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Chair

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)): Members, I'd like to call the meeting to order. Thank you so much.

This is meeting number 56 of the Standing Committee on Human Resources, Skills and Social Development and the Status of Persons with Disabilities. We're here for our final meeting with witnesses today to wrap up our study on exploring the potential of social finance in Canada.

First of all, I'd like to introduce you to Andrew Lauzon. He is substituting today for Jessica, who has a family matter to deal with.

I'd also like to welcome our witnesses. Good afternoon. I know we had a previous engagement with you. We didn't keep our end of the bargain, but proceedings in the House of Commons prevented our being here with you.

Joining us today, representing Finance for Good, we have Mr. Lars Boggild, the vice-president for eastern Canada, and Justin Bertagnolli, a partner in that enterprise. Also, we have with us live—I have you listed as video conference, but actually you're here—Sally Guy, the policy and communications coordinator for the Canadian Association of Social Workers. We have by video conference, Mr. James Mulvale, dean and associate professor from the faculty of social work at the University of Manitoba.

Again, welcome to you all.

Each of your organizations has up to 10 minutes of presentation time, and you can split that between witnesses if you wish or use it however you choose. I will give you a warning at about the nine-minute mark to start to wrap up. You will have about a minute left at that time. Then we'll move to our questioning by the members assembled.

Why don't we proceed, starting with Finance for Good. I'm not sure if it's going to be you, Mr. Boggild or Mr. Bertagnolli, but please proceed.

Mr. Lars Boggild (Vice-President, Eastern Canada, Finance for Good): Thank you very much, Mr. Chair, for welcoming us back. Let me first say how much I appreciate the opportunity to speak to you today. We really value opportunities to work together with partners in government, the community sector, and the private sector to improve the lives of Canadians in our communities. I mean that quite truthfully.

We will explore two areas in our testimony today regarding how we can leverage the best of all sectors in social finance, and a road map for this market, but first we will provide some context as to how we arrived at our perspective. We submitted a brief to the committee on March 11, which I believe has been circulated. It addresses some of the more tactical and specific recommendations we have, which we would be pleased to discuss during the question period.

I'll begin with context about our organization, Finance for Good. We are a non-profit with a vision of a Canada in which investments in prevention and early intervention are a strong priority and appropriately valued for the impact they can create. We believe there is tremendous social and economic value in finding mechanisms through which we can identify, resource, and grow effective programming that is targeted upstream on social issues so that we don't have to deal with negative health, social, and environmental ramifications later.

With this focus we are foremost a pay-for-performance and social finance intermediary. We have advised provincial governments, foundations, and social sector delivery organizations across Canada since our founding in 2012 as they pursue innovative approaches to financing the implementation of new or growing preventative and early intervention programming. In particular, we are a leading Canadian organization on the use of social impact bonds, SIBs, and outcomes-based financing, which is what our testimony will focus on today. We have worked and are working actively with partners to overcome the hurdles that have actually limited SIB development in the past, such as issue selection, intervention design, and impact valuation.

We provide this technical assistance as partners to organizations so that they can have the strategic clarity on the social and economic dimensions of the outcomes they produce, and they can measure what matters and have performance management systems to support effective execution.

With that in mind, we have worked with clients in the public sector, such as the Edmonton Police Service, and the social sector, such as the Mennonite Central Committee, to build the impact analysis, evaluative strategy, and economic modelling to have confidence about the feasibility of social impact bond initiatives so we can move forward as partners together in implementation.

With that context of the practitioner perspective we'll bring, I'll focus on what we see as a best-of-all-sectors approach and a road map for the potential for outcomes-based finance as a part of social finance in Canada.

First, we believe a best-of-all-sectors approach to accomplishing needed social change is necessary. We have seen first-hand that social finance initiatives such as SIBs are collaborative. This isn't purely about the social sector getting more business-like, but rather about leveraging the best of what each sector brings and designing these partnerships to work best for all stakeholders.

For example, we can learn from the best of the private sector when we move away from a status quo where funding is often provided with little data to support a program's ultimate effectiveness. This has been validated by our work conducting assessments on dozens of organizations through workshops where we've seen the relative scarcity of useful outcomes-based information.

I would contrast this with approaches where programs that are effective receive additional resources to grow in scale to reach more people perhaps becoming policy. Those that aren't effective should adapt, or, we believe, they should attract fewer limited resources over time. As a result, data-driven evaluation is a core functional area of these projects, providing increasing levels of confidence as to what works for specific populations and what does not on a more continuous basis.

We can also tap the best of the social sector when there is space created by these tools for local leaders across sectors to assess programs and choose what they can support as best for their beneficiaries. Because government is buying outcomes, not processes, it leaves the sector to innovate freely in that pursuit. For example, engagement levels by ex-offenders in the first SIB supported program in the U.K. which focused on recidivism rose from 37% to 71% between its first two years and second two years of operation. That's obviously remarkable process improvement, which those service providers credit to the outcomes focus and analytical capacity of partners that the Peterborough SIB brought to bear.

