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Mr. Phil McColeman

Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities

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● (1530)

[*English*]

The Chair (Mr. Phil McColeman (Brant, CPC)): Good afternoon, ladies and gentlemen, and welcome to the 49th meeting of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. We're here today to continue our current study exploring the potential of social finance in Canada.

We're pleased to be joined by Mr. Sunil Johal, policy director of the Mowat Centre with the University of Toronto, and Ms. Jamie Van Ymeren, policy associate at the Mowat Centre, who are here to provide testimony in our first hour. Also joining us by way of video conference from Winnipeg, we have Mr. John Loxley, a professor in the department of economics at the University of Manitoba.

Welcome, everyone.

Each of the witnesses will have up to 10 minutes for a presentation. I will give a warning at approximately one minute left in the presentation.

Let's begin with our guests from the Mowat Centre.

Mr. Sunil Johal (Policy Director, University of Toronto, Mowat Centre): Good afternoon. My name is Sunil Johal and I am the policy director at the Mowat Centre in the School of Public Policy and Governance at the University of Toronto. Jamie Van Ymeren, a policy associate with Mowat's not-for-profit research hub, is with me. We'll be sharing our speaking allocation. We'd like to thank the committee for the opportunity to participate in today's meeting.

The Mowat Centre has conducted research on the challenges governments face in extending the use of outcomes-based funding and programming to complex delivery areas as well as social impact bonds and the experiences of the first wave of not-for-profit service providers who have been involved in them. Our remarks today will focus primarily on the enabling environment and supportive infrastructure that governments can have a key role in establishing to increase the likelihood of success for these initiatives.

As you’ve previously heard, the range of activities that fall under the umbrella of social finance is large and is often linked to the broader trend of outcomes-based funding and evaluation. While social finance initiatives seek to generate both social and financial returns, outcomes-based funding refers to contracting arrangements in which governments financially reward service providers or private investors for having a positive and sustained impact on the lives of service users.

Outcomes-based funding models can take a variety of forms, including payment by results contracts, social impact bonds, performance-based contracting, and performance incentive contracting, amongst others.

Interest in these models can be seen as part of a broader public sector reform agenda. Governments today are using a range of new tools to transform the delivery of front-line services. The result has been increased focus on directing resources to those programs and services that deliver the most positive social impacts.

You have already heard testimony on changes that could be made to enable investment from private foundations and to allow greater engagement from not-for-profits on the social enterprise and impact investment front. We would echo many of the previous recommendations made by foundations, not-for-profit witnesses, and impact investors drawing from the G-8 task force on social finance reports.

We would like to highlight some of the non-regulatory groundwork that governments must consider as they look at these new models. Social finance and outcomes-based funding models have enormous potential, but there are also risks of failure if they are implemented improperly. There must be a strong commitment to put in place the conditions for success. Three key areas require focus: better evidence, enhanced capacity, and finding the right mix of incentives.

First, governments should invest in better evidence and measurement to support promising opportunities for program innovation and support the long-term development of evidence-based policies. While social finance is often celebrated as a vehicle for promoting innovation and having positive social impact, the reality is that investment hinges on assurances of the achievability of outcomes targets.

To date, the evidence base available to governments, investors, and not-for-profits is patchwork at best. Evidence is stronger in some areas with traditions of rigorous evaluation, such as health, but remains weak in most other areas. A 2010 federal survey found that on average, departments devote just 0.08% of direct program expenditures to evaluation. Clarifying program objectives and gathering baseline data on program performance, communities, and populations is a necessary precondition to introducing these types of models.

This work must be done upfront. Too often, governments introduce impact evaluation at the same time they roll out outcomes-based funding approaches. Even in program areas where rigorous evaluation has taken place, it is not always readily available to all stakeholders who are involved in the process. Without this information, service providers can't make informed decisions about successful interventions, and investors can't make prudent financial choices.

Early experiences with social impact bonds and other investment models demonstrate that these new models require significant time and investment upfront, especially in the areas of data-matching, cost-calculations, and outcome metrics. Mining existing administrative systems and working with service providers to collect any additional data required will not only help governments evaluate the potential costs and effectiveness of their work but will also help streamline future negotiations.

I'll now turn it over to Jamie, who will speak to the other two areas we would like to highlight for you.

● (1535)

Ms. Jamie Van Ymeren (Policy Associate, Mowat Centre): Thank you, Sunil.

Our second recommendation is that governments must invest in the supportive infrastructure needed to build capacity among both public servants and service delivery organizations.

For not-for-profit organizations involved in complex arrangements, like social impact bonds, there is a need to further develop both financial and evaluation literacy and supports to ensure they're able to participate effectively in these processes. Service providers who have been involved in social impact bonds note that they represent a significant capacity challenge in financial and evaluation skills, but also on organizational resources. Consequently, smaller but more innovative partners in the not-for-profit sector may well have been excluded.

The committee has already heard examples of funds established elsewhere to make organizations impact ready. As well, independent “what works” institutes can play a valuable role in synthesizing and disseminating advice on proven interventions, and similarly, technical assistance labs can offer training, advice, or analytics to support impact evaluation. For example, the U.K. government is currently establishing a network of “what works” centres to offer advice in areas including education, crime reduction, early years intervention, and aging populations.

Governments will also need to examine their internal organizational capacities to enter into and implement outcomes-based funding schemes, developing supports where needed. Shortages of in-house evaluation specialists and lack of independent organizations that can offer advice on evidence-based interventions are challenges that many governments face.

Finally, there is a need to ensure that stakeholder and system incentives are aligned to ensure that models work for the public benefit. These new financing mechanisms involve many moving parts and are attempting to tackle complex, entrenched social issues. New funding models based on outcomes can only be effective if the incentives for all stakeholder groups, government, not-for-profit service delivery partners, investors, and clients are aligned.

For government, these models often engage multiple areas and orders of government and success depends on effective coordination. As a response to this issue, some jurisdictions are developing central outcome funds or joint investment agreements based on particular cases.

Failure to properly negotiate agreements is a significant risk that can lead to over- and underpayment, system-gaming, and non-cooperation among partners. These risks are particularly acute when outcomes models are introduced into poorly coordinated social support systems, where provider capacity is low, trust is lacking, roles poorly defined, and risk is unevenly distributed.

Creating the right conditions for negotiation and having all partners at the table is critical. There is a need to ensure that outcomes' metrics chosen reward real impact. Indicators that incentivize gaming and short-term outputs that do not serve as long-term proxies for impact are detrimental to the community, investors, providers, and policy-makers.

In conclusion, government has a key role to play in supporting social finance by promoting a strong, enabling environment. This includes establishing quality baseline information, strengthening internal and external stakeholder capacity, and establishing the right mix of incentives. These models are complex and to benefit the public, they must be accompanied by an equally strong commitment to making the changes needed for them to succeed.

Thank you.

The Chair: Thank you very much.

Now we move to Mr. Loxley by video conference. Sir, please give us your remarks.

Dr. John Loxley (Professor, Department of Economics, University of Manitoba): Thank you very much. I'm at a slight disadvantage in that I'm not fully aware of what you've covered in past hearings, but I will try to build on what I've heard.

My interest is in social impact bonds and their rationale. I think the appeal of social impact bonds is fairly straightforward for service delivery agencies, which if they're fortunate enough to participate, could have fairly guaranteed funding for the length of time of the so-called bond. There's also an appeal to the financing agencies because, if deliverables are met, then there is a rate of return to those financing agencies, whether they be social or private.

The key to government interest, I think, comes from a number of directions. One is that with fiscal austerity, governments are looking for alternative sources of funding. In the longer term, however, if social impact bonds are successful, the government will be on the hook to pay for five or seven years of services, so there are fiscal implications in providing that upfront. These have not yet been worked out in any great detail, to my knowledge, so there may be fiscal constraints in even entering into these agreements.

The real question to me is why government would not require performance of all the services it delivers, and why we need to enter into these fairly complicated arrangements, as we've heard, to achieve those savings and improvements in efficiency. My own approach is somewhat skeptical. I can see the attraction, especially to social service agencies. In terms of charitable foundations that are simply moving money from one approach to service delivery to another approach to service delivery, I don't believe there's any net increase in resources from doing that.

I think there are serious questions, as we've heard earlier today, about how you lay out the requirements for performance and get that right in terms of the incentive. I think that's probably the most important and difficult area, because savings can take many forms. They can take the form of additional revenue or they can take the form of reduced costs, and costs could be operating or overhead costs. These can be quite difficult to deal with.

I think the people who are skeptical of social impact bonds often argue that they could be used to undermine public sector employment and public sector wages, and they're quite cautious about that.

There's been a fairly slow start to the launch of the bonds. There may be between 30 and 60 globally; it is difficult to know how many. The last data I had put them at about 30 at the end of last year, with 30 in the works. That slow start, I think, points to a number of difficulties in terms of risks of financing and in terms of governments being able to successfully negotiate performance indicators.

So my conclusion would be that they make promises that are very attractive, especially to social service agencies, if they do deliver. They could be attractive to government. Many of those claims are made anyway by regular government spending. If you put money into early childhood intervention and you're successful, you save many times the money you've invested, whether or not you've used social impact bonds.

