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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.

This is meeting number 54 of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. We're here to continue our current study exploring the potential of social finance in Canada.

We're pleased to have a number of organizations with us today, all with valuable experience in the field of social finance. Joining us by way of video conference from Regina, we have Mr. Dale McFee, the deputy minister of corrections and policing with the Government of Saskatchewan. Welcome. Also joining us by video conference from Annapolis, Maryland and appearing as an individual, we have Dr. David Juppe. He holds the position of senior operating budget manager at Maryland's Department of Legislative Services. With us here in our committee room from the Saskatoon Downtown Youth Centre, we have Mr. Donald Meikle, the executive director.

Each of you will have up to 10 minutes to present. I will give you a warning at approximately one minute left if you are going on towards the end, and then we'll open it up to committee members for questioning of the witnesses. Let's begin with Mr. McFee.

Please start for up to 10 minutes, sir.

Mr. Dale McFee (Deputy Minister, Corrections and Policing, Ministry of Justice, Government of Saskatchewan): Greetings, Chair and members of Parliament.

Let me begin by thanking you for the opportunity to speak to you today about Saskatchewan's interest in and movement toward social finance. I will provide my thoughts and will advise you on some of the initiatives we are working on in our ministry, as well as in the Government of Saskatchewan, and give input on some of the areas where I think our federal government can help us on this journey. I will not speak of the Sweet Dreams project, as my colleague from Saskatchewan, Mr. Meikle, is in attendance and can speak directly to the project and its progress.

I will start by speaking about the opportunity or the reason that we started to explore social finance, or what we call “pay for success”.

Social finance is a way for the Government of Saskatchewan to ensure that we are focused on outcomes-based performance. In essence, we are trying to slow down and eventually stop funding projects and/or programs without knowing what will be achieved. A successful business would not operate in this environment, thus our government is in the process of transforming itself based on competing demands to focus on similar methodologies.

In the process of transformation, I firmly believe that social innovation will be the next competitive advantage. Social innovation is the means to connect the domestic economy with social expenditures. In turn, social expenditures are the mechanism to create another product for investors to realize a financial return in a collapsed market and to pay for success, being a way for governments to ensure that public moneys are going toward proven concepts that deliver results. The challenge is the metrics, or the ability to ensure that this value remains constant.

We have a window afforded to us by the financial market. In my field of expertise, which is the justice system, there is a long-standing relationship between policing, or the evolution of policing, and the financial markets. This relationship dates back to the premise of why traditional policing was created, which was to protect the financial market.

Two years ago, our ministry recognized the opportunity created by the current state of the financial market and the increasing need for government to create a mechanism to address social ills. In response, we formed a social finance division in the ministry. At the time, we took the first steps to research the existence of where the expertise was, what was being done, and what it could look like in Saskatchewan.

The due diligence that we undertook included phone calls with experts in the United Kingdom and Australia that were facilitated by KPMG; a trip to Ottawa to meet with our federal colleagues to determine what they were researching and to avoid redundancy; discussions with the MARS Group and an understanding of their work; and, significantly, we hosted meetings in Saskatchewan for a third-party provider in the United States of their largest social finance model. That provider is the Roca Foundation, and their project is in the range of $20 million, with a multitude of financial investors and partners. The model comprises highly detailed metrics that determine success. Roca possesses dynamic leadership, which quickly stood out for us as the model that most resembled what we were trying to work on in Saskatchewan.

From Roca we learned that leadership is the first step and that a secondary investment market is important to financiers; that metrics are critical to success and that they need to be identified from the start and must show value or savings to government.

We found that there is more than one way or one process to fund these initiatives, which made it clear to us that we were going to broaden our initiatives to pay for success that includes social impact bonds and investing for impact. This followed our thinking, in that we had to move from trying to fit people into programs and move toward creating flexible programs with metrics to meet the needs of individuals to create success. It also showed us how to take government out of the position of being an evaluator, or mired in day-to-day business, to a higher level that could drive strategic alignment and focused outcomes.

As a byproduct, with the right planning and strategy, we saw the opportunity for CBOs and NGOs to be funded on outcomes rather than inputs, and equally as important, with the right strategic investment, CBOs and NGOs might just become self-sufficient.

If we follow the premise that there is one taxpayer, we will recognize that there is an opportunity for the federal and provincial governments to work with the private sector and third parties to multiply savings. Government has responsibility for support and social programs, and equally we have the responsibility to facilitate economic growth. When we look at them in the same context, through innovation, many of the same mechanisms can be used to focus on net gains. This emulates the same type of innovative thinking we use to establish our models of community mobilization. Some of you have heard of Hub and COR, which have broken down silos and allowed us to address issues from a multi-sectoral perspective to meet targeted outcomes.

● (1535)

From hockey country in the middle of the Stanley Cup playoffs I offer the following, that Gretzky was a great hockey player because he knew where the puck was going. If we apply the same concept to social finance, it will now move from the 30,000-foot level that has been the focus of my statement thus far and operationalize what we are working on. We are focused on four key areas that undoubtedly have a direct impact on what is driving our work.

In the area of absenteeism in school, we have completed a mapping exercise that articulates a relationship between absenteeism and criminal activity. We have mined into the data of our troubled and complex families and are looking at options to inform how we utilize a third-party pay-for-success model to address this at the front line. Graduation rates will not increase without attendance. We are optimistic that this area of focus will have value and significant returns. We also know there's significant data supporting how we could mine for value.

If we look at bail and remand, particular to our ministry, we have undertaken significant economic analysis in this area. Saskatchewan statistics since 1998 show custody remand populations have grown by 89.1% and sentenced custody populations have grown by 2.1%. The analysis shows that, for every 100 clients who we take off remand, there's an $8.2 million savings. And further, we have evidence to support where to better target spending to ensure a return on investment. Right now, that particular part has very little return. We have almost completed the due diligence on what this could look like on the ground, while ensuring that public safety is protected in the process.

In the area of mental health and addictions in community programming, we are examining programming that takes high-needs mental health and addictions clients out of an expensive system that is not meeting their needs, and establishing a system that meets their clinical needs and presents higher opportunities for success. Statistics show that mental health clients are two times more likely to have contact with police, and are the most vulnerable population to reoffend. As well, mental health calls drive up to 40% of calls in some police services, and they are the most vulnerable population to go from non-criminal offences to criminal offences in one distinct act if not treated, cared for, or medicated. There are ample metrics in this area that could help us focus in on creating success for this client base and showing value and savings for government with better services.

The initiative of skills training connected to real jobs is targeted for those serving time in custody and reintegrating back into the community. By meeting clients' needs for housing and skills training and putting them in the position of connecting to real jobs that are in demand in our economy, we can leverage their success. In essence, we are taking offenders and/or clients out of the system and turning them into taxpayers, which has a compounding effect in the relationship between jobs and social expenditure. We believe this will prove to be a strong business case for social finance.

The Saskatchewan government appointed current MLA and former cabinet minister June Draude as social finance legislative secretary to the premier to focus on what and where we might have the best opportunities for success. We are committed to moving these initiatives forward if they make sense for the citizens of Saskatchewan and meet the set outcomes.

As an idea for innovation, as I close, I pose the following question to the parliamentary committee: could we create a fund through legislation that is similar to a venture capital fund that expands the investment pool through incentives to drive results? If social expenditures grow faster than the domestic economy, the relationship will always be a negative number—thus, not enough money. If the relationship is studied and connected, as it can be, the number becomes net growth, which shows enhanced value. A mechanism that blends philanthropy with return in difficult financial times could leverage opportunities on new markets going forward. A fund for innovative thinking in this area could be a way to advance a relationship that focuses on balanced solutions and maximizes on investment for impact.

Economics is dictated by supply and demand. We have spent the majority of our time solely focused on supply. When we balance the focus by reducing demand, the system functions as it was designed and delivers much better results.

I thank you for the opportunity to speak with you today, and certainly, I look forward to any questions you may have after the presentations.

● (1540)

The Chair: Thank you, Mr. McFee.

Now we move on our witness from Annapolis, Dr. Juppe.

Would you please proceed?

Dr. David Juppe (Senior Operating Budget Manager, As an Individual): Thank you.

Good afternoon, Mr. Chair, and members of Parliament. I appreciate the opportunity to testify before you today.

By way of a brief background, my name is Dr. David Juppe. I am the senior operating budget manager with the Department of Legislative Services in Maryland, which provides all support services for the Maryland legislature. For the past 26 years, I've been reviewing operating and capital budgets and providing fiscal policy advice for our budget committees. In addition, I teach undergraduate and graduate classes in budgeting. I spent a term as the president of the National Association of Legislative Fiscal Offices. I've provided budgetary training to the staff of the parliament in Mozambique, and in 2014 I provided some analysis and recommendations to the Government of Jordan in Amman on their budgetary processes in their review of the budget.