We can also see the best of the public sector where it focuses on public accountability to articulate social priorities and focus on addressing long-standing social challenges with a value-for-money lens. This can be addressed by moving from a status quo where data is sometimes gathered but often not linked across departments or associated with service providers, to an approach where we leverage this institutional opportunity to collect and track data on acute systems use, and work wherever possible to understand the value created for the expenditure in those services delivered.

• (1535)

Additionally, we have been told in many conversations with public servants that substantial funding decisions are made for service providers based on their processes. Providers will often be asked to come forward with logic models and theories of change, and are held accountable to their adherence to that initial idea. We contrast that with an approach where government can act as an outcomes buyer—paying for successful outcomes, not adherence to process—in areas where additional experimentation is needed.

These benefits are not exclusive to social finance—we know that—but these initiatives do bring about the partnerships and resourcing necessary to focus all parties on these shared, positive improvements, in our opinion.

Second, regarding a road map for this market, we highly recommend taking a long-term view in knowing that you are supporting a market's creation. I think it's appropriate to keep sight of what is possible as the market matures and all market players learn to collaborate more efficiently. Our work focuses on a more effective use of public dollars that can overcome some of the risks and challenges of channelling more resources to early interventions when our systems of acute care, such as prisons and emergency rooms, are often already strained, and there's uncertainty about whether upstream investments will yield the outcomes desired. This is also about a more socially impactful use of private dollars. For example, I know you've heard from Mr. Stephen Huddart of the J.W. McConnell Family Foundation, and others, that there is an interest in more socially impactful investments that align capital with organizational missions. Intergenerationally, this is also true. Accenture has estimated that over the next two decades, an estimated \$30 trillion will be transferred intergenerationally in North America. This transition comes with emerging investor values that are willing to accept a higher risk profile or lower return for social and environmental impact. There's real value placed on those concerns.

Despite that capital supply side, in Canada there is only one SIB so far, the Sweet Dreams project in Saskatchewan, which I know you've heard about. It's a positive enough experience by their public sector that MLA June Draude has been named their legislative secretary for SIBs.

Global growth trajectory for this innovative policy is remarkable, with the first pilot SIB launched in the U.K. in 2010. There are now 44 SIBs actually live globally, with \$245 million Canadian of private capital deployed. Meanwhile, in the United States there are at least 40 initiatives that are getting serious developmental support, leading to a next generation of these tools that we can actively learn from as we draw their road map here in Canada to address many of the concerns of critics.

We strongly recommend considering the more mature contracting approaches that have emerged in the U.K., in particular the fair chance fund and the youth engagement fund. Both of these public funds created a dedicated pool of outcomes payments with a defined measurement approach and defined payment cap for particular outcomes. Providers were invited to bid on that pool, defining how many individuals they intended to serve and what they'd require as payment for particular outcomes up to that cap, if successfully achieved.

This lets the market work where it can best do so, allowing organizations to articulate what is a fair payment for outcomes, given their risk of producing those outcomes, which helps drive better public sector value. Equally, by spreading out the internal burden of data teams and public servant time, it makes these approaches lower cost as a commissioner. We believe this approach can meaningfully address concerns about transparency.

Sector readiness is essential for these tools to be usefully deployed. This readiness is valuable beyond simply outcomes finance by driving the strategic clarity and performance management that will lead to better social spending overall. We strongly believe that the recently announced social finance accelerator initiative should build from positive examples, such as the U.K.'s investment and contract readiness fund that has been used in a variety of social finance transactions, from non-profit social enterprises to social impact bonds as well.

In summary, following are a few recommendations we draw from our ongoing work in this field as to how the Government of Canada can best achieve the potential of social finance in Canada.

These collaborative partnerships are about bringing the best of all sectors forward, so governance should enable that. Public accountability is essential, but that accountability needs to have focus on ensuring the responsiveness of systems such as public data as well.

Contracting can learn from the positive experiences of our peer jurisdictions. Focusing on what the public sector has a willingness to pay for, with a strong focus on value for money, is extremely important.

An enabling ecosystem for social impact bonds is also an enabling ecosystem for more evidence-driven decision-making in the social sector. Contract and investment readiness is a temporary issue that can and should be addressed now.

• (1540)

Thank you very much, Mr. Chairman.

The Chair: Now we will move to the Canadian Association of Social Workers. I'm not sure whether Mr. Mulvale or Ms. Guy wishes to proceed.

Ms. Sally Guy (Policy and Communications Coordinator, Canadian Association of Social Workers): I'll be starting. Good afternoon.

On behalf of the board of the Canadian Association of Social Workers and our provincial and territorial partner organizations, I'd like to thank the HUMA committee for hearing the perspective of social workers in this dialogue on the potential of social finance in Canada.

[*Translation*]

Today, I will be sharing my time with Dr. James Mulvale, who is joining us from Winnipeg.

I will present a few fairly general principles, while Dr. Mulvale will speak a little more specifically about our recommendations.

To begin, the Canadian Association of Social Workers, or CASW, is deeply concerned about growing inequity in Canada and has focused its advocacy efforts in recent years to highlighting very realistic ways that all levels of government can work together to support a more equitable Canada.