I would argue that the first priority should be improving the funding and delivery of services in and by the public sector, and that should be a priority over pursuing and creating enabling environments for social impact bonds.

Thank you.

● (1540)

The Chair: Thank you very much.

We'll move on to our questioning rounds and start with Madame Groguhé.

[*Translation*]

Mrs. Sadia Groguhé (Saint-Lambert, NDP): Thank you, Mr. Chair.

I would also like to thank the witnesses for being here this afternoon.

My first question is for Mr. Loxley.

In a 2013 study published by the Canadian Centre for Policy Alternatives, you identified the high cost of borrowing for the public sector as one of the risks of using social finance.

Do you think the financial risk related to using social impact bonds is assumed mainly by the public sector?

[*English*]

Dr. John Loxley: I think that in the early stages of social impact bonds, governments will be reluctant to see them fail. We've seen this in different parts of the world. There are guarantees in some cases, but not in all. But I think the model has so much backing in places like the United Kingdom that failure to meet bond requirements would be approached in a fairly delicate way. My suspicion is that supports would be put in place to make the model a success.

It's difficult to evaluate what's happened so far. There's some evidence of some success, but in cases like Peterborough, the first one, the whole thing was wrapped up far too early for it to be called a success.

Don't [*Inaudible—Editor*] if you don't make the target. You don't get paid, nominally, but I think that is a very simplistic way of looking at an experiment. Governments would tend to make them work.

● (1545)

[*Translation*]

Mrs. Sadia Groguhé: Okay.

But, Mr. Loxley, how do you explain the high cost of public sector loans? Are there indicators that would allow us to know whether the cost of the loan will eventually be higher? How do you think we can set the parameters to determine these issues? And is it possible to do so?

[*English*]

Dr. John Loxley: They are being set. They vary from project to project and from funder to funder. Charitable foundations tend to require lower rates if they're successful—5% per annum to maybe 13%. The private sector funders—and in the U.S. you get several of these, and in Europe some of the more recent funders are private—the expectation is that they will be looking at much higher rates. The range of 20 to 30 is mentioned, but I have no direct evidence of that size of payment.

[*Translation*]

Mrs. Sadia Groguhé: Right.

I have another question, and it's for Mr. Johal or Ms. Van Ymeren.

You said that the government should put in place an enabling environment. What does that mean exactly? Can you give us some recommendations on that?

[*English*]

Mr. Sunil Johal: In terms of a successful environment for these types of initiatives to take hold and prosper, which Professor Loxley has alluded to already, we're talking about impact investing and about governments wanting to invest in proven winners and scale those up. However, we need to know what we are doing currently. How much money are we spending? What are we spending that money on? What are the effects of that spending? If a new intervention is put in place, what are the effects of that new intervention? What are the outcomes of current initiatives? Can we measure the outcomes of these new initiatives that are important? We need that kind of data-gathering evidence. The second key part is building the capacity of all those involved in these initiatives. If we know that a certain initiative is successful at getting people back to work or reducing rates of recidivism, we want to make sure that information is shared with all service providers across the country so they can all take that intervention and implement it themselves. We don't want pockets of success that aren't connected across the country.

For us it's two simple things: one, it's better evidence of data; and two, it's sharing that information effectively.

[*Translation*]

Mrs. Sadia Groguhé: You spoke about a new initiative. That is where we hope to go with social finance. However, there are still many questions that we, apparently, don't yet have answers to. How do we find those answers? The question to ask is whether we will get into social finance or not. You can answer my question later.

[*English*]

The Chair: Time is up on that round. Perhaps you could answer that in subsequent rounds, if the opportunity presents itself.

We'll move on to Mr. Armstrong.

Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC): Thank you, Mr. Chair.

I want to thank our witnesses for being here.

Sunil and Jamie, in your 2014 report, you talk about how social impact bonds might not be appropriate for all of the different organizations delivering some of these social impacts. Can you drill down on that and say what type of organizations they are appropriate for and what ones you'd be a little more sceptical of?

Ms. Jamie Van Ymeren: As a caveat right upfront, each jurisdiction that has developed a SIB model has adapted it very much to their local circumstance. In that case, it's a little difficult to generalize about the outcomes of all of them at the same time.

To date, we've seen that, in general, contracts have been more successful with larger, more established not-for-profits. They're usually not-for-profits that have in-house evaluation and research teams or have the resources that they can bring to the financial or consultant capacity that they need to pursue the bond. The smaller organizations that have been successful in pursuing them have had a lot of help from intermediary organizations—those that have had a strong relationship with an intermediary organization, who can help beef up maybe their evaluation capacity, or whatever areas that they're short on going in, and those that have done a strong sweep of their strengths and weaknesses before going in.

● (1550)

Mr. Scott Armstrong: From a federal perspective, if we were going to move in this direction, one of the recommendations you would probably support would be to make sure we have some baseline data testing so we can actually do a proper evaluation. But also we want the evaluation to probably be done in-house by the organization delivering this, because it's the one that is going to have the data. We have to provide some sort of training or some sort of profile that it can engage in before it actually starts to deliver some of these services.

Ms. Jamie Van Ymeren: Because these are often negotiated up front, one of the big challenges is making sure that the negotiation capacities are there in the first place. One of the recommendations we made in our paper was to provide resources to service delivery partners once the negotiation phase begins, to ensure that the providers are able to negotiate effectively and they're able to advocate for outcome metrics that work, not only for the organization, but also for investors and the government as well, making sure they work together.

Mr. Scott Armstrong: Thank you.

Dr. Loxley, the Canadian Centre for Policy Alternatives published a paper in 2013 which identified that the elevated cost of borrowing for the public sector is a potential issue with social impact bonds. Just how would leveraging new sources of capital to fund social programs ultimately be more expensive for the government?

Dr. John Loxley: The way the bonds work is that, if they are successful, the government pays a premium. It pays a return anywhere between 5% and 30%. So in terms of ordinary costs of borrowing, clearly this would be higher than that. The rationale is that the government would be saving much more than that. My argument is that this should apply to most government programming anyway. I believe that this does add an extra cost to government, and it's one that could and should be avoided, if possible.

Mr. Scott Armstrong: But if you're getting better outcomes and you're getting better delivery of service, wouldn't that indicate you should probably have to pay for that? Wouldn't it be cheaper for the government in the long run, if you were getting a better bang for your buck?

Dr. John Loxley: Yes, if that were in fact the case and if it couldn't be achieved in normal delivery of services, and I believe it can be.

Mr. Scott Armstrong: What are the barriers to that actually happening now? What is the problem with the public sector delivering these when we're not getting the outcomes and we believe we can do better when we actually go for some sort of social finance?

Dr. John Loxley: I think there's a general presumption that things can be improved, without a great deal of evidence of that. Second, government often delivers through social service agencies anyway, and often very efficiently, but there's no baseline evidence of that. The general assumption and presumption behind social impact bonds is that there is incompetence and inefficiencies that can be improved, and this is the way to do it. I would challenge that.

The Chair: Thank you very much.

Mr. Cuzner, you have five minutes.

Mr. Rodger Cuzner (Cape Breton—Canso, Lib.): Thank you very much.

And thank you to the witnesses.

I want to get a little bit more information on your comments about the large organizations having a greater capacity to realize success. Could you provide us with some examples where these intermediary organizations come in to help? Maybe you could mention some of the less-developed or smaller organizations and what areas they would help. What would their motivation be to help out with the SIBs?

● (1555)

Mr. Sunil Johal: In terms of motivations, these intermediaries are often charged or mandated with that specific role, so they're kind of in place in the system to help organizations beef up their capacity. In the U.K. you have these “what works” centres, which tend to gather evidence and provide that evidence—

Mr. Rodger Cuzner: Would they be federally supported? Would they be—

Mr. Sunil Johal: I think they're usually government-sponsored and initiated things. Washington state has a similar initiative in the U.S. northwest. Sometimes they can be in more of an academic realm. Harvard has more of a technical assistance lab on SIBs that goes out and—

Mr. Rodger Cuzner: Are there like models in Canada now? Don't you see that?

Mr. Sunil Johal: MaRS in Toronto fills a somewhat similar role. It's kind of a quasi-government, quasi-private sector entity.

Mr. Rodger Cuzner: But you would see the merit.

Mr. Sunil Johal: Yes, I would definitely see the merits. If the federal government wants to move into this space, I think it's absolutely critical that it plays a role in providing that critical support of infrastructure in terms of a "what works" centre and technical assistance labs, so that we're not seeing all of these contracts and opportunities going just to the largest NFP service provider. It's not that there is anything wrong with large organizations. They obviously have capacity and are good at what they do.

But if one of the stated objectives in this area is to open things up to more competition, innovation, and opportunity for service providers, it's incumbent upon governments then to provide the necessary conditions to allow those smaller entities to enter the space.

Mr. Rodger Cuzner: Do you share that opinion, Mr. Loxley?

Dr. John Loxley: About the efficient size of service providers, larger versus smaller ones?

Mr. Rodger Cuzner: I mean the organizations with a federal role being played to serve as an intermediary.

Dr. John Loxley: I think, as we heard, the MaRS centre does do that. My understanding is that has support from the McConnell Foundation.

There are scale issues here, too. If these centres are small in number and they're required to assist, you might well find them assisting larger entities that can deliver more services. I think that's probably a logical thing to do.