In 2012 my colleague, Kyle McKay, and I began examining the issue of social impact bonds, or pay for success, because of a proposal by our Department of Public Safety and Correctional Services that was designed to attempt to reduce recidivism rates below those in programs currently in place by that department. Based on our analysis, we found that the savings from the proposed program would be about $250,000 against program costs of about $4.1 million. We determined that the program would not save funding for the state, and we recommended against their adopting that program.

Turning to the concept of social impact bonds and pay for success generally, as I'm sure you're aware, a social impact bond is not in fact a bond. It's a unique form of financing program for government whereby a third party financier provides multi-year funding for non-profit or private sector service providers. They are given a multi-year source of funding, which reduces the risk they have in securing government funding each year. The concept of the social impact bonds is that this multi-year funding would help spur development of innovative ideas and ways of providing services for government. The other allure for government is that you only pay when you have successful outcomes, and no funding is required up front.

Social impact bonds have become more popular in the last few years. The first example was the Peterborough Prison in England. As the evaluations are coming in, we're starting to see that perhaps that program is not as successful as was initially hoped.

One of the reasons I think social impact bonds have become more popular recently is that since the recession of 2008 the government in the United States, and state governments especially, have not seen a robust economic recovery, as was hoped, and as we saw after the 2001 recession. Resources are limited for the providers of these services. This is one mechanism for providing additional funding for government services without government providing the funding up front.

There are a number of concerns and observations that I have drawn from our work looking at the topic, as well as looking at some other social impact bond proposals in the U.S.

One reason, and I think the most important, is that social impact bonds will result in higher costs to government. This is because you have additional costs for an intermediary to align the financing with the government and the provider. You also have to pay a rate of return to the financier once the program is completed and assuming the outcomes are successfully reached. Nothing prohibits government from directly contracting with these service providers and paying for the service directly. I think this has become an issue of government having limited resources and providers looking at other sources of funding to try to expand the pull so they can expand services.

From what I can see, the rate of return is not limited in any way. As we know, in the bond market, risk is measured by interest rates. The riskier it is that repayment may not materialize, the higher the interest rate a government is going to pay on a capital bond.

The social impact bonds or pay for success is a form of borrowing. If the program works then government will pay this rate of return, which happens to be whatever was negotiated, whether 10%, 15%, or 20%. There appear to be no limits on that amount.

● (1545)

In some instances the financing is guaranteed by a foundation, or at least a portion of the financing is guaranteed by a foundation to ensure that some rate of return is provided to the financiers. If that's the case, then it really obviates the entire point of transferring risk to the private sector, because you're guaranteeing some portion of the return.

Another major point I would like to make is that in our research we have found in many cases that the proposed savings are overstated. I have seen proposed reforms over many years of budgetary proposals, and in many instances, advocates have fallaciously used the fixed cost per case when evaluating the savings. For example, if it costs $30,000 per year to house an inmate, that includes both fixed costs for operating the facility and the variable cost. If you save one or two or ten inmates from returning to prison, you save a variable cost of food and supplies and medical costs and we've found that to be about $4,600 per inmate. You don't save the full $30,000 unless you close the entire facility.

In many cases, if advocates are proposing that the savings are going to be the full fixed and variable costs divided by the caseload, that's overstating the savings. In some cases advocates are suggesting that you have a cost avoidance, so you save cases from requiring more expensive care in the future. This is also very difficult to prove and doesn't result in immediate savings to the government's actual funding in the budget.

Funding logistics are also a concern that I observe in that one of the selling points for social impact bonds is that the government pays only if a program is successful. The problem I see with this is that if you have a multi-year program and the government has not been setting aside funding for this payment, then when the program is successful, you'll have to provide the entire amount of money plus the rate of return all at once, which would be difficult for governments to appropriate at one time.

Moreover if government sets aside funding in advance each year for the potential payment as we're seeing, for example, in the pay-for-success program in Massachusetts, it does not really realize those savings, because it still has to set aside those funds annually.

Because of this concept of a performance-based return on investment, I think rather than encouraging innovation, social impact bonds or pay for success will actually encourage a flight to quality. Investors are going to want to see programs that work and programs that are successful.

We've seen an example in Chicago, Illinois, where they just entered into a social impact bond in November 2014 for early education services using programs that have already proven to be effective over multiple years. Investors are not going to want to see these programs fail. So if you do have a situation in which multiple programs fail as they're trying to encourage innovation, then, getting back to our market-based model, you're going to see higher interest rates. Investors are going to demand a higher rate of return because there's higher risk.

Evaluation concerns that I have are first and foremost that, because you have this return-on-investment component, there is a greater pressure to produce results and you may have a situation where one study produces an outcome that's positive resulting in payment to the investors and to the service providers, but in many cases in public policy it can take years and sometimes multiple observations and multiple studies to determine if a program is really successful or not. In some cases I've seen it take 10 years before it was determined that a certain course of action really wasn't the best course of action, really wasn't working, and had to be ended. This places more of a premium on ensuring success early.

Also there's the question of methodologies and whether or not there's a treatment and control group and full randomization to ensure that fair and objective analysis and evaluation are completed. The U.S. Congress was considering social impact legislation last year in 2014, and I noticed in that legislation that they were considering allowing quasi-experimental designs, which may not require this sort of randomization.

In conclusion, social impact bonds are a new concept that has recently become more popular. A number of states and countries are looking at this concept, but I believe it is a more expensive way of providing services. It is essentially government by credit card. You're potentially borrowing funds, and it's not necessarily good fiscal policy. If you can pay for these services, pay for them directly. Why would you pay a third party intermediary a rate of return that is in no way limited or restricted?

Secondly, I would point out that instead of encouraging innovation, there would be a flight to quality, and so I don't see the concept of innovation there.

Finally, I would just say there are logistical issues as to whether or not government actually saves money, because you either have to set aside funds or you'll have a very large payment to make upon the completion of the proposal.

Thank you very much.

• (1550)

The Chair: Thank you very much, Dr. Juppe.

Now we move on to Mr. Donald Meikle, the executive director of the Saskatoon Downtown Youth Centre.

Please proceed.

Mr. Donald Meikle (Executive Director, Saskatoon Downtown Youth Centre Inc.): Thank you.

On behalf of the Saskatoon Downtown Youth Centre, I'd like to thank you for this opportunity to present to your committee.

I am the executive director of this wonderful organization that I have been proud to be a part of for 22 years of its 25 years existence.

How did our Sweet Dreams program come about? ln 2013 we were approached to look at an issue of young people attending school and students' attendance being low to nonexistent, and, when they did come to school, they were unable to focus and stay in school for the whole day. That school requested a study to be done looking into sleep disorders. The individual completing the study came back to them and stated, “There were no sleep disorders. These young persons had no place to go.” The evaluator was so passionate about this cause that she put forward $50,000 of her own personal money if we could try to find a way to make a difference.

Over the next year we put together a group of individual front line workers representing Health, Ministry of Social Services, Education, EGADZ, and two individuals who were from the community. They were retired but still carried a passion to assist disadvantaged people.

We began meeting weekly to try to prioritize who was the most vulnerable population that needed to be served. We agreed that these mothers and their children not having a safe place to live and being provided supports put them at risk as well as having their children enter the social services system.

lt was aIso agreed that we needed to continue supporting those mothers who had worked so very hard to regain custody of their children. We needed a home that was respectful of parents so they would not have to put their children into care to receive services, while parents in an existing program would not to have their children in care any longer than need be.

During the first year of meetings and discussions we began to look at how the home would work, a business plan, and options of funding for this home. The social impact bond became an option.

During our first year of creating a business plan, we were looking at options of funding this home. We had applied for and received Services Canada funding, along with this year's $50,000. Our budget for the project was as follows: the purchase price of the home was $50,000, and renovations and legal fees were about $85,000. The total cost was a little over $1 million.

Colleen Mah had committed $25,000. The homeless partnering strategy had committed $320,000, a private donor had committed $20,000. The City of Saskatoon had committed $140,000, which left us $534,000 and left a shortfall of $500,000 capital and $500,000 operating.

There were two meetings with then Minister Draude to look at ways to fund this program. From the very first meeting it was made clear that the government would not be put in a deficit position. The minister liked the second proposal because it was creating a home for mothers and children, which we did really well.