[*English*]

CASW has often reaffirmed the importance of a pan-Canadian vision of social policy based upon a concept of coordinated federalism in which the federal government negotiates with the provinces and territories and helps to finance social programs under certain guiding principles. It's a vision that would ensure that all Canadians' basic rights were met and that there would be a common minimum standard of service across the country.

CASW appreciates that the intention behind social investments is to hold those investments accountable to benchmarks of achievement, in other words, a return on investment. To this end, CASW is advocating that the federal government ask of itself what it's expecting from others.

As you know, the Canada social transfer is a primary source of federal funding in Canada that supports the provincial and territorial social programs. The CST funds many programs that are very important to maintaining a good quality of life for all of us. At present, the CST is largely an unconditional transfer, meaning it lacks agreed-upon principles of accountability to ensure equity of social programs across Canada or, again, in other words, a common return on investment.

As this committee deliberates on the potential of social finance in Canada, CASW asks that it entertain principles of accountability that can be applied to all investments by government, whether it is the CST or the financial backstopping of other different forms of social investment.

The Government of Alberta has adopted a social policy framework complete with principles that guide decisions and program delivery. We suggest that Canada adopt a similar vision when it comes to the Canada social transfer as well as to social enterprise.

[*Translation*]

As you know, the Canada Health Act guides the delivery of healthcare in Canada. Similarly, a Social Services Act, with broad principles including need, comprehensiveness, accessibility, fairness, portability, universality, and public or non-profit administration—if adopted—would guide all investments in social services in Canada.

[English]

I now will pass my time to Dr. Mulvale.

• (1545)

Dr. James Mulvale (Dean and Associate Professor, Faculty of Social Work, University of Manitoba, Canadian Association of Social Workers):

Thanks, Sally, and thanks to the committee once again for hosting our presentation.

I think it's good to start by mentioning that the spectrum of social finance being reviewed by this committee is very broad. In thinking about this broad spectrum, CASW is fully in support of social enterprise as a model in which not-for-profit organizations and foundations can play a vital role in service innovation and partnering with governments and other funders to address social needs and problems in innovative ways. All the solutions to our social problems are not one-size-fits-all or bureaucratic.

As this committee has heard from other presenters, social enterprise offers opportunities for individuals, communities and organizations to leverage social and financial support to meet identified needs. We think a key principle in this process is accountability for the success of social enterprise, with the end being a social good.

With that being said, the Canadian Association of Social Workers does have deep reservations about the overall stated profit motivations behind social investments or finance, including social impact bonds. CASW understands that the intention of these types of social investment is to move forward with pay-for-performance agreements, which would see public dollars cover premiums to businesses that invest in social services, which provide, if you will, a return on investment. The CASW notes that the experiences and results in jurisdictions that have adopted for-profit models of human service delivery in areas such as health care, corrections and delivery of social assistance are not encouraging.

One problem that has arisen in for-profit health care, for instance, is what's sometimes referred to as cream skimming. Profit seekers will address the needs that promise the quickest and largest return on investment, thereby diverting financial and human resources, as well as policy-makers' attention away from the needs that don't have such readily available solutions.

The great moral and ethical challenges that we face as a country—and these include health for all, the elimination of poverty, the full inclusion of our indigenous peoples—are public policy questions in which governments and elected officials must take the lead. It is our view that business has an important but subsidiary role to play in addressing these challenges. The responsibility of the business sector includes paying their fair share of taxes to underwrite the cost of necessary public services provided in public and not-for-profit ways.

We have mountains of research now that indicate that highly unequal societies are not healthy ones. They have a lower quality of life. The social determinants of health literature indicates this as well. We know there are negative social outcomes for high levels of economic and social inequality. One of the best-known sources in

this regard is the work of Wilkinson and Pickett, *The Spirit Level: Why Equality is Better for Everyone*.

Measuring the impact of long-term public investment can be done in our quest for a more equal society in which tax burdens and responsibility for service delivery is shared broadly. We worry that social impact bonds that have a three- or four-year investment cycle may not always get us where we want to go. Our association, the Canadian Association of Social Workers, contends that longer-term public investment in addressing the root causes of social distress might ultimately have more impact in addressing social problems and creating opportunities for individuals and a better quality of life for all.

• (1550)

In conclusion, I'd like to make three recommendations, and maybe we can get into some more discussion later. First, the Government of Canada should pool financial resources to fund projects that show promise as innovative and more effective ways of meeting social needs. Second, the Government of Canada should make a binding commitment that existing public services provided by community organizations and not-for-profit organizations will not be reduced in order to engage in social investment bonds or other social finance initiatives. Third, the Government of Canada, working cooperatively with the provinces and territories, should develop a social care act with broad principles that include need, comprehensiveness, accessibility, fairness, portability, universality, and public and not-for-profit administrations.

We feel these principles would be good guides to ensure transparency and accountability for all our investments, both public and private, in securing a better future for people in Canada.

I think I must be at the end of my time, so I'll wind up there.

The Chair: There is one minute left, if you want to carry on for that final minute, sir.

