are the use of intermediary organizations, shared services and/or procurement efforts, and merging.

Intermediary organizations already exist in Ontario in the form of the Ontario Non-Profit Housing Association (ONPHA) and the Social Housing Services Corporation (SHSC) to assist non profit housing associations in various ways. The focus of ONPHA is to help non-profit providers with their day-to-day operations, networking, and in the form of advocacy to each level of government. SHSC and its subsidiaries offers group insurance, bulk purchasing, training courses, a resource centre, consultants directory, and performance indicators. These services can help non-profit providers to streamline their daily operations, a function particularly useful if only one full-time staff member is available to fulfil a variety of requirements.

Considering the highly dispersed and fragmented nature of Ontario's social housing system, these intermediary organizations have great potential at assisting non-profit organizations to network, find common interests and form partnerships to increase their economies of scale. Partnerships could work in the form of joint funding applications, shared resources and experience, along with shared services arrangements.

Shared services are an effective method through which smaller providers can have access to necessary skills such as information technology and computer support services, and on-call maintenance staff that may prove too costly to hire full-time, in-house. Organizations with similar needs and budgets could group together to jointly hire one or more of these necessary services that are otherwise unaffordable. In a similar vein, providers could organize joint procurement efforts. A study carried out in the US and reported in the Financial Times (UK) found that non-profit organizations were spending about 8% of their budget on office supplies and equipment, compared with 3 or 4 percent in the for-profit sector²⁴. Group purchasing could work to lower these and other costs, and ultimately increase the value for money that non-profit organizations achieve from their dollars spent on administration.

As an intermediary organization, SHSC currently works to provide a variety of group purchasing arrangements, including a group insurance plan and natural gas bulk purchasing. The group insurance plan has seen a collective decrease of insurance premiums by more than 20% over the past five years, and offers savings of up to 75% for providers who can cut out broker's fees and commissions. SHSC's natural gas bulk purchasing works to keep prices low for providers on a vital resource that fluctuates significantly in price on an annual basis, and also provides price stability to make budgeting easier.

Lastly, providers may wish to look towards merging as a method to increase their economies of scale. With new funding opportunities for the development of social housing scarce on the ground, merging with organizations of similar target populations could prove to be a very effective way for a provider to increase their housing stock. Ecuhome's Executive Director Angie Hains offered good advice for organizations looking to merge, and is clear that both groups must be aware of the realistic outcomes the process can achieve for it to be a successful

²⁴ Sarah Murray, "Charities take their cue from businesses", 1/Mar/2008, Financial Times.

transition. However with such large numbers of small-scale providers across Ontario, if executed properly, mergers could prove to be a very effective method to ensure that economies of scale are achieved.

4.3 Conclusions

This discussion has attempted to define an optimum size for a non-profit housing provider in Ontario, and has looked both abroad and at home to uncover methods through which economies of scale could be improved in our social housing system. Ultimately, this optimum size varies significantly based on which services a provider wishes to offer in-house, and how many they are willing to outsource through shared service agreements. It also varies considering the ultimate goals of non-profit providers: If an organization is simply looking to keep their head above the water, and maintain their existing stock, Allan Cox's calculations regarding Ontario's funding formula for administration demonstrates that roughly 125 units is the minimum size of a housing provider. However, if an organization is looking to increase their stock, contribute significantly to their capital reserves, and have the ability to procure services economically, evidence shows that a larger-scale operation is required.

This paper has outlined several methods that Ontario's non-profit housing providers can utilize to mediate their small-scale and gain some of the benefits of large-scale delivery, while retaining the personalization and close-knit communities often associated with smaller projects. It is clear that as intermediary organizations, SHSC and ONPHA will continue to play an important role in supporting small-scale providers and assisting them in increasing their economies of scale. Shared service agreements are a suggested method by which non-profit providers could increase their economies of scale and retain their present organizational structure, whereas merging may offer a more permanent solution.