The options for us to fund this home were to wait for up to a year and a half to get into the funding cycle with still no promises, to try to raise the needed dollars with an organization that already needs to raise about $100,000 per year to keep our doors open, or to go with a new and innovative way of funding called the social impact bond that bases funding on outcomes.

We agreed to do the funding through a SIB. We were allowed to be involved in the process of how the social impact outcomes would look. We were able to support mothers and children at time of need and not have to separate the mother and child bond. The province communicated with our board of directors and management, answering any questions that may have arisen. The social impact bond was based on outcomes, that if successful, could be cost neutral and allow added savings to be shown as the benefits of government and communities doing things differently. We've been working on outcomes reporting for the past five years and see the direct benefit to the most important people in this equation: the clients we serve.

This process allows our organization to stay true to our vision statement that every child deserves to grow up to become a contributing citizen. That includes the mother with children who remains in a home with domestic violence and physical and verbal abuse, who is often too scared to come forward because she believes her children will be taken away because she has perceived herself as a bad parent. That includes the parents who have worked hard at regaining custody of their children only to have no support to ensure that they are able to take advantage of employment and educational opportunities while having a roof over their heads.

• (1555)

We needed this as a part of a continuum of residential services we have created since 1997, with 16 homes providing safety and shelter to over 120 children.

Every mother will enter the home based on a motivational interview looking at the risks to the mother and the child, her willingness to be a part of the plan, and what she is willing to contribute.

We believe that the Government of Saskatchewan is interested in undertaking innovative approaches to social issues to improve the lives of its most vulnerable citizens. We believe social innovation has a number of tools that can be used and governments are interested in exploring ideas that can deliver better services to our province's most vulnerable.

Our investors in the social impact bond include Wally and Colleen Mah from North Ridge Development Corporation, with $500,000 towards this project. The Mahs have been involved in our residential services since we began, by contributing over $800,000 towards 11 of the 16 homes that we currently operate for children, mothers, and hard-to-serve youth in Saskatoon.

Expansion of our residential services, such as Baby Steps, to include two bedrooms in the home so that mothers can live with their children while the children are in the care of social services; Mah's Place; and a number of our My Homes would not have happened without the generosity of the Mahs. Colleen Mah has been a huge advocate for the mothers, looking at ways to provide long-term housing support for successful candidates.

The Conexus Credit Union is giving us $100,000 per year for five years. Credit unions are very involved in our community. They loved the concept of helping parents and their children, and they wanted to become more involved by offering educational services and financial literacy to our clients while they are in the home. They also have a huge willingness to be a part of looking at ways to assist moving forward in this project.

I'll talk about the early indicators, so far, of Sweet Dreams. We are embarking on our first anniversary of Sweet Dreams. For us, with the social impact bond, the program is able to work based on outcomes and need. Many of our clients coming into the program have lived in situations involving domestic violence and addiction, fearing that if they were to come forward, their child would be taken away. Now parents are able to leave those situations with hope and support for them and their children. Young moms can now continue loving bonds with their children and have the opportunity to break the cycles that have kept them in poverty for years.

We have a process-driven program that is now based on a partnership including government, community and, most importantly, our client. For years, there has been a gap. Once the parents had their children returned to them, the supports stopped. Now, with Sweet Dreams, we are able to continue the support until the parents are strong enough to move on in their lives.

Outcomes to date include the following: mothers have transitioned into independent living; a mother is working at regaining two of her children, who have been made long-term wards of the government, while caring for two children currently in her care; a mother has moved out and found employment in a career she loves; and we were able to provide housing support to a pregnant mom until she could find a safe and supportive family to live with.

Thanks to the SIB, we are able to meet the need of our community, which was previously seen as out-of-the-norm for government. We have received requests from all over the province from mothers wanting a chance to make a better life for themselves and their children with support and guidance. This process has allowed our organization the ability to support mothers and their children, keeping them out of social services.

● (1600)

The Chair: You have approximately one minute left, sir.

Mr. Donald Meikle: I just want to quickly go over the myths of program delivery.

We will take the easiest clients to make the program successful. I want to say that's false. Every client entering the Sweet Dreams program completes a motivational interview to look at risk factors, such as violence, addiction, and mental health. A case plan is created with the client to ensure that it is the client's plan. Motivational interviews are the most reliable, as they are first-hand from the clients about where they see themselves and the shortcomings in supports needed.

Business makes money off the backs of poor people. I say that's false. The Mahs, as well as the Conexus Credit Union, are reinvesting the money back into vulnerable people. We all make money off disadvantaged people by working in this field. By working in justice, health, education, social services, and many other organizations in the community, we all make money off disadvantaged people. What this is saying is that vulnerable people are a big business. My challenge back is this. Do we want to be open to change? I know for a fact that the Mahs and the Conexus Credit Union want disadvantaged people to be able to contribute to the economy. For them, it's a win-win investment.

The Chair: Thank you very much.

We appreciate that testimony from all three witnesses. Now we'll move on to questions from our committee members. We'll have five-minute rounds because we have two panels today.

We'll begin with Madam Sims.

Ms. Jinny Jogindera Sims (Newton—North Delta, NDP): Thank you very much.

I want to thank all of you for coming here to put forward your perspectives.

I'd like to know what each of you thinks of the idea of “[m]odifying the Income Tax Act to allow non-profits to generate revenues not directly related to their core mission”. In the brief we received from the Credit Union Central of Canada, this is one of their recommendations. It has been suggested that:

> Current income tax interpretation significantly restricts the ability of non-profits to earn such income and, instead, requires any such revenues to be unintentional, unanticipated and incidental to carrying out its core purposes. This makes it difficult to generate revenues to put back into a non-profit's mission, and it restricts the cash reserves they can build and maintain.

Who would like to start? What are your thoughts on modifying the Income Tax Act in this way?

The Chair: Would you like to choose one of the witnesses?

Ms. Jinny Jogindera Sims: Let's start with Donald Meikle first, please.

Mr. Donald Meikle: Thank you.

I think any way that allows non-profits to be able to do their business more efficiently is always an option that should be looked at. As I was saying in my presentation, we have to fundraise in the amount of $100,000 a year just to keep our doors open. It would be nice to be able to invest money in times when we have extra.

● (1605)

Ms. Jinny Jogindera Sims: Thank you very much.

Would one of you gentlemen like to jump in?

Mr. Dale McFee: Yes, I can't see any problem with that. As long as it is lawful, obviously, which we're taking for granted, why would we restrict not-for-profits? Obviously, they're governed. There's governance in charge and there are reporting requirements, including how they report and how they get back to their stakeholders or their board.

I think it would give them the ability to be more sustainable. I think we'd be remiss if we didn't give our CBOs and our not-for-profits the ability to be sustainable. I think that's one of the biggest challenges they face today. Let's face it: a lot of them do some very good work that's paramount to success in relation to human services delivery across this country.

Ms. Jinny Jogindera Sims: Thank you.

Did you have anything to add?

Dr. David Juppe: I'm not sure I can fully understand the proposal. It sounds like it's some sort of a tax credit based on income earned by the non-profits.

Ms. Jinny Jogindera Sims: It's the ability for them to be able to raise funds and then get a tax break for those funds they raise, beyond their core mandate.

Dr. David Juppe: It certainly sounds like an attractive proposal for the non-profits. I guess the question would be, what's the magnitude of the revenue loss that your government would realize? I don't really have a context for that.

Ms. Jinny Jogindera Sims: Thank you very much.

We've been hearing a lot about social impact bonds and their potential, but we also have some concerns around the potential for incurring new costs in the delivery of social services, including higher borrowing costs and increased upfront costs in establishing a social impact bond administrative structure to begin with. Do you have any comments to make on that?

Once again, could we start with Mr. Meikle, please?

Mr. Donald Meikle: On our social impact bond, we didn't have the intermediary. It was a one-million-dollar bond so we didn't have an intermediary. Deloitte will be doing the independent audit of the program.

That's it, unless you would like me to expand further on that. That's what we did. It was very respectful. I think this is one way to fund programs and base them on outcomes.

Ms. Jinny Jogindera Sims: Thank you very much.

Did you have anything to add, sir?

Mr. Dale McFee: I would add that anything we're looking at in relation to it right now is costed back in the formula going forward, as Don said, if it's small enough and the intermediary is not involved.

I think, in something like this, the other thing we haven't really spoken about but could go on at length about here is the status quo in relation to social costs and social services costs. They're not affordable. It doesn't matter if the government is trying to make them affordable or not, unless we connect these two economies together.... Some of the data analysis that we give on that.... We did the mining in relation to the economy in my ministry and in relation to social expenditures. As a long-time police chief, and an entrepreneur, and business person, right now the economy is growing at $2 and we're spending $4.