Mr. James Mulvale: Okay. It's not exactly worded in our presentation here, but we do worry about what sometimes is referred to as perverse incentives. This has come to light recently, for instance, in the United States, where there's a large presence of for-profit providers in the prison system. Some advocates for more community-based restorative justice approaches worry that the private sector involved in delivery of correctional services is trying to move public policy in the other direction, toward more punitive approaches. That doesn't necessarily always happen. We feel there's a definite role for the business in the private sector to be involved in philanthropy, targeted philanthropy, and providing funds for research. With the public good in mind, it's important to engage in evidence-based provision of services in fields such as social care, health, and other public services.

I'll leave it at that and answer some questions.

The Chair: Thank you very much.

Thank you for your presentations.

Now we'll move on to questioning from members, beginning with Madam Morin, for five minutes.

[Translation]

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

My question is for all the witnesses who are with us. I would like to thank them for their testimony. It's always very interesting and allows us to learn a little more.

In a financial context where social impact bonds are a kind of contact between a business and an organization, aren't you concerned that some organizations with fewer human and legal resources might be in some way subject to large companies and lose their independence? I'm curious to know whether there is a danger in that regard.

[English]

Ms. Sally Guy: I would answer that is exactly what CASW was worried about. We are very worried about small not-for-profit or other social services organizations losing their autonomy and feeling co-opted, or that there are benchmarking systems breathing down the necks of front-line workers and getting in the way of them doing their good work.

To answer your question very simply, yes, that's one of our major concerns.

[Translation]

Ms. Marie-Claude Morin: Thank you.

• (1555)

[English]

Mr. Lars Boggild: To address that from our perspective, what we've found—and not theoretically, but in our experience designing these tools—is governance is a critical factor. It's a critical element of that work. A big aspect of that is a recognition that organizations that are relevant or applicable to tools such as social impact bonds, shouldn't be invested in if we don't think they know how to do that service better than we do, or anyone else does.

With that in mind, when we think about these governance structures, it's critical that we intentionally create degrees of removal between investors and the programmatic delivery. There's a commitment of capital, based on due diligence of how the program is meant to operate, and then there's an arm's-length role from there. There's very little direct day-to-day.... Explicitly, there's that removal.

The other side of it is, with that in mind, what we intentionally design is a recognition these are meant to be flexible pools of capital. We're not buying into a specific process. We know that social issues are not static and they're not unchanging. A lot of these tools are designed to operate over the course of five to seven years, or more. There's a lot of flexibility to change course based on the front line. Ultimately, if that's the feedback we're getting, they need to shift investment toward different areas in order to produce better outcomes. This aligns everyone's interests toward those goals.

Mr. Justin Bertagnolli (Partner, Finance for Good): I'll just add quickly to that.

It largely speaks to the point of strength-based assets in our community. I think that's one of the contributions that many small organizations have to contribute to some of these projects. For

example, in the U.K., when they originally started with one of their social impact funds, they started with four key areas of service delivery that they looked at. By the end of the program, they had 11 services that were key services that were being offered. Over the course of that service you bring in strength-based assets. There's an opportunity to do that because of the flexible model for funding. I think that's an important way to ensure that the organizations are actually included rather than excluded. It comes down to fundamentally the policy structures and intentional design to ensure that those issues that CASW has concerns with are mitigated. I think those are valid concerns but they can be mitigated through intentional design.

[Translation]

Ms. Marie-Claude Morin: Thank you.

There's one minute left. Do you have anything to add, Dr. Mulvale?

[English]

Mr. James Mulvale: Just around the issue of involving community-based organizations and NGOs, many of the most innovative and nimble ones are very small.

One worry I have is that if there's some kind of competition, so to speak, among people who might want to get involved in a social impact bond mechanism, maybe the most innovative programs that have the most to contribute and have the most original thinking may be disadvantaged if they're small and not very well resourced, whereas some of the big organizations that are well resourced but do things in conventional ways will have a competitive advantage, so to speak.

If government was interested in encouraging community innovation, I think there would be ways to do it where there was a not a profit motive involved but where small organizations would have a key opportunity to innovate and prove something.

[Translation]

Ms. Marie-Claude Morin: Thank you.

[English]

The Chair: We'll move to Mr. Armstrong.

Mr. Scott Armstrong (Cumberland—Colchester—Musquodoboit Valley, CPC): I want to thank our witnesses for being here.

We all apologize for making you wait a week ago when we were supposed to have you here.

Sally, in your testimony, you talked about concerns around the Canada social transfer. Can you elaborate on what your concerns are on social finance? We haven't had that brought to our attention before.

Ms. Sally Guy: Including the CST aspect in the speech was more about talking about broad principles that we would like to see govern all forms of social investments or social finance in Canada. We were putting it slightly tongue-in-cheek to say that the Government of Canada federally transfers money to the provinces and territories without those agreed-upon principles of accountability. It's transferred into general revenue, as far as I'm aware, and used from there without any benchmarks from the federal government trickling down to the provinces and territories, or there are very few. It's almost like, why take on this new form of social service provision or of social impact bonds, which would very much require benchmarking systems, and I think the building of a fairly costly architecture around supervising the implementation of those bonds, when we're not actually doing that in our own relationships with each other in terms of the provinces and territories right now.