At the moment, as Sunil mentioned, the capacity is quite limited in giving that kind of support.

Mr. Rodger Cuzner: I'd like to ask a question just on the information you noted. It seems that in the health sector, there's more quality information at groups' disposal through health, but for other sectors less so. Is there a template that can be used there in the health sector that could prove beneficial in other areas?

Mr. Sunil Johal: I think in health you've seen a large focus from the federal and provincial governments over the last 15 or 20 years—for longer than that, but particularly over the last 15 or 20 years—to improve outcomes. So we've seen more investment, evidence gathering, data quality at both the federal and provincial levels. So I think that is a very good template.

It's about getting the evidence, knowing where we are spending money, and what's working and what's not working. If we want to apply those lessons in other sectors, we should be following that same model.

The Chair: Okay, we'll move on to Mr. Mayes.

Mr. Colin Mayes (Okanagan—Shuswap, CPC): Thank you, Mr. Chair, and thank you to the witnesses for being here.

When we started this study, the first question I asked myself was why are social financing and social impact bonds needed?

One of the conclusions I came to in my mind is that government departments are good at formulating purposes and objectives, but they're not too good at putting business plans together and implementing the things that need to be done to meet these objectives.

Would you, first of all, say that's true% Then, in saying that, you talked about our needing infrastructure accountability or something to maybe get some of those skills put into the government people who are implementing these types of social financing, or whatever they would be.

Would you say that's a good evaluation and that's the reason we're looking at this, or would you say that we're looking at it more from the private sector?

● (1600)

Mr. Sunil Johal: I think first and foremost we have to recognize that we're talking about very difficult, entrenched social problems here. These aren't things that are easy to fix. If they were, we have a lot of smart people working in governments across the country and they would have fixed them already. So I think the appeal of these instruments is that they offer the opportunity to harness more innovative approaches.

I would agree that, generally speaking, governments in Canada and around the world aren't necessarily the best at piloting things, seeing if they work, and if they don't work, discarding them and trying something else. That's much more of a private sector mindset.

Governments tend to want to develop something that's going to go across the entire country or entire province. We have a lot of political capital and financial investment in the success of that initiative, and it's very difficult for us to then pull back from that and say that it didn't work, let's cut it. Our instinct in government tends to be let's keep investing in something, but we don't really have the data about whether it works or not. We've written reports about that at Mowat.

The culture of government certainly tends to be more risk adverse. It tends not to be quite as innovative. I think that's the appeal of these instruments, and that's the reason they offer an opportunity for governments.

But I think it's very important to recognize that governments still play the *primus inter pares*, the first among equals, role in terms of setting direction and deciding what those difficult social problems are. Governments should still be very heavily involved in this. I don't think this is an area we want to outsource, solving difficult problems, to the private sector.

Mr. Colin Mayes: I'd like to give Mr. Loxley an opportunity to answer that question.

Dr. John Loxley: I'd like to stress that many services are already provided by social service agencies. Government provides the money. Government does provide direction.

In some of these areas there's quite a bit of creativity. If you look at the main areas where social impact bonds have been established, there's recidivism among offenders, and homelessness, children, and the employed. These are the main ones. We'll look at two of them.

With children, there's an awful lot going on looking at best practice for reducing the number of children in care. It's a huge issue in Manitoba. We have 10,400 kids in care, and most of them are aboriginal. That number's just gone up from 10,000 to 10,400. We're looking at what has worked elsewhere in reducing the number of children in care and at what has worked in Manitoba, because in some parts of Manitoba the rates are going down. There is a willingness to experiment and to look at these programs. These are sometimes arms of government, but often they're social service agencies.

The same thing happens with offenders. The John Howard and Elizabeth Fry societies have all kinds of programs to try to reduce recidivism. My own feeling is that before we change to something radically different and experimental and very hard to implement, look at what's happening already in these agencies and try to adapt to best practices.

The Chair: You have 15 seconds. Do you want to yield that time?

A voice: Yes.

The Chair: Now we move to round two. Madame Groguhé.

[*Translation*]

Mrs. Sadia Groguhé: Thank you, Mr. Chair.

Mr. Johal, do you remember my question from earlier? If so, could you answer it?

[*English*]

Mr. Sunil Johal: Unfortunately, I don't.

[*Translation*]

Mrs. Sadia Groguhé: We will move on to something else.

I find your comments very interesting. It makes us aware that before moving forward, we will still have a long way to go. For the moment, we are hoping to start a real initiative, but we don't really have a compass.

However, what we have heard so far, which reflects what you are saying, is that there are apparently areas where social finance has a positive or worthwhile impact.

Mr. Loxley told us that there is no guarantee that all the problems related to using social finance would be resolved. Before going further in that direction, we need to consider what exists currently.

Do you think that the cost of borrowing in this area could harm the funding and quality of social programs?

● (1605)

[*English*]

Dr. John Loxley: You could argue that it could be negative if the social impact bond project reduces recidivism or the number of children in care or brings an end to homelessness at a higher rate than what was happening previously. The government would save quite a lot independently or over and above what it's paying out to the impact bond. I think that's the rationale behind them, that the savings are potentially much larger. That remains to be seen. My argument is that in most areas you can get that result without social impact bonds. The returns from early childhood education are seven to one, without any mention of social impact bonds. I would argue that there is much more that we can do before we look at social impact bonds. That said, they're a reality. They're going ahead. I'm just saying I'm somewhat skeptical of how important they should be.

[*Translation*]

Mrs. Sadia Groguhé: Okay.

Mr. Johal, could you please give us your opinion on the recommendations we could make to set a framework for the use of social finance? Based on what I've heard, there would be limits to its use. I think that before moving forward, we need some recommendations to determine whether it would be appropriate to replace the social service agencies in a given area.

[*English*]

Mr. Sunil Johal: I can give you three or four recommendations in that area. These are all the kinds of questions where it goes back to first principles.

What is the federal government's objective in potentially considering the use of social finance? Is it to supplement existing federal funding or federal service delivery in a certain area? Is it potentially, down the road, to replace federal service delivery or funding in an area? I'm agnostic as to what the policy choices of the federal government are, but I think, in any event, in all of those cases you'd want baseline information. What do we do? What do we do well? Where do we have areas that we might want to improve? Maybe social finance opportunities could help us in those areas.

The types of recommendations would be baseline information for where to spend money, what the outcomes are for the money we spend, and where we might potentially be able to do better in looking at other opportunities in the social finance field, whether it's SIBs or something else.

Those are the types of things I think the federal government is probably looking at already and needs to continue to look at.

[*Translation*]

Mrs. Sadia Groguhé: Okay, thank you.

[*English*]

The Chair: Thank you.

Mr. Boughen, five minutes, sir.

Mr. Ray Boughen (Palliser, CPC): Thank you, Chair, and let me add my voice of welcome to our resource people who are with us this afternoon.

Dr. Loxley, looking at your presentation and hearing it as well, I wasn't quite sure what you were referring to when you stated that the first priority is to improve delivery of service. Could you expand on that a bit to tell us what you're considering service and how it should be delivered if it's not delivered the way it should be now?

Dr. John Loxley: I think the responsibility of government should be to ensure that service delivery is optimal at all times. We should have mechanisms in government that review and assess performance. In some areas we have that; in other areas we don't. We've heard that areas like health are more developed. I think this should be a requirement of all public sector organisations and not just those directly governed by the federal government or provincial governments, but also agencies funded by the government, such as universities. I think we should be required to explain what we're doing and what our performance is, and if and where it could be improved.

● (1610)

Mr. Ray Boughen: How would you apply that to the whole idea of social impact bonds?

Dr. John Loxley: The assumption with the bond is that you will find an intermediary who will bring some outside money and that you will find an appropriate service delivery agency and will set targets that would not otherwise have been set. The assumption is that you're forcing efficiency on service delivery. There are different ways you can do that depending on the targets you set. It could be a cost target, for instance, and you could do that by offering lower wages, as an example. I hope we're doing something more constructive than that. I think the basic assumption behind social impact bonds is that you are requiring innovation by virtue of the model of delivery. What I'm saying is that we should be requiring that innovation regardless of the model of delivery.

Mr. Ray Boughen: Thank you.

Jamie and Sunil, in your view what are the main benefits of social finance in the employment and training policy domain, and what are the main challenges?

Mr. Sunil Johal: In the employment and training domain, I know that in the city of Toronto, for example, we have all three levels of government heavily involved in funding services. There's very little information about how that's working and what the coordination issues are. I think it's a perfect example of an uncoordinated, fragmented system that we currently have in Canada.

SIBs or social finance might, if designed properly, offer an opportunity to collectively target the efforts of the three levels of government more effectively so that they're driving toward specific outcomes. I think social impact bonds, payment for performance, and some of these outcomes models could potentially, if designed properly, help coordinate in a more focused way efforts in areas like employment services, which for the most part are currently not particularly well coordinated.

Mr. Ray Boughen: Jamie, what do you think of that?

Ms. Jamie Van Ymeren: That is one of the challenges that a lot of these outcomes models run into, especially when you are in complex areas like that. It requires a lot more coordination and planning to streamline these services.