When I try to explain that to people who work in my correctional centre, I explain it in terms of jobs. Our government wants to create 60,000 jobs by 2020. If you break that down, if those are $50,000 jobs and it's the only way you had to take in revenue as a government—we know there's more, but if it's a job—it takes the revenue of 12 of those jobs based on provincial income tax to house one inmate, without any other costs.

If we were going to grow by 195 inmates, we need 23,040 jobs annually to pay for inmate growth. You forecast that out to the year 2020, that's 60,000 jobs, and 16,230 of those jobs pay for inmate growth. I'm not talking about health costs, social service costs, or education costs; I'm talking about room and board at our correctional facilities. When we cost that further and realize that remanded offenders cost $80,000, and sentenced offenders cost $43,000, it doubles it. So 33,000 of those jobs will be needed today if it's based on income tax to pay for inmate growth in Saskatchewan. We don't need to go into the whole preamble upstream about what that means because I think that's ultimately what we're talking about.

● (1610)

The Chair: Thank you very much.

Way over time there, but we'll continue on with Mr. Armstrong.

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

I want to thank our witnesses for being here today.

I'm going to start with Mr. Meikle to get a few points of clarity on how his program operates on the ground.

I think it's clear that the children who are coming into your home are already in care. This gives the opportunity for the mothers of these children to live with them in a structured environment. Am I accurate in saying that?

Mr. Donald Meikle: We have a number of different homes. We have a baby steps home that has two bedrooms. If we have a mother and her children in care, they can move into the same house and they provide the care while being supervised by staff.

Sweet Dreams to me is a lot different. It is is for mothers who have taken their children out of care and need that extra opportunity. The best way to help somebody is to provide opportunity. We can't just keep helping somebody to a certain point and then dropping off. We need to help them long term. We need to take that extra investment. Also the Sweet Dreams home is.... I guess I wasn't clear enough in my explanation. Currently we're able to help people not based on their income and not based on the colour of their skin, but on need. For example, we currently have a mother with two children who is in a violent situation, whose uncle phoned us begging for a spot for her. We were able to take her into the Sweet Dreams program to help her. It's based on need. All of the policy and all of the legislation is secondary to the needs of the client.

Mr. Scott Armstrong: To continue with that, there is potential if you had a child in care in community services—

Mr. Donald Meikle: Yes.

Mr. Scott Armstrong: —and the child was about to be returned to that parent because the home situation had changed. That parent may have had an addiction that they've dealt with. Instead of just sending the child back to the home where the problem was or back to that situation, this gives the previously troubled parent the opportunity—it's why the child was seized from them most likely, or there had to be a voluntary intake—and the supports for at least the first little while the child is returned to that household. Am I accurate in saying that's one of the things you can do?

Mr. Donald Meikle: Yes, that's one of them.

Mr. Scott Armstrong: Great.

Mr. McFee, thank you very much for being here.

From the perspective of the province—I'm sure you're aware a bit about this—are there significant savings to its community services budget if you're able to execute this type of support, where they could provide this service by a third party in a home like this?

Mr. Dale McFee: Yes, it's estimated at between $500,000 and $1.2 million on this project.

Mr. Scott Armstrong: The province invests about $1 million into support for the social impact bond, so there's probably a net saving between $500,000 and maybe a bit more on a return to the province for this.

Mr. Dale McFee: That's correct, for 22 children.

Mr. Scott Armstrong: Thank you very much.

Dr. Juppe, you made some comments about social impact bonds. We've heard similar comments from several witnesses here. From your research down in Annapolis—and you looked at a couple of other states and at some things that other jurisdictions within the United States have done—is it pretty conclusive that the jury is still out on social impact bonds? Or have you actually concluded that these are not productive and are probably the wrong way to go?

Dr. David Juppe: It's still very early. A number of states are looking at social impact bonds, and only a handful have implemented them. But our research suggests that they're more expensive, particularly since there is a rate of return to be paid. It's much simpler for government to contract directly with service providers. Why introduce a third-party intermediary? It makes no sense to us.

Mr. Scott Armstrong: Right. So the initiative of social finance can be very positive and very effective. Is it just the social impact bond—that structure within social finance—that you're critical of and don't think is effective?

Dr. David Juppe: Yes.

Mr. Scott Armstrong: There's not very much time left, so I want to say to Mr. Meikle that the next time I'm in Saskatchewan, I want to come to take a look at this, if I can.

A voice: You're always welcome.

Mr. Scott Armstrong: Thank you very much. Thank you all.

● (1615)

The Chair: Now we move on to Mr. Cuzner.

Mr. Rodger Cuzner (Cape Breton—Canso, Lib.): Thanks very much, and thanks to the witnesses.

I'll start with Mr. McFee.

You were going pretty fast with the numbers. I heard somewhere in the last couple of weeks that math is hard. I was having trouble keeping up. You were extrapolating out over the years the number of dollars it would take eventually. I think we can all agree that early intervention and prevention would be the most effective use of public money. If we can keep young people from not engaging in the justice system, I think that's ideal.

That's why I like what you're doing with the absentee program. Can you share with the committee...? Truancy would have been a responsibility of the school board before you changed the approach. Could you give us some kind of indication as to the numbers before the change in direction? And why wasn't it getting done before, if in fact it wasn't getting done?

Mr. Dale McFee: You know, that's a great question. It's better to reverse-engineer it and have a look at how we can make a positive change.

When we started to look at this from a multi-agency perspective and looked at the correlation with criminal activity, it became everybody's responsibility. When you start mining into it, you find that in Saskatchewan there are 6,700 kids missing. I don't mean missing as in missing persons, but registered at one school and then not registered somewhere else. How do you increase graduation rates unless you can actually find where they are?

The old, traditional methods obviously, in an enforcement perspective, don't work. But if you think about this in an intervention perspective, if you had a third party actually looking at it as an opportunity to do an intervention that is designed around our hubs and cores; if you started seeing those as opportunities, you could change the way the business is being done.

A lot of this is based in poverty, as you know. If you take a financial income as the starting point to get in, if you need to increase from a 40% attendance rate—let's just use that number, which is actually high—and want to get it to a 90% variance rate, then you can determine what mechanism to use. Is it a social impact bond? Is it pay for success—in other words, impact investing? Perhaps we can use our own money as the investor through incentive-based, or we can bring a third party in.

The point is that this is what we're analyzing now: what is the best way to operationalize this? We know that going from a 40% attendance rate to a 90% attendance rate and maybe throwing a parenting class into the middle of it and attached to it is absolutely a gold mine of return, based on data. But it's a question of putting the right mechanism in to get it right, with what you just described: it needs to be horizontal across sectors.

The problem we have is that every sector is trying to own stuff. That is putting everybody in a silo and then trying to fix something when you know 10% of the story.

Mr. Rodger Cuzner: Thanks.

Dr. Juppe, you haven't really shared with us any great success stories from states that have taken the social impact bond approach. I think the broader rationale is that there may be some issues that can be dealt with using social impact bonds, and these may be some of the lower-hanging fruit. At least doing so would unlock some potential public dollars to deal with more complex problems. That's what we've picked up from a number of the witnesses now.

Are you seeing any of this take place? Are you aware of any instances in which this has been able to free up money for other investments by state governments?

Dr. David Juppe: I haven't yet. Don't confuse the provision of the service with how you pay for it. There are a number of these programs that are very successful.

I gave you the example of a program in Maryland called the public safety compact, which was designed to reduce recidivism and prevent offenders from returning to prison. It has been in place for three or four years. It has been paid for with a social impact bond.

The program has been extremely successful compared to control groups. It has reduced the number of offenders returning to prison by a wide margin. But the Department of Public Safety and Correctional Services has decided not to renew the contract through this mechanism because they're not achieving the savings they expected; they're paying 60% of the total fixed and variable costs to this provider for this service. They think they can simply contract directly for this service from the provider without the financing component and have a very successful program.

Rikers Island in New York also seems to have a very successful program right now, but the question is, how do you pay for it? The programs can be very successful. You don't necessarily have to have a third-party financier with a rate of return.

● (1620)

The Chair: Thank you very much. That's your five minutes.

Now, we move on to Mr. Boughen for five minutes.

Mr. Ray Boughen (Palliser, CPC): Thank you, Mr. Chair.

During your presentation, Dr. Juppe, you said that it's a little tentative as to whether or not there's any return on investment in the program that you're familiar with. Is that common? We've heard other resource people indicate that there's a fair degree of success. What factor determines whether or not it's going to go forward?