Does that answer the question?

• (1600)

Mr. Scott Armstrong: I understand.

You were more doing a comparison on the actual process of delivering the funds at the federal level to the provinces knowing that we've increased the funding in the CST from about \$8.5 billion to almost \$13 billion this year. As a government we continuously supported the provinces in delivering these very valuable social programs, particularly education, which is my background. The way we do it is we distribute these funds to the provinces. We've increased that amount of money, but we don't tie a lot of strings to it from the federal level to allow the provinces to conduct their own business, whereas, conversely, you're concerned about the government having tied too much accountability or too many strings when we actually look at social impact bonds or other processes for social finance.

Am I accurate in saying that?

Ms. Sally Guy: Yes.

We would just not have social impact bonds. We would have some forms of this. Certainly, we believe in social enterprise or in social investments that don't require or look to turn a profit other than the social good. We are just not for, we are totally opposed to, essentially any form of private profit being garnered off the provision of social services and essentially off the needs of those in Canada who are vulnerable.

Mr. Scott Armstrong: You don't see this as a threat to the social transfer at all. You don't see that.

Ms. Sally Guy: I don't think so, no. I think we understand that different forms of social investments, so those that don't necessarily look to create a profit, can exist happily in a blended model of service delivery with public services.

Mr. Scott Armstrong: Great, thank you.

Lars, you were the first SIB, basically, in western Canada, so you're a trailblazer. Am I accurate in saying that you were the first one to be established?

Mr. Lars Boggild: The first social impact bond to be established in Canada was in Saskatchewan. We as an organization didn't have a hand in designing that, but we are developing a multiple of these projects all across Canada and actually coast to coast.

Mr. Scott Armstrong: Can you elaborate on some of the challenges you've faced trying to establish this structure in the west or all across Canada?

Mr. Lars Boggild: Yes, absolutely. I think I can add to that as well. I would say that a lot of the presentation regarding standard setting and those kinds of principle-based approaches to engagement is actually something we would probably be very much for, because one of the challenges often is actually seeing the clarity and consistency in working with public sector partners and knowing what their priorities are among the potentially competing priorities within these tools.

I'll just give some examples of that. You may very well prioritize knowledge creation, in which case having very rigorous evaluations that have more statistical significance, that require larger numbers may be a priority. Conversely, you may have a very high priority on value for money, in which case the focus really needs to be very much on variable costs, really focused on what kind of ramp-down of other services would need to take place to monetize savings. Those aren't always the same priorities and there's prioritization among them relatively. Having that clarity has certainly been a challenge, as well as getting folks past... Especially since this is a new tool, sometimes there's been so much interest that there's a lack of clarity around issue selection at least for some of these first pilots, some of these first tools.

Justin, is there anything you'd like to add?

The Chair: Actually, it's time. That comes to five minutes.

Perhaps in another round, Justin can give his response.

Mr. Cuzner.

Mr. Rodger Cuzner (Cape Breton—Canso, Lib.): I would like to welcome everybody here, with a special welcome to Sally. The guys around the table would remember Jane Taber, a long-time fixture here on the Hill. Jane's pride and joy; I know she'd want you to do great things, so it's great to see you are doing great things here today.

• (1605)

Ms. Sally Guy: Thank you.

Mr. Rodger Cuzner: What has evolved from the study so far? I guess I'll come back to Mr. Mulvale's comment about the cream skimming or the risk that we see in the low-hanging fruit. It's easy to go after the low-hanging fruit and certainly more of a challenge to go after the more complex issues in society through social financing. That's what I'm drawing from our study, from 36,000 feet, so far.

I like your response about making sure that in the governance models that are set up, a lot of it comes down to analysis and evaluation being key. I guess the government has to come with a core set of principles. From there on it's pretty much on an issue-by-issue basis that you would negotiate the governance and the criteria for analysis and the outcomes wished. It's really tough to have a template other than bringing those core set of principles to addressing an issue. Perhaps you could comment further on that.

Then probably you'll just have time to go back—either Sally or Mr. Mulvale—on the risk you see, or the fact that we can't solve all our problems with social financing models. The state still has a role to play, especially in very complex issues.

I'll just step back and let you go.

Mr. Lars Boggild: To speak to that briefly, I'd say we're actually very supportive of an approach that recognizes that there are essential services that this kind of experimentation may not be relevant for at all. I think of very essential services, like an emergency room delivery and things like that, just to lay that out clearly.

Equally, though, when we think about that principle setting, I think a critical aspect of that is your concerns around cream-skimming, around that kind of cherry-picking. It has been a very conscious element of the design of these tools to address that concern, to mitigate that risk, to ensure that the evaluative measures and metrics actually directly incentivize the treatment of the hardest to treat individuals often. That can very much be done, just to say that. Equally, it's relevant to note that in coming forward with these principles, I think you're right that there's an aspect that each of these projects does require the negotiation of individual parameters, project by project.