At least in the area of social impact bonds, you've actually seen more the opposite. Social impact bonds are more likely to be introduced in an area where the benefits are accruing to one single level of government or one single area, so that there is less coordination on the back end for governments when they are trying to kick-start action in these new areas.

Mr. Ray Boughen: Sure.

The Chair: Okay, thank you very much.

Now we move back to Madam Groguhé.

[*Translation*]

Mrs. Sadia Groguhé: Thank you, Mr. Chair.

Are there any data that confirm that the performance compensation mechanisms reduce the risks that governments run in funding and delivering social services? If so, how can this reduction be measured?

Mr. Johal, you may answer, and then Mr. Loxley.

[*English*]

Mr. Sunil Johal: I personally don't know that. I don't know if Jamie has information. We may not know anything about that.

Ms. Jamie Van Ymeren: There is just not enough history on these new tools yet for there to be any definite evidence on that.

[*Translation*]

Mrs. Sadia Groguhé: Mr. Loxley, do you have any comments?

[*English*]

Dr. John Loxley: I would agree with that.

[*Translation*]

Mrs. Sadia Groguhé: You're saying that there isn't enough. Okay.

As for the capacity of the public service to resolve social issues today, Mr. Loxley, you mentioned that there is room for those services and organizations to innovate. What do you think the benefit would be for these organizations to begin the social finance initiative if they are already equipped?

[*English*]

Dr. John Loxley: I think there will always be an attraction to the social service agency of social impact bonds, and that attraction is guaranteed funding for a certain number of years.

What we've tried to do in our province is to guarantee three-years of funding for social enterprises, but social service delivery agencies generally have an annual budget. I think from that point of view, that's the attraction.

One of the great difficulties, I think, in ascribing too much to social impact bonds is that many of the problems that your committee is dealing with are quite complex and interrelated. If you take unemployment—we were discussing this earlier—it is very complicated and multi-faceted. It's a function of housing, education, child care, addictions, and mental health issues, and trying to work these into one social impact bond is going to be almost impossible, whereas different arms of government and social service agencies could cooperate across the board to try to make an impact. That would be very difficult to replicate in a social impact bond.

● (1615)

[*Translation*]

Mrs. Sadia Groguhé: Thank you.

I remember that we spoke with our first witnesses about the difficulty of assessing and measuring results. In terms of support and the qualitative social result, I am not aware of anywhere in the world where the qualitative aspect of any social support work can be measured for issues such as poverty, for example, or employment. We don't yet have a way to do this and no one else does either. In that regard, we are asking questions — and you have as well today — about the assessment measures that are still a major challenge for social finance.

Mr. Johal, do you have any comments about that?

[*English*]

Mr. Sunil Johal: That's an excellent point. Qualitative information forms an essential part of the arsenal of the governments as they make decisions. We can't and don't run cost-benefit and economic analyses for everything we do. Obviously, we are talking about social finance, and investors want to know, "Am I going to get a return on my investment, or am I not?" That is very difficult to do with qualitative information.

How to bridge this is certainly something the committee may want to explore further and that researchers may be exploring further, the fact that we sometimes have more qualitative than quantitative information. That doesn't necessarily lend itself to some of these new approaches.

[*Translation*]

Mrs. Sadia Groguhé: Thank you.

Mr. Loxley, do you have anything to add?

[*English*]

Dr. John Loxley: No.

[*Translation*]

Mrs. Sadia Groguhé: Okay.

To conclude, Mr. Loxley, I would like to ask one last question. Do you think that social finance could lead to transparency and accountability problems?

[*English*]

Dr. John Loxley: It most certainly could. The key would be to design things up front to minimize that. Those problems could hinge mainly on the indicators that are used. The choice of indicators and the social service agency will always try to take low-hanging fruit, the easier targets. The government might be interested in, and should be interested in, possibly more complex targets, so that would be one area.

In the other areas, the financial area should be reasonably straightforward, but it remains to be seen how these things evolve.

The Chair: Thank you.

Mr. Eglinski.

Mr. Jim Eglinski (Yellowhead, CPC): I would like to thank the presenters for coming out today and for their presentations. I would like to start off with Ms. Van Ymeren.

During your presentation you mentioned that there was a need to custom tailor each specific situation. I just want to get that clarified and answered, then I would like to ask Mr. Loxley to follow up.

Are you saying that the funders, government or private, should negotiate each program individually, or can a one-size pattern be used to cover a variety of programs?

Ms. Jamie Van Ymeren: I think there are two different levels of tailoring that we'd be talking about here. One is that each jurisdiction that undertakes its outcomes models can put in place different types of support models that exist. As we've mentioned, we would link work centres, data labs, and those different support organizations that can exist in the ecosystem.

Secondly, especially for these larger social impact bonds, today each one is negotiated specifically to that issue, so there is a negotiation phase with investor service providers and government to hammer out those deals.

● (1620)

Mr. Jim Eglinski: Mr. Loxley, do you agree with that? Would that be the proper way of doing it? I personally feel that would be very hard for the government to sit and negotiate with each one.

Dr. John Loxley: What we see in the U.K. is that, as it did with public-private sector partnerships, it set up a template. It set up a central agency that provides a template for the service agreements, and that would help smaller institutions in terms of legal fees and so on, but also it would ensure some comparability across the model and would help in the assessment of the model.

They have also recently set up a centralized database on unit costs in different areas in which SIBs are being implemented, so unit cost information on crime, education, skills, employment, fire, health, etc. The idea there is to avoid having to customize each project. You draw on this centralized data and make sure that it's consistent across projects.

At one level, as Jamie was saying, there has to be a certain level of customizing, simply because each situation may be slightly different, but obviously the U.K. approach is to standardize as much as possible.

Mr. Jim Eglinski: Would that not set us up for accusations of favouritism, one group over another group, regardless of the circumstances?

Dr. John Loxley: Yes, there would be that possibility. I think that each project would have to be transparent in the sense that it would have to be published and would have to be justified, and if there are serious departures from the norm or from other projects, that would have to be highlighted and explained.

Mr. Jim Eglinski: Thank you.

The Chair: Thank you.

That pretty much brings us to the end of this round of questions.

I have a couple.

When we first began the study, we had government officials as our witnesses, and later we had others from the supply side, the Royal Bank and others. You can look at our witness list to understand this. I think it was pretty clear from the start the way many of those individuals from the supply side, not the demand side, viewed this as another option for financing in addition to what governments already do.

I come from a business background, in which you look at the need for working capital to do certain projects. Where does that money come from? I know many organizations in my riding are frustrated because they have no access to working capital from the government. They have a certain allotment to carry out programming. Year after year they find out far too late whether these funds are locked down for them, so they're always scrambling at the end.

In some ways, social financing augments those existing programs, which I think most of our witnesses envisage not stopping, not changing, and not being taken away, because the government is always trying to reduce the cost of delivery, but it is another vehicle.

I'm intricately involved in some organizations in my community that are totally frustrated in trying to get projects, such as housing for intellectually disabled individuals, off the ground.

In that context, can I have your comments on whether you think, going forward, that social financing is a useful vehicle to add to or augment what governments already do?

If the three of you would like to comment on that, we'll wrap up after that.

Mr. Sunil Johal: I can go first, and then maybe Jamie and Professor Loxley can follow.

Just very briefly, I agree with you. I think access to capital is an important consideration, and I think that's certainly to be promoted. That's something the government should be looking for, especially in fiscally constrained times such as we are in currently.

I would say that the other piece is the opportunity to drive innovation and take lessons from these social finance investors, whether foundations or others, and mainstream those back into government practice and public policy.

I think both of those are opportunities that are very important and that, if designed carefully, could offer significant benefits for the government, for citizens, and for everyone in the ecosystem.

● (1625)

Ms. Jamie Van Ymeren: I would also argue that they should augment what the government is already doing.

I would also like to point out, in the area of social impact bonds, that I think one of the original ideas was that they would work in areas where government was not already working. They're supposed to be taking areas that are currently not receiving public funding and testing out new interventions to see if they're effective. If they're effective, ideally they should continue through a more simple direct contracting method or through adoption into public policy.

Dr. John Loxley: If indeed social impact bonds are allowing for the implementation of projects that would not otherwise be implemented, then you can see an immediate additionality. That's not my reading of the projects that have been implemented so far.

Addressing recidivism is a government function. Reducing recidivism, reducing homelessness, and reducing the number of children in care are ongoing programs. It's difficult to argue for additionality. If the money coming in is from the private sector, it might well be additional. If it's coming in from the McConnell Foundation, it's coming out of another arm of the McConnell Foundation, and that money would have gone into social services one way or another.

So I think the question of additionality needs to be looked at very carefully.

The Chair: Thank you very much for your comments, and thank you for taking the time to be our witnesses in this first hour.

We will take a break while we bring in our second group of witnesses.

● (1625)

(Pause)

● (1630)

The Chair: Welcome back, ladies and gentlemen.

We are continuing our study to explore the potential of social finance in Canada.

Joining us now from Co-operatives and Mutuals Canada, we have Mr. Shawn Murphy, the government relations consultant. Joining us by way of video conference from Calgary, from the Canadian Alliance to End Homelessness, we have Mr. Tim Richter, the president and chief executive officer.

Welcome to you both.