Dr. David Juppe: The two programs we've studied intensively have to do with preventing offenders from returning to prison. The savings that we're seeing are just related to variable costs for these offenders, the cost of food, medical expenses and supplies, for example.

You're not getting as great savings as was anticipated, because unless you close an entire facility, you don't receive the savings of that fixed expense. You may be diverting some offenders and you may divert the need to eventually build an additional prison, but that doesn't save you anything right now in your current budget.

I think that unless you can completely close a facility, you really don't see the level of savings you might anticipate

Mr. Ray Boughen: Thank you.

Donald and Dale, you're both Saskatchewan folks, one in the northern part and one in the southern part in terms of your programs. I too am a Saskatchewan lad, so I appreciate what you're saying.

Could you enlighten us a little more about the makeup of the group? I didn't notice either one of you mention first nations folks in the programs. We have a large number of first nations folks, and often they're in need of some care. Could you expand a little on the composition of your groups?

May we start with Dale?

Mr. Dale McFee: It's a great point. When you look at this and you look at absenteeism, just as you look at correctional facilities in Saskatchewan, there's a large aboriginal component in both of those cohorts. When you open it up and deal with the root causes, you get away from culture or race in identifying the problem and you get into culture or race in identifying the solution.

I think this is all inclusive when we're looking at this. The one I was mentioning was absenteeism, but the other one is straight remand and running facilities. As a bit of a rebuttal, if you do this before jail in relation to remand, it's an automatic savings because you have to put them into a facility. By moving upstream there's a significant amount of money and a better way of doing this business.

When you look at Saskatchewan, 58% of remand in Saskatchewan is for 1 to 14 days, and in remand you get no services, so how can you expect anything other than a baby-sitting service? If we could put something in the front end through a third party provider, we could get right out of this business. I think that's one of the focuses in that particular area.

When you talk about race and culture, I think they are entrenched in everything we're looking at, because a lot of the issues when you're dealing with human services are focused on marginalized people who, in Saskatchewan, are overrepresented by first nations.

Mr. Ray Boughen: Right.

Donald, what can you add to that?

● (1625)

Mr. Donald Meikle: I can tell you that with our Sweet Dreams program, as well as all of our residential programs, we have three elders on staff to assist our clients with their needs. The majority of our clients are first nations or Métis, so it's important for them to have that culture.

What I really like about it is that when I talk about first nations, Métis, aboriginal people being a big industry, it was actually an elder who brought that up while she was advocating for a youth in court. I think what's equally as important with our programs is that ours are youth-centred, youth-driven, and the client has a say in their plan.

I think we're slowly getting out of institutional care where we take people's liberties away in group home settings throughout our province. I'm looking forward to it.

And with our board, we have aboriginal representation.

The Chair: Thank you very much.

That ends this first group of witnesses.

On behalf of the committee, I want to thank all of the witnesses for coming in and sharing your thoughts today.

There was a mention of Gretzky, from I believe it was Mr. McFee, and a guy like me from Brantford takes that to heart. I know his father Walter real well, and I know Wayne real well. Walter, as my Junior B hockey coach, said that you have zero per cent chance to score if you don't shoot at the net.

I believe that all of you today have shot at the net. We're the net. We thank you for your comments here.

We'll take a break now, and then come back to have our second group of witnesses.

●

(Pause)

●

● (1630)

The Chair: Welcome back, ladies and gentlemen.

We're now continuing our study to explore the potential of social finance in Canada.

Joining us for our final hour, we have, from the Social Research and Demonstration Corporation, Mr. Jean-Pierre Voyer, the president and chief executive officer; along with Ms. Sheila Currie, the principal research associate. Joining us by video conference from Edmonton, we have Dr. Barret Weber, the research manager with the Parkland Institute.

Each of the organizations will have up to 10 minutes to present. I will give you a warning at nine minutes with about a minute to go, if I'm able to interrupt. Then following that we will have questions from committee members.

Why don't we proceed with the Social Research and Demonstration Corporation?

Mr. Jean-Pierre Voyer (President and Chief Executive Officer, Social Research and Demonstration Corporation): Thank you, Mr. Chair.

[*Translation*]

Thank you very much for inviting us to appear before the committee today.

[*English*]

Let me offer a few words about us.

SRDC is a not-for-profit, independent social policy research organization. We were established in 1991 at the request of Employment and Immigration Canada to design, pilot, and evaluate new social programs. Now, 24 years later, we have completed more than 200 projects for federal departments, provinces, municipalities, private foundations, and other non-profit organizations. Our work spans all areas of social policy writ large. In recent years, SRDC has been engaged in several projects on the application of performance-based funding and a social finance approach applied to the field of employment services, adult education, and training.

One reason we are here today is that more specifically, in January 2014 ESDC contracted us to be the independent evaluator for two essential skills training projects. Essential skills, as probably many of you know, are defined as literacy or foundational skills that are required for work, learning, and life in general.

These projects are the first two social finance projects launched with the support of the federal government. This was announced by Minister Kenney at the World Social Enterprise Forum in Calgary in the fall of 2013.

In both projects, private investors pay for the training up front and are repaid by the government if the training is successful in achieving pre-established outcomes. You may wish to look at the diagrams we have circulated to get a sense of the architecture supporting the delivery of the training.

The first pilot project, on the slide that has “SIB pilot project for unemployed” in the title is led by Colleges and Institutes Canada, CICan, which plays the role of SIB intermediary. They are working with four colleges across Canada as the service providers.

The project proposes to enrol 400 unemployed, lower-skilled Canadians to receive a program called Foundations, which is an established essential skills training program developed by Douglas College in B.C. This project is testing what would be considered a true social impact bond model in which private investors will recover their initial investment plus a financial return of up to 15%, if the training is successful.

The second project is the flip side. This one is addressed to people who are already employed. It's led by the Alberta Workforce Essential Skills Society; they are the proponent of the project and the intermediary for this pilot.

In this case, the private sector employers will be reimbursed up to 50% of training costs for up to 800 workers, if the training achieves target outcomes. This is a variant that we call “employer as the investor”. It's a departure from a formal SIB, because the investor is not motivated by return on capital investment per se but by the prospect of economic returns from a better-trained and more productive workforce as well as reimbursement of training expenses.

In both of these pilots, government reimbursement of training costs is triggered based on gain in literacy skills. These are measured pre- and post-training, and they are used as a proxy for labour market outcomes success.

Up to this point our organization has been supporting the leader of these projects in the design of the program and has developed reimbursement formulae for both projects. We worked on investor risk-reward scenarios to establish graduated payment schemes and comparability of the SIB offering with market investment. It gets fairly technical, as you can see.

Positioning these projects in the social impact bond literature, I would say that they have some of the core features. First of all, the private investor pays the full cost of the intervention up front; the SIB addresses a well-identified social environmental problem or goal —that is, the high vulnerability of low-skills workers in the Canadian economy; and the activity generates a social dividend and economic return to investors. There are social and economic benefits associated with a more skilled workforce, and private investors in both cases are achieving returns on investment. The payback to the investor is from government and is tied to measurable results.

● (1635)

There is the presence of cashable savings for government. The more people who are trained, the more earnings they make, the more tax they pay, and also, the less reliance on employment insurance and social assistance programs.

Some or all of the risk is borne by the private sector. If desired outcomes are not achieved, private investors bear a large part of the costs.

But they're not like some SIBs we have discussed before in the sense that we're focusing on intermediate outcomes to trigger the payback—that is, skill gains—and not directly associated with measurable cash savings to government.

It goes to show that there is no one unique SIB model, and we came to this realization fairly early in this process, when we were looking at the literature and were looking at what other countries were doing. There are different ways of orchestrating these arrangements.

To conclude, here are some key observations about what we've learned so far. We're not an advocacy group. We could advocate, but we're not going to advocate. We're evaluators, so we present a neutral point of view.

First, we observe, of course, that social impact bonds and social finance schemes in general can be very complex. Defining success outcomes, reimbursement terms, and appropriate metrics to measure success, all of that is fairly complex. Our approach was to ground the rationale for the repayment scheme in evidence of point gains from previous essential skills training intervention to define a benchmark. We look for benchmarking in the process. Then we calculated risk-reward scenarios to prepare a graduated payment scheme that rewards higher levels of success with higher returns on investment. This we had to engage into, while we expected something much simpler at the beginning.

SIBs involve substantial transitional costs because there are a lot of people involved in the process, from investors to intermediaries to service deliverers. All of these people have to work and interact together and come to agreements, and it's a long process, so transitional costs are high.