However, it's also very relevant that, in some of the examples I use, such as the fair chance fund in the U.K., what they did there was, they said, "We are going to create a dedicated pool. This is exactly how we'll measure the outcomes related to that outcomes payment pool, and this is the kind of rate we'll pay towards those outcomes." With that laid out, you actually get a lot of efficiency in terms of almost bulk contracting. It doesn't have to be one by one, but it does definitely require a lot of intentionality by government, and we're very supportive of government kind of sticking to that.

Mr. Justin Bertagnolli: I agree, and I'll just add quickly to that.

One of the important pieces is that—and I'm happy that James brought it up—I think there's a very strong moral and ethical dilemma here and that's around attacking the root causes and the focus there. That's one of the really important pieces of having some strong intermediation so that the intention of these projects is held to the utmost standard towards tackling the things that we actually are seeking to tackle, which will help mitigate some of the risks that the CASW has identified.

Obviously, there are fundamental principal differences that we share, but I think ultimately we share the goal of a stronger community in which we're tackling some of these hard-to-tackle challenges.

The Chair: You have 15 seconds, Mr. Mulvale, for a quick response.

Mr. James Mulvale: One thing I worry about in terms of the social impact bond approach is something in social science that we call the Hawthorne effect, where the group that's being researched or investigated behaves in certain ways because of the fact that they're the focus of all this attention.

It's important to underline—and I haven't heard this today so far—that we do all kinds of research into effectiveness of service delivery now. We have randomized control trials and we have evidence-based

research in social work and medicine in various fields. I guess one of the things I find missing from the social investment bond discourse is that we currently do have ways of measuring effectiveness of various kinds of services, and maybe the SIB approach is a bit of a distraction in some ways.

• (1610)

The Chair: Okay.

Mr. Mayes, for five minutes, sir.

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

The issues around social services are quite broad, so I want to focus some of my thoughts, because I don't know if social finance fits all of the services that are provided.

One case, for instance, is the fact that the Government of Canada transfers moneys for youth skills training. That was not working well. The outcomes were not good and so, of course, we came out with our Canada skills funding and partnered with business, partnered with the provinces, and partnered, of course, with the federal government so we could have those outcomes.

I think one of the challenges we have in Canada is that we're such a large country. The regions are all different and the needs are different. It makes it difficult to really have a program that fits every province or every region. In saying all of this, I really agree with what Dean Mulvale said about making sure that we do have the outcomes, that the goals are met, and are met in a timely fashion.

Then there was an interesting thought from Lars that was a value-for-money lens, and I just thought right away, whose lens are you looking through? That's the challenge: what lens do we look through to evaluate value for money? Are we having successes in the programs that we are moving forward on? I'd like to ask how you see that framework and how we could provide a good way of evaluating the programs. As I say, there are some programs you just cannot include. They're ongoing. But I think taxpayers definitely need to see value for money and see outcomes.

Maybe I could turn that over to Madam Guy to give us some thoughts about that.

Ms. Sally Guy: Certainly. Thank you for the question.

I'll start with an anecdote that benchmarking and applying market logic or market rationale to social services can often put the client in a position they shouldn't be in. I was going to bring up, but you already brought it up, that we are very concerned about operating through a market- or a profit-focused lens as opposed to a client-focused lens.

One of my former supervisors said they've really had to cut back the fat at their job. She was working at mental health and addictions in New Brunswick, and was operating under new benchmarking systems that are really quite profit and fiscally driven. She was going from a system where she could holistically understand her clients, be around them in the community, and know when someone needed to come in twice in a week or know that she needed to see this person for 45 minutes instead of half an hour. When she was moved over to a system where being observed from the outside or from 36,000 feet, as Mr. Cuzner put it, it would look as though they were being quite successful, because she was seeing way more clients in a day in 30-minute intervals than she was before, but to her and her observation of the community it was not as successful.

In terms of creating those benchmarks you have to engage with the people who are being served, get that lived experience perspective as well as ask the front-line workers what those benchmarks should be, which is why we're so concerned about implementing even more of a market rationale into the provision of social services.

I won't go too long, but one of my colleagues put the social impact bonds in the example of payday loans. They might be exactly what you need up front; they might be that godsend, but then you get into that cycle of poverty. What saves you after you pay off that payday loan? You still don't have that job. You don't have that sustainable architecture around you to help prevent you from getting into the same position where you needed a payday loan in the first place.

We don't want the Government of Canada to get into a similar cycle where they're paying into these payday loans, taking out a loan, and then someone pulls out and they're left to pick up the pieces or to put into place again what had been put in or financed through a private corporation.

I hope that answers your question a little.

•(1615)

Mr. Colin Mayes: Mr. Boggild.

Mr. Lars Boggild: I would not like to be contrasted or compared to a payday lender. I don't think that's how we think about this at all.

Fundamentally, most of our clients are service delivery organizations. We designed this from their intentionality, with their perspectives at the table guiding the process from day one. Absolutely that is true.

From there when we think about whether or not the government is targeting savings, monetizable savings, or value for money, that decision, and it is a priority, there's a spectrum there, is in the court of government to decide.

Some SIBs have been designed with a very careful focus on exclusively variable costs. They had been driven by producing savings. There are also social impact bonds that have been driven and designed by social situations that haven't seen change in a long time. These issues have been stagnant, and we wished there was some kind of innovative capacity in that sector that these can drive.