Each of you will have up to 10 minutes. I will give you a one-minute warning if you're coming up to the 10-minute point, and ask you to wrap up.

Why don't we start with Mr. Murphy?

Mr. Shawn Murphy (Government Relations Consultant, Co-operatives and Mutuals Canada): Thank you very much, Mr. Chair, for the opportunity to be here today.

I will be speaking today on behalf of Co-operatives and Mutuals Canada, or CMC. CMC is the national body for co-ops and mutuals from across Canada. Our members are located in every province and serve urban and rural communities.

I wish to share with you today a few social financing models that co-ops are using and have been using for some time. As well, I want to highlight why we believe that cooperative businesses are the ideal model to promote and encourage social financing across the country. I also hope to build on what has already been discussed during your study on social financing.

Two financing models that I will be focusing on are social investment funds and pay-for-performance contracts.

Let me begin by saying that we believe that cooperatives have been providing social financing in one way or another since they began operating in Canada over a hundred years ago. The cooperative business model naturally lends itself to this sort of approach on a socially responsible level.

As many of you around the table already know, cooperatives are guided by seven internationally accepted principles that help shape their business decisions and governance, therefore setting them apart from other enterprises.

Out of these principles, the principle of member economic participation, is probably the one most closely related to social finance. People come together to form a co-op to fill a need, and they invest into it. It is not from government support or through donations. This is precisely the difference between not-for-profits and cooperatives. Cooperatives are about mutual self-help, unleashing the power of ownership to enable people to help themselves.

Let me give you an example to demonstrate how these principles help foster an environment that promotes social financing.

Let's begin by looking at social investment funds. Currently, we have several funds operating across the country. These funds are designed to serve a particular geographical region or a particular sector in the co-op movement.

The Chair: Could I ask that you slow down just a bit? We have interpreters, and they have a need for less speed.

Mr. Shawn Murphy: Sure.

The Chair: Thank you.

Mr. Shawn Murphy: Let me share with you an example of one of these funds. The Arctic Co-operative Development Fund was established in 1986 to provide financial services to cooperatives across Canada's Arctic. This is a self-managed fund of pooled financial resources, owned and controlled by the cooperative businesses accessing the capital. It started with an investment of $10 million and has grown to over $45 million today, and this almost exclusively in Inuit and Dene communities across the north.

Another example is the smaller Tenacity Works worker co-op fund. This is an investment fund whose purpose is to create new, and to expand existing, worker-owned cooperatives in all regions of Canada. The fund is owned and operated by the Canadian Worker Co-op Federation. Funds are used to invest in worker co-ops across Canada.

Both of these funds received financial assistance from the federal government in the beginning, and both have been important to meet the significant needs for financing in their respective sectors. However, these funds are too small and targeted too specifically to come close to meeting all of the needs for social financing in the co-operative movement in Canada. There is an enormous potential in the co-op sector to meet a wide variety of needs facing Canadians today, such as home care; housing, especially for seniors; business succession; renewable energy, and other areas. However, additional co-op-friendly capital is needed for this potential to be realized.

So with this in mind, the cooperative sector made the decision to launch a national cooperative development fund. Financed by the cooperatives and mutual sector, the Canadian Cooperative Investment Fund is designed to help cooperatives access capital they might not find elsewhere. It will be a fund that is knowledgeable about cooperatives and mandated to structure investments appropriate to cooperative principles and the role of capital in cooperatives.

The fund is a loan fund that will provide financing consistent with the co-ops' needs to leverage other financial institutions and government programs to provide the main portion of the capital. The fund will operate in a financially responsible manner that will generate adequate levels of savings and increase member equity over time.

The goal of the fund is not to replace or replicate any of the current financing sources within the co-op sector, or accessible to it. A group of investors made up of Vancity, The Co-operators, Assiniboine Credit Union, Affinity Credit Union, Connect First, Arctic Co-operatives Limited, the Canadian Worker Co-operative Federation, and Desjardins have already pledged $20 million.

The fact that our investors are ready to accept a very low rate of return on their investment to stimulate economic development is a clear indication of its social financing impact. So here we have an example of co-ops coming together to develop a fund to promote cooperative development in Canada that is also promoting social enterprises through a social financing model. These co-ops don't need to do this. And more importantly, these co-ops are not doing this to make a profit, but rather they are doing this guided by their co-operative principles.

I'm sure that many of you around the table will think that the idea of an investment fund that is funded by the co-op sector is a good idea. You are also probably thinking, if this fund is funded by the co-op sector, why should the federal government be involved? We think that the federal government has a role to play in putting capital to work alongside this investment, that neither side should be doing this alone but, rather, partnering to encourage this sort of investment.

The two previous funds are examples of where a modest investment by the government alongside the sector's contribution has established viable, long-lasting investment funds to help the members. We see the same promise with a national fund for all co-op sectors.

This is also the advantage of using the co-op model when leveraging social financing. Co-ops are driven by their members and serve their needs. The members have an invested stake in the co-op whether it is not-for-profit or for-profit. Remember, people coming together for a common reason form co-ops. Often it is because they are looking for a particular service that is not being offered by the private or public sector. That is why co-ops are often talked about as being part of the third sector. The members of the co-op drive the agenda and drive the innovation that creates the environments for social financing. Without your members, there is no need for social financing.

In our view, the best matrix you could ever have to evaluate the success of a co-op is the members that have become involved and believe in the services provided.

Another social financing model that is currently being used is that of the pay-for-performance contracts. A wonderful example of this sort of model is le coop de services à domicile, or home care co-op model in Quebec. This is a very successful model, and the Quebec provincial government is very pleased with the results. These co-ops offer many services to seniors and people with disabilities, such as home care, house cleaning, personal assistance, aid with medication, and so on.

● (1635)

In Quebec, the government established in 1997 the financial assistance program for domestic help. The goal of this program is to support the poorest clients. For example, a person with an income of $15,000 or less per year will have the right to assistance of $13 per hour for services rendered, while a person with an income of over $40,000 per year would receive a maximum of $4 per hour for services rendered. The goal is to allow people with less income to have access to quality services.

The home care co-ops are non-profit, multi-stakeholder co-ops. The client, the partners in the community, and the employees are all members, which means they are also shareholders. This approach helps keep the costs much lower than could be provided by the public or private sector.

This particular model benefits the provincial government because it provides cost-effective services across the province, but also because it can collect taxes through jobs that are otherwise often paid under the table.

Because of the flexibility of the cooperative model and the empowerment of the members, this cooperative model has become a leader in social services in Quebec. Here we see another example of how people are coming together to meet their common economic, social, and even cultural needs through a jointly owned and democratically controlled enterprise.

ln closing, I hope and trust that the committee will see the benefits of the cooperative model when considering its report. I have been able to touch only on a few examples today, but there are so many more great stories out there. As I have already said, social financing is not a new idea. Co-ops have been doing it all along. It is in our DNA.

Thank you, Mr. Chair.

● (1640)

The Chair: Thank you, sir.

Now we move to Mr. Richter by video conference.

Mr. Tim Richter (President and Chief Executive Officer, Canadian Alliance to End Homelessness): Thank you, Mr. Chairman, and good afternoon. Thank you for this opportunity. I apologize that I couldn't join you in person.

I come to this conversation from the housing and homelessness arena and as someone who has been an affordable housing developer that has housed over 4,000 people in a range of housing first programs. I have experience in the private sector and a public company.

I'm a big supporter of both social finance and social enterprise, but would caution that neither are silver bullets. For the purposes of my testimony today, I'm going to focus on social finance and specifically on social impact bonds and social finance opportunities for affordable housing, in a similar vein to what Mr. Murphy just referred to.

I will start with the potential for social impact bonds in reducing homelessness, because these instruments have been the focus of a lot of talk and research in social finance circles. The Government of Canada recently shifted the homelessness partnering strategy to housing first, which I wholeheartedly and enthusiastically support. Housing first is a revolutionary and highly effective response to homelessness and is at the heart of province-wide homelessness reduction here in Alberta.

At first blush, housing first lends itself to social impact bonds. For these bonds to work or to make any financial sense for government, there has to be a cost savings or cost avoidance to share with investors. ln a recent national evaluation of housing first, the Mental Health Commission of Canada concluded that for every $10 invested in housing first, an average of $21.72 was saved. Results in Alberta have demonstrated that housing first participants have 85% fewer days in jail, 67% fewer days in hospital, and 61% fewer interactions with emergency medical services.

I would love social impact bonds to work at scale in Canada, but I am honestly sceptical about their application to homelessness for three reasons.

First, to generate a return, governments have to be prepared to monetize the savings and pay investors back their principal plus a modest return. For the most part, the savings generated in homelessness in most social services, especially in housing first, accrue to the provinces, which doesn't help the federal government, and getting provincial governments to monetize savings will be a challenge.

Second, there have to be capable intermediaries that can monitor performance, that have rigorous data systems in place, that can hold a portfolio of programs to manage risk and be capable of engaging with market investors, and there are very few of these in Canada today. The federal government could develop powerful intermediaries through various homelessness partnering strategies in the community entity structure, but they would have to completely transform and reinforce the role of those bodies and change how the HPS is administered.