At the beginning what we realized is that, despite the political interest and support for these projects, the legal and regulatory environment in Canada had never heard of SIBs and it was not adequately prepared. The intermediary for the SIB for the unemployed—that is, Colleges and Institutes Canada—which is structured as a non-profit and charitable organization, had to examine and review alternative corporate structures to be able to receive and administer the SIB funds. It spent a fair amount of money on consultants to figure out how to go about it.

Attracting private investment can be challenging. Potential investors range from benevolent investor foundations and the like to those who are more commercially oriented and who seek market returns on their investment. People whom we call “finance-first investors” may sometimes accept the risk of lower returns if their investment is supporting a good cause but that is not yet the general norm.

ln the case of the workplace essential skills training model, we have learned from the project leads that there can be hesitation to make the significant up-front investments from investors. They are not used to the formula and they are often tempted to rely on other government programs where the subsidies or the support from government is known and more tangible.

In other jurisdictions, the availability of funds for SIB investment has led to more rapid development and implementation of SIBs than in Canada, for good reason. As you well know by now, in the U.K., the creation of the Big Society Capital independent financial institution was a major lever to get them going.

The third point is accounting for all costs and benefits. SIB arrangements would be more likely to attract interest and popularity not only if governments were willing to reimburse investors on the basis of cash savings that their own fiscal frameworks will record but also if they would take into consideration all social and environmental benefits that can be generated through SIB intervention.

● (1640)

As I mentioned, SIBs could be very resource intensive. Without a large definition of benefits, including those going to society as a whole not only those affecting the fiscal framework, they would be harder to popularize.

One other difficulty for Canada is that many of the cash savings don't end up with one government. A lot of social policy is managed by the provincial governments, and they are the ones that will realize the bulk of the cash savings. While the federal government will also realize some cash saving through increased tax or other means, connecting the two is something that has to be achieved if you want to make sense of SIB implementation.

My last remark is to say that we are in favour of further exploration of SIBs in Canada, but please evaluate them carefully. It's not a proven recipe, as we've heard from previous speakers.

The Chair: Thank you.

Now we have Dr. Weber, from Edmonton.

Please proceed.

Dr. Barret Weber (Research Manager, Parkland Institute): I work for Parkland Institute, a think tank here in Edmonton that's based out of the University of Alberta. We don't receive funding or anything else from the university, and we are a non-partisan group that tries to shed light on public policy issues that emerge in Alberta.

I was really pleased to be invited to speak to the committee today, as we've just finished a report that looks at the relationship between the not-for-profit sector and the Government of Alberta and how that relationship has evolved through time and how it's playing out.

One part of our project dealt with social impact bonds and social financing. It was really wonderful to hear from you that you were looking for someone to speak on this. We'll be publishing that report in June, and we'll be glad to share it with the committee members and anybody interested, which will give a larger context to what's been happening with these sorts of issues in Alberta.

In 2014 Alison Redford brought in legislation that would bring social financing to Alberta by using some moneys from the Heritage Savings Trust Fund as start-up moneys and use $500 million over two years to get these social impact bonds going. I'll give the position I take with regard to these sorts of things.

In the current tax-cutting frenzy among governments of the day, there's a keen interest to find solutions to the underfunding of social problems, especially in commodity-based low tax regimes like Alberta's, where oil prices periodically decline and government revenues can evaporate in an instant. Speculative ventures like social financing and social impact bonds are seen as a potential way out of this morass and to look at how we can fund costly social programs.

The problem that we see is that the social finance that's been introduced to date diverts our attention from spending cuts and gets us into a whole conversation that ultimately is regrettable, in the sense that it leads toward a commodification of social services and focuses us on the intricacies of numbers and not people. One of our main problems is that social financing in this sense is a dead end. It's not an avenue to get us anywhere, and it leads us into conversations like I'm sure you've been having about the possibilities that exist. But at the end of the day, we take our attention away from the proper funding of social programs.

Our report examines how ideas like social financing undermine not-for-profit organizations. Our focus has been on social welfare not-for-profit organizations, ones that deliver front line services to Albertans. We just don't understand how it's possible that these arrangements can benefit not-for-profits. We have to look at the context of how not-for-profits have been affected by the financial downturn in 2008 and how they've been struggling to gain some sort of footing in this new environment in Alberta, following a quite turbulent period, as you all know.

I would argue today that social financing and social impact bonds are not only hard on front line workers and people who use the services, but also hard on policy-makers and politicians who have to be the face of these arrangements, which are cumbersome, expensive, require a lot of upfront capital, and whose results are speculative at best. I've read a lot of the literature, and even the most glowing literature will show you that the results just aren't there. We do not have the literature in place to move forward with anything like this.

Look at the case of Alberta and why it has shelved this sort of project. Alison Redford was the biggest proponent of social financing and she talked about it in her leadership bid in 2011. Even right toward the end of her tenure in 2014, she introduced a bill that fell on deaf ears. As we know from the Big Society project in the United Kingdom, these are hard concepts to communicate to people, to give them a sense of what we're doing and how this is important and how this strengthens our society, as opposed to pulling away from it and making it weaker.

● (1645)

The amount of speculation that we see regarding social finance, even from advocates—there's a huge critical literature on the topic—shows that, basically, future governments are responsible for helping the vulnerable no matter how we cut it, no matter how we look at it. I think that should be our focus in social policy. How can we support and help the vulnerable? How can we support and help these grassroots organizations across Alberta that have been built since the 1960s and the Social Credit government? These non-profits need to be built up and supported and given generous funding, because, at the end of the day, they're actually preventing social problems in local communities. We should be seeking to strengthen our public services and our public sector, not undermining them by turning our attention away into this sort of speculative, what you could call maybe, venture capital in relation to social problems.

There may be some areas in which social impact bonds and social financing works, but I'm saying in terms of social welfare organizations, we're turning our attention away from the sorts of areas that need our focus, and those areas have to do with how we are delivering our social programs, how we are supporting our not-for-profits, and whether we are adequately funding these organizations through time.

In our report, we traced the geneology of this movement towards offloading of government responsibility onto not-for-profit groups, and how this has become an obsession and a fascination in a sense that it shouldn't be. Really, for what it is, it's actually a form of privatization. Unfortunately, the responsibilities for a lot of these problems and a lot of these speculative ventures fall not into government's hands—or maybe they do—and not into private hands, but onto the not-for-profits themselves.

Social impact bonds are built around partnerships, but these are partnerships that are formed for all the wrong reasons. In the case of social welfare, this is the profit on social problems and democratic grassroots organizations such as non-profits. So while the promise of new money for social services is certainly inviting, we have a responsibility to be aware of the potential costs that these ventures could have as they undermine grassroots organizations in small communities, in places like Rimbey, Alberta, for example. We need to really look at that.

There exists a precarious balance between government funding, charitable donations, and the not-for-profit sector in Canada, in Alberta. Social finance threatens to undermine that balance by imposing altogether new responsibilities on non-profits and governments alike. Ironically, the result of these efforts in Alberta, as elsewhere, may be long-term damages, not only to the not-for-profit sector but to its clientele and to government and society at large.

Let's remember for a moment the list of generally accepted benefits that the non-profit sector brings in providing social services: first, there is an efficient use of voluntary labour; second, there are flexible and rapid responses to specific local needs; third, not-for-profits are less bureaucratic; and fourth, Albertans have a lot of respect for not-for-profit organizations in their communities. The more non-profits are asked to take on larger, more complex tasks, the less these same tasks can be met through the often part-time or volunteer labour. There needs to be more and better trained professional staff to take on these new arrangements. They cannot be attained through the traditional sources of charitable giving, and must instead be obtained from government or somehow through the social impact bond model. But since this new financing model is based on markets and competition, which are not areas the not-for-profit sector is accustomed to dealing with, non-profit agencies find themselves having to hire or contract professional staff whose tasks include writing grant applications.

● (1650)

The Chair: You have about one minute left, sir.

Dr. Barret Weber: That sounds great. Thank you very much.

Unfortunately, this undermines each of the well-documented strengths of the non-profit sector.

Since I do have one minute, I really will cut to the chase and say that instead of focusing on social finance, we should be looking at how we can strengthen the public sector, public programs, and the not-for-profit sector in a way that suits those grassroots organizations and is sensitive to the unique issues that they face in a place like Alberta.

I'll just leave it there for now. Thank you very much.

The Chair: Thank you very much.

Thank you for your testimony, and we'll move on to questions from committee members.