As we think about that on-ramp and we think about the legacy of these tools, we think about that very consciously. We think there's a very strong role to say let's use these tools based on this standard,

with these standards in place, but use it where we can see a bit of an on-ramp through that evidence-building process of policy change as well.

Things that work do grow in that respect.

The Chair: Thank you very much.

Monsieur Brahmi.

[*Translation*]

Mr. Tarik Brahmi (Saint-Jean, NDP): Thank you, Mr. Chair.

My question is for Dr. Mulvale.

Two weeks ago, the committee heard from David Juppe, who is a senior operating budget manager. He expressed some concerns about social impact bonds, in particular. I would like to know your opinion on those bonds.

His argument was basically that these bonds will increase the costs that the government will have to assume because they add an intermediary between the government and the service provider. He argued that once the interest rate for these bonds is set, there is no limit to the amount that these interest rates can generate. In a capital market, the interest rate is tied to the risk of the activity. That's the case for any kind of bond. Mr. Juppe said that it's a type of loan where the government pays the interest if the program works.

Doesn't the fact that there is also an intermediary with social impact bonds mean that there's a risk that the government would spend more than if it paid the service provider directly? What are your thoughts?

[*English*]

Mr. James Mulvale: Yes, I do believe that risk.... It's simple in one sense. We're funding services here where there's an extra layer that has to be realized back to the investor as profit. As I understand it, at least in some models, when social investment bonds are set up and money is put up to invest in these instruments, the investors are guaranteed recovery of their principal, or even recovery of some modest amount of interest, return on investment.

The question we ask ourselves at CASW is that if we're going to be setting up these instruments to attract funding and go through all these rather complex accountability mechanisms and transfer mechanisms, is it not better to take a public finance model to draw upon what we know from research, or maybe do additional research on approaches that work—I mentioned earlier the research that's ongoing on evidence-based approaches in mental health and addictions, and services for children and families—do the research and draw on existing research to invest in ways that we know are going to potentially be the most effective, and take the profit incentive out of it so that money goes to the people who need the services or need the support? I don't know what the answer to this question is.

I worry, too, that if we're setting up rather complex oversight mechanisms for social investment bonds, are there some fairly high administrative costs here? If we can find approaches that work in the public sector and that are potentially transferrable across all parts of the country, would we not be better to champion these approaches in ways that not-for-profits can just get in and do their work and not have to be paying anybody any returns on investments?

One example of this right now is that we have good evidence about the utility of the housing first model in mental health, and we've seen not-for-profits all across the country get onto that and develop local programs. Why do we need to introduce a profit motive to it?

• (1620)

[*Translation*]

Mr. Tarik Brahmi: He also argued that the savings we are speaking about in the case of these bonds are for the most part overestimated. In his opinion, what will be considered is that the number of cases processed by the service providers will decrease. But that won't necessarily be the case.

[*English*]

Mr. James Mulvale: I'm not sure of specific research in that regard, but just thinking about it rationally, I think if public resources can be mustered to invest public dollars towards public good without, once again, having to pay investors, so to speak, that would seem a more logical approach.

The Chair: Thank you very much.

Mr. Butt.

Mr. Brad Butt (Mississauga—Streetsville, CPC): I guess it's a bit of a coincidence that Professor Mulvale just mentioned the housing first program, with which I've had a tremendous amount of experience, both in my life prior to being elected as a member of Parliament and being very involved in the program At Home/Chez Soi, through the Mental Health Commission of Canada, in Toronto. I actually think that's an excellent model and an excellent example of how social enterprise can work.

There is a component of that, you could argue, where someone makes a bit of a profit, and obviously that's the owner of the apartment building. He's providing an apartment unit at a market rent. The rent is subsidized through a government program. The clients who participated in the At Home/Chez Soi program were actually selected through a research project done through St. Michael's Hospital in Toronto, and social workers were very much involved as partners in that very successful program.

When I think of a social enterprise model, that's what I think of. There might be one or two partners who might make a little bit of money out of it, but it is the outcomes that are important here. We housed 300 people with severe mental illness issues in permanent, solid housing, and in most cases we turned those people's lives around. That is a successful social enterprise model.

I want to ask Professor Mulvale, would you not agree that this is exactly the kind of model we're talking about here? We're not talking about social enterprise or social finance taking over public health care or public community support services that are being publicly funded and administered. We're talking about trying to do things a

little bit better, and encourage collaboration and cooperation among a whole bunch of agencies.

I remember when we had the first meeting. There were groups that sat there in Toronto City Hall—I'll never forget the meeting—when I was running the apartment association. Organizations were there that had never spoken to each other ever, because they all worked in silos until this project was launched by the Mental Health Commission of Canada. It actually brought those people to the table to ask whether there was a better way to help people with mental illness who are homeless, turn their lives around, get the medication and support they need, and make sure they have a roof over their head.

Would you not agree, Professor, that that's an excellent example of the kind of thing we should be supporting as the Government of Canada?

• (1625)

Mr. James Mulvale: I'm not sure who I'm speaking to. I can't see anybody's name tag, so I can't address you by name.