Third, you must have skilled and capable agency partners that can deliver the outcome. Achieving the performance needed to achieve the returns is more easily said than done, and the level of accountability for outcome required is fairly new to the non-profit sector. I think it will come, perhaps in the next five years, but I don't think we are at a place where housing first is sufficiently mature to support social impact bonds.

SIBs, in my view, may be best employed for newer or emerging interventions or when an intervention is applied to a government system for the first time and where risk can be transferred to the investor. When it comes to proven interventions like housing first, the government would be better to focus on performance-based contracting, as the other gentleman referred to, where vou can create incentives for exceeding performance targets or penalties for falling short. That way you can drive improved performance and achieve cost savings without private equity at the same price.

To me social impact bonds can be a great tool for sparking innovation, but they aren't as valuable as scalable tools for resolving social issues. So in my mind, the key question for this committee is where can the federal government have the greatest impact? ln the housing and homelessness arena, my view is that you are best to focus on bricks and mortar.

Each year 235,000 Canadians experience homelessness, 35,000 on any given night. An estimated 1.5 million low-income Canadian households live in core housing need, and over 730,000 renter households in extreme housing need.

The rise of modern mass homelessness in Canada traces back to federal withdrawal from housing investment, including a 46% reduction in federal affordable housing investment over the last 25 years, despite a 30% growth in Canada's population. We have a very, very serious housing shortage in Canada. Markets do not create affordable housing, because there's little profit to be had. Further, there's limited market rental construction because there's much greater and faster profitability in home ownership.

● (1645)

There's an important opportunity for the federal government, at limited cost, to draw private equity into non-market and rental housing. This is an area of clear federal jurisdiction where I'd recommend focusing social finance efforts. Social finance opportunities in this space are really only limited to our creativity. Mr. Murphy gave a couple of good examples, but I'm going to give you three ideas.

First, make donations of land and buildings to non-profit or charitable organizations for the purpose of affordable housing tax deductible. We already do this for environmental conservation; we should apply these incentives to affordable housing.

Two, introduce a low-income housing tax credit. Essentially, a low-income housing tax credit is designed to give private equity investors reductions in federal income tax for dollars invested in qualifying affordable housing projects. Unlike most other incentives, the government would set a maximum amount of affordable housing tax credits awarded each year so you know in advance the cost because you've set the amount. The credits would be allocated to the provinces and territories based on CMHC's assessment of core housing need, and a provincial or territorial body would take applications and award them according to set criteria. The low-income housing tax credit has been in place in the United States for three decades and has created thousands of units of housing. We estimate that, with $150 million annual investment in these tax credits, over 4,800 units of housing per year could be created.

Third, I'd consider loan guarantees for non-profit housing bond issues. Today large private rental housing developers can go to market for financing. Large companies can get favourable financing because they're deemed good credit risks. Non-profits don't typically have the cash flow or asset depth to get low-cost financing in the same way that the private sector does. With a guarantee, non-profits could issue bonds and use their existing asset base as equity. This would actually be an excellent tool for redevelopment of old CMHC-funded social housing that is now largely mortgage-free on prime real estate in much of the country. You would also protect that social housing coming out of their federal agreements from being lost to private developers. With this approach to finance and federal guarantees on about $500 million in debt, likely through CMHC, you could create over $1.5 billion in housing investment, equating to about 8,000 units of new affordable housing at no cost to government.

There's a lot of really creative housing finance happening today in the United Kingdom. I'd encourage you, if you get a chance, to have a look at Orbit housing as one very good example. Similarly, the Regent Park redevelopment in Toronto was backed by the City of Toronto, allowing for much lower cost borrowing.

In conclusion, I'm a big fan of social finance and social enterprise, and I'd encourage the committee, when it comes to the housing and homelessness space, to act where the federal government can have the greatest impact in areas of clear federal jurisdiction, and that's in the creation of affordable rental housing.

At the end of the day, social finance alone will not be sufficient to alleviate Canada's housing crisis. Direct federal investment will eventually be required. We're estimating that for about $46 per Canadian, or about $1.7 billion a year in combined and direct investment in social finance strategies, we could virtually eliminate homelessness in Canada in 10 years.

Thank you.

● (1650)

The Chair: Thank you very much.

Now we move to our first round of questions.

Madam Morin.

[*Translation*]

Ms. Marie-Claude Morin (Saint-Hyacinthe—Bagot, NDP): Thank you, Mr. Chair.

My first question is for Mr. Murphy.

Cooperatives play a very important philanthropic role in Canada. A number of your members, including the Mouvement des casisses Desjardins, give millions of dollars in donations and sponsorships every year.

Last week, Carole Gagnon from United Way Ottawa stressed to the committee that it was important that these donations and sponsorships continue to be made and that social finance remain a complementary option, not a replacement.

What do you think about that?

Mr. Shawn Murphy: Thank you for your question.

I fully agree. We don't think that social finance is the only option. You had some government witnesses at the start of your meetings. They said they had a number of tools they wanted to use for social finance to provide services to Canadians.

The cooperatives see social finance as one piece of the puzzle. Now we are finding that there are many pieces of the puzzle. They need to be put together because everything is mixed up right now. Several tools are already in place, but there isn't enough awareness about social finance. That's a big problem right now.

Ms. Marie-Claude Morin: I find it interesting that you spoke about insufficient public awareness. Is there a way to address that?

Mr. Shawn Murphy: Yes.

Ms. Marie-Claude Morin: I found what you said about that interesting.

Mr. Shawn Murphy: Officials within government don't understand the cooperative model. Increasingly, we are seeing examples of cooperatives that require government assistance. The government tries to lump cooperatives together with traditional business or non-profit organizations. We are in the middle. We do both.

A cooperative's structure is very different, given that the members are elected. There's a board of directors, and decisions take time. Capital is difficult to obtain, as it is for any business. Sources of capital need to be found. The members of a cooperative aren't always willing to offer their homes as security.

That's what I mean when I talk about a lack of awareness and information. At the same time, in certain areas of Canada, public servants know the system and help cooperatives more because they understand that model.

Ms. Marie-Claude Morin: I don't want to mis-speak, but we can see that cooperatives are engaged in a sort of social finance.

Mr. Shawn Murphy: Yes, certainly.

Ms. Marie-Claude Morin: As you said before, it's sort of what has been done for 100 years, for as long as cooperatives have been around.

Mr. Shawn Murphy: That's the case. What's very good about the cooperative model is that each cooperative can be managed this way. It's the members who decide how they want to manage things.

If there is a surplus, it's up to the cooperative to decide how the surplus will be used. The priority is keeping the heating and lighting on. Then, the members must decide whether they want to reinvest in their cooperative or in the community. They must ask themselves how they will use this surplus. Community members are the ones who have put the money in. That's why we say that it's a social finance model.

● (1655)

Ms. Marie-Claude Morin: Thank you.

Do I still have some time, Mr. Chair?

[*English*]

The Chair: Thirty seconds.

[*Translation*]

Ms. Marie-Claude Morin: Okay. I'm done.

[*English*]

The Chair: You had your time. Okay.

Then we move on to Mr. Butt.

Mr. Brad Butt (Mississauga—Streetsville, CPC): Thank you very much.

Thank you to both gentlemen for being here today. I'm fairly passionate about two areas, housing and cooperatives, so it's a great panel for me this afternoon for sure.

I want to start with you, Mr. Richter. You alluded to the fact that there could be a role for social enterprise in creating affordable housing. What exactly would that model look at? Who would be the partners, and how would you see it financed, first in terms of what we're doing now, which is really what I would call block funding, where the federal government sends a bunch of money to the provinces, who make decisions on whether they're going to build new social housing or subsidize rents, or whatever else? Second, how would the social enterprise model be different in creating new affordable housing in communities across the country?

Mr. Tim Richter: There are two important distinctions. Now you're getting a fairly traditional investment model, where you say you put in block money, you put in this much and you get this many units. I think the opportunity here is first to take advantage of the existing investment. A lot of the funding the federal government's put in over 30 or 40 years in social housing across Canada is in older assets that could be redeveloped.

So first you get to capture the equity you've already invested and you can redevelop those properties and lever up off of rental investment, or other things.

Second, you will bring forward the more skilled and more sophisticated non-profit housing operators, which I think would allow you to further lever or bring in extra money from the market, as opposed to a dollar in being a dollar worth of value for you. I think you can lever your investment much more significantly here.

There is a lot of money waiting in Canada that is eager to be invested in the system, whether it is a low-income housing tax credit or some kind of loan guarantee structure.

Mr. Brad Butt: Are you familiar with the homelessness partnering strategy, and if so, are you aware of the work the Mental Health Commission of Canada did? We've now got back the results of its study and its recommendation that we use this housing first model going forward.

I'm very familiar with this program from my days in the private sector prior to being elected to Parliament, because I was very actively involved in the program in Toronto. I actually considered that kind of a social enterprise model, because you brought in landlords, you brought in the Mental Health Commission of Canada, you brought in housing supports, and you brought in St. Michael's Hospital, which was doing the research and providing the support to the individuals who were housed.

Is that kind of a model what you would envision for the hardest-to-house individuals, people who typically are mentally ill or have mental health-related issues, the very hard to house people because of what's going on in their lives and the support they need? Is that the kind of model you'd see that maybe social enterprise would lend itself more to supporting?