Go ahead, Madam Groguhé,

[*Translation*]

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

I want to thank the witnesses for their contribution to this study.

According to Dr. Weber, social finance is clearly not a panacea or a tool that is going to revolutionize social policy as we know it and help us meet the challenges that are out there.

Dr. Weber, I listened to you closely. You put things in perspective. We have been under the impression that social finance is the magical tool that will truly solve all of today's social problems.

There are many pitfalls, including one related to the fact that we do not have enough data on the use of SIBs, or Social Impact Bonds. In your study, you say that we mustn't go too quickly and that we must take precautions before moving forward with social finance.

I would like your opinion on one thing in particular. When we talk about social finance and social programs run by non-profit organizations, and taking care of people who are having difficulties for example, what does an organization stand to gain from social finance when it has the means to do its work?

● (1655)

[*English*]

Dr. Barret Weber: Okay, what would the added value of social finance be? I guess I should say that the reason we inaugurated our study wasn't necessarily to look into social finance per se. We actually were looking into the struggles that not-for-profits were already facing in Alberta, and social finance is just part of the picture. In some ways there are aspects of social finance that aren't that new, in the sense that there's a long tradition of trying to find alternative ways of funding social programs, especially in a place like Alberta.

We went through in detail all the way from 1966 when the Preventive Social Services Act was passed by the Social Credit government up to 2014 essentially. We looked at that period of time and at the relationship between the Government of Alberta and the not-for-profits in Alberta. What we found is an absolutely fascinating story in which Alberta passed the PSS Act in conjunction with other programs like medicare during this period. It was really a growth period of building up the social safety net in Canada writ large and also the Canada assistance plan during this time.

What we see through time in Alberta is a real push under the Klein government from 1993 forward, especially at the turn of the 2000s and on, to privatize social service delivery in any way they can. Ralph Klein set his sights and that of his government on ways to control expenditures as much as possible; and one of those ways, in terms of a real tangible example, is children's services. They tried to take the aspects of children's services, maybe not in terms of child intervention, but in terms of these preventive programs that helped to keep families intact and keep families together. They tried to see if they could download that responsibility onto other organizations than the government.

Based on our work, I see the precursors to this push towards social finance in these kinds of pioneering efforts towards privatization in Alberta.

Just to finish quickly, the initial impetus of the Social Credit in the sixties, seventies, and eighties wasn't necessarily towards privatization: we certainly did not find that. We actually see a really interesting policy—and I would encourage you to look into it—based around preventing social problems as they come about in small communities across the land.

The Chair: That's the five minutes.

Mr. Eglinski, your five minutes, sir.

Mr. Jim Eglinski (Yellowhead, CPC): Thank you.

I have a question for Dr. Weber. I'm quite surprised at the outcome that you came to in your study. Did you go outside the province of Alberta in looking at programs or at any ways that social financing could be improved?

● (1700)

Dr. Barret Weber: No, we did not.

We looked broadly at the Big Society initiative in the United Kingdom and how that set of ideas was brought to Alberta. Danielle Smith from the Wildrose Party actually used the term in 2011, and Alison Redford was clearly influenced by it, but there's no direct link. These ideas certainly circulated in Alberta following, say, around 2010. It really was something that people were talking about, no question.

Mr. Jim Eglinski: Did you ever get the $500,000? Was it put aside from the....

Dr. Barret Weber: It was $500 million.

Mr. Jim Eglinski: The $500 million, yes.

Dr. Barret Weber: No, right before it was about to be transferred, Jim Prentice killed Bill 1, in December 2014.

Mr. Jim Eglinski: You're very positive in your thoughts here and they somewhat bother me a bit. I'm from Alberta, but I'm also formerly from British Columbia. Are you familiar with a couple of groups, such as Northern Development Initiative Trust out of Prince George, which started with $250 million and spread out $55 million over 10 years in social finance? They're still at the same amount. They were given the money by the government, they are managing the money independently of the government, and they're doing social finance in education, in business, in training, etc. And it's the same with a group down in Vancouver who are working very similarly; they're dealing with the banks and using credit union money.

I'm surprised that you would not go outside of your own province but come back with a very strong paper saying that it would not work in the province of Alberta.

Dr. Barret Weber: Parkland Institute is an Alberta-based institution, and that's mostly our focus. That's why it would certainly read that way. It was our focus.

I understand that British Columbia is much more enthusiastic about the concept. To be honest with you, if Alison Redford had been premier for longer, we would certainly have gone down the road further.

But I think it is indicative that one of the first things Jim Prentice did was to kill Bill 1. I salute him for it, in that, again, as you know from my paper—not to be disrespectful to anyone on the committee or anything of this sort—the literature is pretty definitive that we need a lot more time for discussion and gestation before we'd move forward with this in a confident way, especially in regard to social services.

Again, that's our focus. It's in terms of how this could be used in social service organizations.

Mr. Jim Eglinski: Your belief, I take it from your paper, is based on the idea that social services should be left in the hands of government.

Dr. Barret Weber: That's correct.

Mr. Jim Eglinski: That's the end of my questions. I don't want to go into too....

Thank you.

The Chair: That's fine. If you want to yield your time, we're good to go with that.

Mr. Cuzner normally has the next slot but he had to exit the meeting, so we're going to move on to Mr. Butt.

Mr. Brad Butt (Mississauga—Streetsville, CPC): Thank you very much, Mr. Chair, and thank you to everyone for joining us today.

I have a different view of social enterprise and social finance. My view is that I've never seen it as a replacement for services that governments are mandated to provide, whether they at the federal, the provincial, or even the municipal level. My experience with social enterprise is usually that some very creative people in the community have recognized a niche need for something to support, often a vulnerable population that probably is already served through basic social services. We already have those networks in place, but because of the unique circumstances they are in, they are participating in a social enterprise model that is perhaps providing job training, vocational support, and some educational opportunities.

I'll give you an example that I'm familiar with in the city of Mississauga. It's called “destination café” where a group came together that is providing housing for persons with mental illness issues, while having those people work in a café. They're getting a job and they're getting housing, and they're still getting basic supports through the Ontario disability support program, which provides direct income support. This supplements and provides a bit of a training opportunity and some permanent housing for them. We all know how important secure housing is for people to be able to get their lives turned around. I want to get both groups' feedback on that. Am I getting it right? Is that not the real idea and model of social enterprise? Are these kinds of niche or specific grounded type programs not a replacement for services that are being provided and mandated by government?

Maybe we'll start with Mr. Voyer, and then Dr. Weber you can comment, and that will probably be my five minutes, Mr. Chairman.

Thank you.

● (1705)

Mr. Jean-Pierre Voyer: This is an opinion, and I guess I share your view in large part. My basic starting point is that the welfare state is under pressure everywhere, and whether you come from the left or the right, it's a fact, if you look at the trends. The instruments of social enterprise, social finance, social impact bonds all fulfill different objectives, but in general if the thinking is to use them to replace an established government program whose specific objective is to serve the population I think that's the wrong point to start with. But if these tools are used to trigger innovation in social policy—and God knows, we'll need some because the needs are growing more and more—and if they trigger more efficient service delivery... government or even non-profit organizations are not always a model of efficient service delivery.

If we can find ways to improve that without depriving them of funding, but if they're funded differently, so be it. The literature isn't conclusive. That doesn't mean that it's a bad way to go. We just have to go there with caution, and as we advocated a minute ago, you have to evaluate the best means of doing that as you go forward. There will be trial and error and there will be more errors at the beginning than successes, but eventually it may trigger inspiring moves from non-profit organizations that would otherwise not happen if they stayed with the traditional funding process.

Mr. Brad Butt: Dr. Weber.

Dr. Barret Weber: I agree with the general idea there, that social innovation and social enterprises are not necessarily a bad thing, and I certainly wouldn't want my remarks to be misunderstood in that respect.

As I said, our focus is quite narrowly on the social service area, and I think part of what my talk would indicate is that we should be placing some pretty firm limits around what it is we are talking about, and what it is we are not talking about, because at the end of the day, when there is this kind of broad speculation going on, it impacts these grassroots organizations. The number one thing, I would say, is to keep an eye out as to how this affects not-for-profits, which now have to figure out how they are going to play in this new regulatory regime and how they can get up to speed.

One thing I would definitely advise—and this is something that comes out of the U.K. as well—is to make sure this sort of thing isn't understood to be mandatory, that you have to use some sort of social financing mechanism if you are going to receive the coupled government funds. That would be one of the big points I would make, because that truly undermines not-for-profits.