Mr. Tim Richter: That's where I was concerned about the application of the social impact bond and private equity. To me the definition of social enterprise and social finance is a lot like what you heard from the representative from the Royal Bank, where you bring private equity in.

The private sector involvement in housing first.... And just for reference, here in Calgary I ran the Calgary Homeless Foundation, which housed about 4,000 people in housing first programs here. Across the province of Alberta over 9,000 people have been housed in the last five years, most of them in market rental housing. But that is much more a straight commercial transaction with the private sector. So we're paying landlords to put these people into housing. Some landlords offer discounts, so I don't see it necessarily as a social enterprise model, but I do see it as an extraordinarily effective and cost-saving intervention.

Mr. Brad Butt: Okay. I don't know how much time I have, but I'm going to ask a question or two about cooperatives now.

Thank you for that, Mr. Richter. I appreciate your thoughts.

I think Ms. Morin referred to this as well. Co-ops are almost our social enterprises, if you think about it. The models may be a little bit different. Do you see any real differences between social enterprise and how the cooperative and mutual sector has evolved over time? Are there any other things you would recommend that would perhaps lead to more communities and organizations developing these kinds of models to do a lot of the work that you're doing? We all know why co-ops first came to the forefront. It's because the traditional methods weren't doing it and people came together and said that we've got to do something.

Do you see much of a difference between the two models, and where would you see a social enterprise working better than a traditional cooperative model?

● (1700)

Mr. Shawn Murphy: Co-ops are definitely an interesting beast because you have very socially minded cooperatives, such as health care cooperatives. The name itself tells you what it's doing in focusing on health care needs for a particular community or region. Then on the other side, you have extremely large for-profit cooperatives. A great example in Saskatchewan is Federated Co-operatives, the largest non-financial co-op in Canada, in the top 50 businesses in Canada. You have quite the spectrum.

But the model blends itself well into enterprises. As you rightly pointed out, when there is a need and people can't find the solution to that need, that's when they come together. In most cases they don't want a ton of government intervention either. They need that startup capital, they need that kick-start to get going, and then in a perfect world they don't mind if the government backs out and they just go about providing the services to the people in their community. That also makes it a challenge in the co-op world because you have all these communities with these individual co-ops. Sometimes we're not talking with one another, so it's a little tricky to coordinate. As a sector, we're starting to do that. But we see the benefit in assisting governments in getting out those services, especially in under-serviced areas across the country.

The Chair: Thank you very much.

Mr. Cuzner.

Mr. Rodger Cuzner: Thanks very much.

I'll start with Mr. Richter, and then go to Shawn.

Mr. Richter, you're only about 15 minutes away from a provincial budget, so maybe all your headaches will be gone in 15 minutes. I appreciate your comments that there's no silver bullet here, but it certainly affords us an opportunity to pursue other options, and I think that's very worthwhile.

I want you to speak a little more about the low-income tax credit you mentioned. This would be with an investment in low-cost social housing.

Mr. Tim Richter: In our low-income housing tax credit, high-net-worth individuals or groups or corporations, whoever, have some money and they pay a significant amount of federal income tax. They could contribute or invest some portion of that income into affordable housing. The government at the beginning of a year would say they wanted to issue $300-million worth of affordable housing tax credits. A fixed amount would go into the incentive and would be divided around the country. For example, Ontario might get $75 million worth of affordable housing tax credits.

Typically what happens in the States is that there aren't enough individuals to use all the tax credits, so an intermediary—Royal Bank would be an example—would pool them in a mutual fund structure, and then that pool of money could be invested in low-income housing, however it's defined. In the United States, that low-income housing has taken a range of different forms, everything from a really deep subsidy, permanent supportive housing to near-market affordable housing.

If an investor wants to reduce the amount of federal tax they're paying and they can contribute some money as an investment, they make at least part of their return on that tax credit.

● (1705)

Mr. Rodger Cuzner: Mr. Butt had indicated that one of the problems is it's usually the feds get to pay and the province gets the say. But you see a great opportunity in social financing for some of the current assets on the ground that need a significant investment and refurbishment.

Mr. Tim Richter: I think there's a huge opportunity. In Calgary, for example, they are in prime real estate. They are low density, so there's lots of space where you could redevelop. You can extract a lot of financial value out of property and redevelop it and maintain that housing for its social housing purpose. Once it's out of contract, they can sell it and it'll be picked up by developers in any city in Canada. It's great real estate, so it would be picked up in a hurry. We'd lose that capacity in the affordable housing system. We've got a crisis today, and anything we can do to stop digging this hole we're in would be helpful.

Mr. Rodger Cuzner: Thanks very much.

Mr. Murphy, we had a good meeting yesterday with the health care co-ops, and earlier Mr. Johal from the Mowat Centre indicated that one of the greatest challenges is trying to get the data and information on which to base any kind of investment decision. But I was impressed yesterday with the amount of data that was shared. Some of it was anecdotal, but there were a lot of numbers as well on some of the successes they've had.

Does the co-op drive that? I'm just wondering why they've done so well, but he had indicated that in other areas, there's been less success and that we're not seeing that same commitment to mining the data and getting the information that's needed to justify these investments. Nonetheless, it it seemed that they had a lot of information yesterday.

Mr. Shawn Murphy: Yes, definitely.

Where we're seeing the difficulty with the data is across the board at the federal level especially. As you're well aware, most cooperatives are incorporated at the provincial level. There are only about 80 or 90 co-ops that fall under the federal act; everything else is at the provincial level.

Some of the provincial governments—Quebec being one of the leaders—have gone to a great amount time and energy to encourage the sector within the province to be collecting this data and to basically to be developing the needs assessment on the ground to figure out where the holes are. Then they go to the co-op sector and say, “With your help we've identified these holes. Can we develop co-ops to fill them?”

Quebec is actually working on a pilot project right now with mining companies in the north, trying to see if they could possibly bring co-ops in to work with the mines to provide the exterior services to the mines—the housecleaning and transportation needs, and stuff—as a way to reduce costs. That is more revenue into the coffers in the province.

Other provinces are slowly coming on board as well. I know that Manitoba is in the process of looking at the development of a provincial co-op development strategy, which, from my indication, is supposed to be signed shortly. So some provinces are much more avant-garde, let's say.

However, at the federal level we're still trying to play catch-up, so it's hard to get a national picture of where the needs and the holes are. But we're hoping that with these federations, such as the health care one that we saw yesterday, and other federations, we can start to work with them and encourage them to get this data so that we can make informed decisions.

The Chair: Thank you.

Mr. Mayes.

Mr. Colin Mayes: Thank you to our guests today.

First, I'd like to ask Mr. Richter about one of the issues I've been thinking about. You mentioned that we've dug a hole here as far as homelessness and affordable housing are concerned. I guess the question is, why is there the demand? Then, how can we provide that and yet take forward some of the market-based housing that I think are outcomes, such as pride of ownership, responsibility, financial stake, and that type of thing?

At a construction group we talked about how, as you said, governments could throw in the land, and maybe local governments could come up with the DCC costs and some of the...because 45% of the cost of a house is basically taxes and charges by government, believe it or not. As well, the other thing is interest charges, where government can come along and maybe say that they will have the capital available at no interest, and encourage that.

But ultimately, in my experience as a person who has been in the housing market, what I have found is that people who have a sense of ownership, who take pride in it and have a stake in taking care of it...because what kills you is the O and M after it's built and in place.

I guess what I'm saying is this. Can you see some sort of structure where you can provide that affordable housing to the homeless and yet still have some of those outcomes, so that you would be assured that the investment will be protected and that you will see a sunset on the need?

● (1710)

Mr. Tim Richter: There are a few points in there, with the first question being, how did we get here? We can trace the rise of modern mass homelessness in Canada to the withdrawal of the federal government. Over the course of probably 25 to 30 years, there's been about a 46% reduction in federal investment in affordable housing. There's a direct correlation between the withdrawal of that funding and the rise of modern mass homelessness. A 46% reduction in housing investment over the last 25 years is, I think, a significant piece of it. There are all kinds of other large factors, but that is probably the biggest one.

With the second point you've made about the operating and maintenance costs, how do we make sure that these buildings are well taken care of? I'll tell you from experience that nobody is happier to be in an apartment than somebody's who been in a cardboard box. There will be pride in ownership and pride in possession. The vast majority of those who get in do not want to lose that housing that they've gained and will tend to take care of it.

The third point is that it's important that we figure out.... One of the primary challenges in non-profit housing development is that you need to have non-profit operators that are good at their job. We need to make sure that they can maintain the buildings well and cost effectively.

You must have developers that are prepared to take the financial risk. Most charities and non-profits are scared to death of taking on debt. We need to find a way to make it easier for them to do so or to be be comfortable doing so, or find among the non-profits those that are willing to do it. Others are not prepared to take the operating risk of having people in that need.

Mr. Butt referred to the housing first program. One of the important things we learned from housing people through the housing first programs in Alberta and from at home/chez soi project is how important those supports to that housing are, especially for those with the most complex needs. This is not just about the capital infrastructure and the financial mechanism.

There's absolutely no rocket science to building apartments or houses and financing them. There's no mystery in it; it's how we bring the money together in a creative way. The important part in dealing with people, especially those with complex needs, is the supports that can be provided. That's where the HPS program has been quite valuable and their provincial support as well.