I have spoken with people in Alberta who have worked in the not-for-profit sector their entire careers as social workers, consultants, and so on. They are very much concerned that this kind of model changes the focus of not-for-profits from one that is, as I said, less bureaucratic and actually based on serving community needs, to one where all of a sudden you have not-for-profits that are concerned about delivering a profit to for-profit organizations that are involved in these arrangements in one form or another. That changes the fundamental mission.

I would say, again, look at the history of not-for-profits in Alberta. It's a unique one. It's not built around this idea of “let's see how big we can build the state” and all these sorts of things. In some ways, we've had a really interesting mutual back-and-forth between the government and these organizations that created a unique history in Canada. That is one of the ways we can justify saying that we focused almost exclusively on Alberta, because Alberta has a unique history in terms of delivering social services or preventative social services through groups like these. Our concern is very much Alberta-based. Whether there are implications elsewhere....

The last thing I would say in terms of the welfare state is that I just don't see governments doing a good enough job of securing the revenues needed to actually support these sorts of programs. The sky has been falling in Alberta for a long time. Why? It is because the case for proper taxation policies that would be able to deliver on the promises that are made to everyday Albertans has not been made. I think the current government change is an example of that, where the NDP was able to make a case for why increasing the corporate taxes could be beneficial to the average Albertan.

● (1710)

The Chair: Thank you very much.

Now we move on to Madame Morin for five minutes.

[*Translation*]

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

I want to thank the witnesses for being here. Their testimony was very interesting.

Mr. Weber I thought what you shared about your own concerns with social finance was especially interesting. I would like to give you the chance to elaborate on that. Social finance is something that might be very interesting to community organizations and governments. I understand the principle, but I would like to know the other side of the story.

[*English*]

Dr. Barret Weber: Actually, the question is not clear to me.

[*Translation*]

Ms. Marie-Claude Morin: Yes, I can clarify my question.

I would just like you to go into more detail about your organization's concerns with social finance. Perhaps you could present both sides of the coin. There are positive aspects to this. I see that there are, anyway.

[*English*]

Dr. Barret Weber: Certainly. The positives are the promise that it brings in new money. That is enticing to everyone, whether you are a government, a not-for-profit, or a community. Everyone wants to bring in new moneys, so I understand that. If that's possible, great. Wonderful.

However, not to be gloomy or anything of the sort, but I think we should look at the real way this affects organizations. You are basically moving to a model where you have non-profits that look a lot more like for-profit organizations than perhaps they should. When you do that, you lose a lot of the distinctive features of the not-for-profits, especially their less bureaucratic nature, which I think is really important. Organizations become a lot more bureaucratic and have to learn all of this stuff.

I talk to a lot of people in the field who are concerned about all of the training this involves. Who is paying for this training? How are your local communities supposed to get educated in this when governments are threatening to earmark certain moneys only if they are attached to outside money. When that kind of stuff happens, that's concerning.

[*Translation*]

Ms. Marie-Claude Morin: Do you think we should be concerned about the community groups' autonomy?

[*English*]

Dr. Barret Weber: Certainly. No question about it, but the other side of it, in terms of this point of the current system not working very well, is that we have a larger conversation going on in what's called outcome service delivery. There are also some problems attached to that, in that the contracts from the Government of Alberta are coming with more and more strings attached. Organizations are also having issues in terms of having the accountants on staff and all of the technical services required to show you are measuring an outcome and that you've reached this outcome. Whether we go into social finance or not, even if we stick to what has become the traditional model in Alberta, it also has problems. That's a topic for another day.

There are also a series of issues organizations are facing with outcome service delivery, even if we just stick with the status quo. I readily admit that people are talking like that as well out here.

● (1715)

[*Translation*]

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

That is all. I have no further questions.

The Chair: Thank you.

[*English*]

Thank you.

Now we move on to Mr. Armstrong.

Mr. Scott Armstrong: Thank you, Mr. Chair, and I want to thank our witnesses for being here.

I'm going to start with Mr. Voyer. On the pilot project, can you give us an update on what has been accomplished so far? Could you focus on how we evaluate it. We set the goals and the private investor has some investment. There has to be some achievement. Also, we have the outside evaluator. What criteria are set? How do the outside evaluators investigate and get the data they need to say we're achieving the goals the project was supposed to achieve?

Mr. Jean-Pierre Voyer: Thank you. I'll let my colleague answer the first part of the question of where we're at.

Ms. Sheila Currie (Principal Research Associate, Social Research and Demonstration Corporation): For the project that Colleges and Institutes Canada is the proponent and the intermediary for, we're at the point where they have, as Jean-Pierre mentioned earlier, created a special purpose entity with which to administer the funds for the social impact bond. They have selected service delivery partners in the name of four colleges across the country. They're on the cusp of being able to make an offering to private investors for this social impact bond.

In getting there—and this is part of the complexity of social impact bonds—we needed to work together to determine benchmark levels upon which success would be measured. We did that based on evidence from previous essential skills training programs. Then we set graduated payment schemes so it gets paid, or it doesn't get paid. It gets paid at different levels based on varying degrees of success.

Mr. Scott Armstrong: With the four separate institutions you've been working with, I'm assuming they were heavily involved in designing the evaluative process for this, were they not?

Ms. Sheila Currie: SRDC, as the evaluator, is designing the evaluation. We've been at the table with them from the start to talk about that.

Mr. Scott Armstrong: Right. They've had some input at the front end because they're the ones who deliver the program. If they're going to be evaluating then they have to understand how the evaluation is going to work. Have they been contacted about that?

Ms. Sheila Currie: Yes. We were on board a long time before they were because they're a subcontractor to the proponents to the intermediary.

In terms of the success criteria, that was established by the funder. There's a standard scale for measuring literacy, and it's a 25-point gain on that scale. It's a very technical process determining the benchmarks and the graduated scheme, but that's a lot of the work that SRDC has been helping Colleges and Institutes Canada with up until this point.

Mr. Jean-Pierre Voyer: If I may add, we have three roles. That is a bit unusual, because if you look at the U.K. model, or other U.S. models, in the crime area the evaluator is more of an outsider presently. We have been playing the role of helping to set the framework and supporting the leaders. We have a second role of auditing whether the outcomes have been measured and reporting to the funder, so we're relied upon in that way. The third role you alluded to is the evaluation of the old initiative. What's the question here? The key question is whether this way of doing things is better than another way. This is hard to answer without running similar projects side by side, one that would be governed by a social impact bond and another one that would be governed by a traditional funding scheme.

In the absence of that, we're relying on our long experience evaluating the traditional way to provide comments on how well and how suitable the SIB model will be and how it performs. A lot of our report will consist of documenting the implementation—some have difficulties in raising the funds, or things like that—and what the investor expects. We hope that at the end our report will provide a lot of lessons learned, but it will not be a definitive type of report that says you are better off from now on offering these sorts of services with a SIB.

Mr. Scott Armstrong: Right, so it's almost like a quasi-experimental study where you're going up against the previous data from the traditional way of implementing this type of training.

Moving forward, if you maintain the timeline that you've projected out, when are you going to be finished the pilot project? When can we expect that report?

● (1720)

Ms. Sheila Currie: I think the training will probably finish in early 2017 for the Colleges and Institutes Canada project, and then will come our evaluation. There's a longer term follow-up that we're required to do by our funding agreement 12 months after the end of the training, in order to determine whether or not the skill gains have been maintained over the longer term. So, it will be about a year after that before the final report is in.

Mr. Scott Armstrong: Are we looking at the final report coming sometime in 2018, probably the fall of 2018?

Ms. Sheila Currie: That is likely.

Mr. Scott Armstrong: First of all, I wish you the best of luck as you move forward. I think it's going to be a very important report. There's no sense in moving forward with this type of venture unless you can actually show there are substantial benefits to doing this over what we've done before.

I'll go back to the point, and I'm going to again focus on Mr. Voyer.

Oh, are we done?

The Chair: Mr. Armstrong, I've given you a lot of leeway there.

Madam Groguhé, I think you have one short question.

[*Translation*]

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

Mr. Weber, would it be possible to have the report you are publishing in June, sent to the committee?

[*English*]

Dr. Barret Weber: We'd be glad to.

The Chair: Thank you very much.

Mrs. Sadia Groguhé: Merci.

The Chair: I think there's agreement that there be no further questioners. We're finishing up a little early. There really is a reason for this, as all of us here at committee do have to go to the House of Commons to vote, and it's a bit of a distance between this building and the Centre Block. This gives us a little bit of a cushion in getting there.

Thank you so much for taking the time to be here today for this study we're putting together. Thank you for your expertise.

The meeting is adjourned.