The Chair: Thank you very much.

That ends round one. Now we go to round two.

Madam Morin.

● (1715)

[*Translation*]

Ms. Marie-Claude Morin: Thank you, Mr. Chair.

My first question is for Mr. Richter.

First, I would like to highlight your work on fighting homelessness. I know it isn't an easy cause to sell. I worked in the community for a long time, and I still work with organizations in my riding that work in homelessness. I tip my hat to you.

In your presentation, you mentioned some concrete things that the government could do to help you, such as giving tax credits for affordable housing projects, loan guarantees, land and things like that. Given that it is very difficult to measure homelessness and establish quantitative results, do you think social impact bonds could still support your cause?

[*English*]

Mr. Tim Richter: One of the benefits of social impact bonds is that they can create a discipline, as you say, around the expected outcome. You're exactly right.

Today, we can track every cow from birth to burger in Alberta but we can't tell you how many people experience homelessness in Canada, what happens to them when they're in the system, and what happens to them when they leave. We can do that in every other field; there is no reason why we can't do it for homelessness. We've begun to use systems here in Alberta called homeless management information systems. We should be able to track everybody. We know who they are and what they need. We have to move them into the system, track what happens to them, and understand what happens to them when they leave the system. But in social services, that data and those data systems are very poor.

A good example of a decent system that's not functioning as best as it could is the federal homeless individuals and families information system. That system collects data on people who are in federally funded programs, but it's very difficult on the ground, in agencies, to have knowledge of who those people are and how they move through the system. Information goes up but it doesn't flow across, so we can't actually track people through the system of care.

Until you're able to track that data and know for a fact.... For example, to prove success on a social impact bond for homelessness, you have to prove that a person is housed and has stayed housed for a year, and define how their use of the public system has been reduced. But today, without a homeless management information system, we can't track whether or not that person falls back into homelessness. In my view, you have to have a system-wide coordinated data system.

[*Translation*]

Ms. Marie-Claude Morin: Thank you.

A coordinated data system is an interesting idea, but how could it be applied?

[*English*]

Mr. Tim Richter: The Americans have been using these for years. They are called the homeless management information systems. There's off-the-shelf technology; it's actually pretty straightforward. But it's a question of how you engage all of the different funders, all of the different agencies in building a standard system.

To me, frankly, the key to ending homelessness is having a coordinated homelessness system of care. It means having a homeless management information system that is the IT infrastructure of that whole system; a system that can track people coming in, understand who they are and what they need, understand what happens to them in the system, and show what happens as they move successfully to permanent housing; a system that can track the performance of those programs—we can't really do that today—and do performance management quality assurance with the programs in the system.

[*Translation*]

Ms. Marie-Claude Morin: Do I have any time left, Mr. Chair?

[*English*]

The Chair: About a minute.

[*Translation*]

Ms. Marie-Claude Morin: Mr. Richter, you said that you can't do it. Why?

[*English*]

Mr. Tim Richter: It absolutely can be done. There are good examples of homeless management information systems. There are over 300 communities in the U.S. today that have them. Edmonton and seven cities in Alberta, including Calgary, have management information systems in place. There are variations of it; in Toronto, there's a shelter information system.

● (1720)

[*Translation*]

Ms. Marie-Claude Morin: Thank you very much.

[*English*]

The Chair: Thank you.

We now move on to Mr. Boughen.

Mr. Ray Boughen: Thank you, Chair.

Welcome to our guests who are giving of their time to spend with us today.

I have a couple of questions.

First of all, Tim, your presentation centred on the idea of affordable housing. There was one statement I believe I caught in which you talked about $160 million that would create 400 units of housing. Is that a standard three bedroom house we're talking about, a two bedroom house, a bungalow?

Mr. Tim Richter: I think that referred to the low income housing tax credit where a $150-million investment in tax credits could create over 4,800 units. Those type of units vary in form, but they would most likely be rental housing in a kind of apartment format.

Mr. Ray Boughen: Would you expand a bit about the tax credit? I'm thinking that if it's low-cost housing, the people who are buying the housing are not particularly flush with coin. So how big a tax credit are they going to realize? If their income is pretty minimal, the tax credit isn't going to help them a whole heck of a lot. What would you say?

Mr. Tim Richter: No, it's a tax credit to the investor, to the private equity that is put into the construction of the building. The people in the building would pay affordable rent. It's not a tax credit to the renter, it's a tax credit to the investor, a high net worth individual, for example.

Mr. Ray Boughen: Okay, good, thank you.

Shawn, to what you were saying about the social finance and federated co-ops, first, what is the difference between Federated Co-operatives and the standard co-op?

Mr. Shawn Murphy: Federated itself is a federation, so its members are other co-ops. I think there are 260-member co-ops that form the federation. But there is no difference except it's large, it's big. Last year, they brought in revenues of $10 billion.

It still has the cooperative structure; it still lives by the co-op principles. It's just the biggest one compared to a smaller, let's say, farmer market co-op of maybe 12 farmers who've come together to sell their produce. It's still the same thing, just different in size and scope.

Mr. Ray Boughen: So does each federation get one vote? Like, each member has one vote whether you have $10,000 in there or $500?

Mr. Shawn Murphy: Again, it's up to each individual cooperative how it wants to structure its voting system. I believe with federated co-ops, the way they work is that the 260 members each have one vote around the table at the federation. But those individual co-ops have their owning voting system within, so there are levels of democracy, to say the least.

Mr. Ray Boughen: Okay, that's good.

What do you see as the answer to housing, in your point of view? Is there a role for co-ops to play in the housing market on a big scale? I know there are some co-ops that are involved in housing on a smaller scale and individually. Is there a place in the great scheme of things for the federated co-op to get into the housing market?

Mr. Shawn Murphy: Currently, there's CHF in Canada, the Canadian Housing Federation, who have done a ton of work on housing co-ops. I think it's not one or the other. I think it's using a mixture of what we've heard from Tim and, in my view, co-ops incorporating more cooperative housing.

Again, as Tim was pointing out, it's the empowerment of the people. When people have a roof over their head, they feel good and take ownership and take pride in it. I am just speaking off the top of my head. Through different tax credits or different incentives, either to the builders or owners or to a cooperative group of individuals, to keep rents lower so that people who couldn't afford traditional housing methods can get it, I think, this capital up front will in the long run save you a ton in the back end.

● (1725)

Mr. Ray Boughen: Good, thanks.

Thanks, Chair.

The Chair: Thank you very much.

I think I'm going to wrap it up. I've got a couple of questions for Tim.

My background is in housing, as well as Mr. Butt's. We've watched programs for 20 or 30 years be developed mainly at the provincial levels of government. Because we come from the private side of housing provision, we've seen the cost per door be exceptionally high. Mr. Mayes is nodding as well because he comes from this frame of reference.

Speaking from that frame of reference our being used to market-based housing, what's your view of the best possible way governments can restructure delivery? You talk about the most effective way being to deliver through bricks and mortar. I'd like you to help us along the way here because we've had lots of discussions about some of the renewal agreements when it comes to renewing cooperative housing in this country when mortgages are finally paid off. Yet the co-ops still want the same amount of subsidy from the government that included the mortgage payment portion. They don't want to see it reduced. In the larger scheme of things, what's your view of the most effective way to deliver that bricks and mortar?

Mr. Tim Richter: There's a question on how you deliver and who you target. If you imagine the homeless population in Canada, you take a population and think about it like a pie chart. Think about an inverted triangle. At the bottom of that inverted triangle is about 15% of the overall homeless population—85% to 90% of all homeless people get themselves out of it. It's purely an economic issue. They get themselves out with little help from anybody else.

The vast majority of affordable housing investment, whether from the Government of Canada or through the provinces, is spent a mile wide and an inch deep on a range of projects. There's no defined strategy and there's no sufficiently effective targeting of that limited resource. If you prioritized the chronic and episodically homeless individuals for public investment, the 15% who take up over 50% to 60% of the emergency shelter spaces, who represent the highest costs in the public system, you would dramatically reduce the homeless population.

As for the market, with some incentives, we've recommended, for example, in our state of homelessness report a housing benefit for people who are living in rental housing to maintain housing affordability for them and keep them stably housed. That would be more than enough. You don't need to invest a lot of extra capital infrastructure in the short term. But again, there's a range of different opportunities. I would start with whom you're targeting.

Second, I've noticed that the cost per unit in the public delivery of housing is quite high. We tend to end up with, for example, $300,000 a door. Here in Calgary, in one of the more expensive markets, I was able to create new housing—stick built, with four floors—at $170,000 a door. It really depends on your built form. As one of the other speakers mentioned, it depends on all the other stuff that comes with it. If you're going to build a concrete high-rise in downtown Calgary with a fire station at the bottom, it's going to be $300,000 or $350,000 a door.

The federal government has to be a bit more explicit about prioritization and a bit more explicit about what you're prepared to pay and who you want to pay.

The Chair: Those are very useful comments. I really appreciate your bringing up those points.

Both witnesses, on behalf of the committee, I thank you for being here. This is a study that we've recently decided to expand with more witnesses, because a lot of people in this country have an interest in it. Thank you so much for your time.

The meeting is adjourned.