There's a distinction I would draw there. The distinction I would make is that social housing organizations have worked with the private sector for decades, in terms of building units. I mean, there's nothing essentially new about that.

Our worry at the CASW is introducing the profit motive into service delivery. Once the housing is built and the folks are in there, with mental health and our focus on the recovery model, we're looking at support for people with mental health problems as a long-term and lifelong project, as you'll know. This is something where we have to make a long-term commitment, in terms of adequately financing public services through public dollars.

In terms of providing housing or starting up a business that might employ people and needs to turn a profit and reinvest the profit, and continuing to provide them with a good job that accommodates their disability, we're open to those kinds of things. It's simply the essential service provision and the core support that people need is where we worry about introducing the profit motive.

Mr. Brad Butt: I was thrilled that I was a member of the special committee that looked into cooperatives in Canada. There's another example that I use. I think it's a very similar model. The reason that social enterprise is created in communities is the same reason that cooperatives were created in communities: there was a need that was identified by a group of people.

Maybe I'll get Lars or Justin talk about this. Do you see that similarity in the co-op model and social enterprise model? Really, communities are reacting to needs they have that are not necessarily delivered by direct government services. They've recognized a need, a neat idea, a collaborative, something they can do to make their communities better places. Is that not the kind of thing you're directly involved in?

I'm probably done, right?

The Chair: I'll allow the answer.

Mr. Lars Boggild: Yes. I think where we see these projects coming forward from community level organizations, from collaboratives of foundations and service providers, from various community constituents that they're actually coalescing around, this is a tool that can provide—I would really focus on—additionality to what exists now. This isn't about a transfer of what already exists into these tools; it's around that additionality.

Just to be clear, because I think there are a few concepts that have swirled around, we acknowledge that social impact bonds will be more expensive than direct contracting; therefore, they should be understood as a tool where greater value for money can be achieved where there are uncertain outcomes. We don't know what's going to happen, and it can serve as an on-ramp where we can beta test things, we can trial, we can experiment, so that when there is that certainty, it may make sense to expand and invest with public sector dollars.

I think there have been some misconceptions raised. Overall, only four out of 44 social impact bonds globally use a principal guarantee, and those were some of the first ever launched. That's less than 10%. None have used it since 2013, which is when most SIBs were launched.

When we think about the kinds of returns that people are talking about, we often hear our critics cite this notion that these are uncapped returns. It's false. It's not true. In every single social impact bond there's a capped return, a maximum payment that can possibly be paid. Equally, people will often cite that maximum payment. They won't cite the actual target returns that are expected from these vehicles. So let's look at that a little bit.

The first social impact bond in Canada, if successful in an outcome, will pay a 5% return. I don't think that's audacious. Overall, target rates of return have usually been between the 4% and 7% band, again, not really outrageous.

Even in the Peterborough case, at its minimum performance threshold it would pay only 2.5% as a rate of return. Now, it has an upside. It can do better, but that rate of return is entirely linked with its performance. We think that's a very good thing. We think that incentivizes everyone around the table to actually focus on the sort of change we want to see in our communities.

The Chair: Thank you.

Members, I'm going to finish off, if you don't mind, with a couple of questions, because my orientation is about this additionality that's talked about here.

I'm very familiar in my community with individuals who have intellectual disabilities—I'm talking about Ontario—and they fall off the map at about age 18, so as soon as their high school is done. They've had educational assistance all the way through, and they may still be working on cognitive improvement in terms of their language skills, reading skills, computer skills, whatever it might be, but all of a sudden, they fall off the map.

When I speak to my provincial member of Parliament, who is the Speaker of the Ontario legislature, he openly admits that there's a lack of government-funded programming to pick these people up.

What typically happens is that they spend their time at home with their parents. They become adults. First they're young adults, and then they're older adults. You'll often see them in my community going down the aisles in a grocery store, a 70-year-old or 80-year-old parent with a 50-year-old or 60-year-old child.

When I think about the solutions that some tools could provide, they would be around the area of finance, because the provincial authorities are not prepared to take on the initiatives for the need that exists. There are groups of parents who get together to try to create a learning environment for these individuals on a day program basis. Beyond that, realizing they're not going to outlive their children, they need residential support to transition those individuals as adults into something that is affordable, so they can live out their lives in that context.

I'm describing this to all of you, and I'm wondering if I might seek a couple of comments back from each of you on the fact that this can perhaps provide the additional tools for organizations, parents in those situations, to come together, create new innovative models with which to create not only the learning environment, but also potentially a living environment, because government funding is limited to the services currently being provided, and this is a gap that's easily recognizable.

I like to think of social finance as offering at least something to consider for those groups that aren't currently receiving government funding for those services.

Could I have a brief comment from those who wish to weigh in on this?

• (1630)

Mr. James Mulvale: I'll just comment briefly. I spent many years working in the associations for community living in Ontario. It's a great story, I think, of how governments, including the government of Bill Davis in the 1970s, worked with parents, allied professionals, and people in the not-for-profit sector to build a very effective system of community-based supports and services. Pieces of it were, if you will, a bit market driven. They started up employment programs to employ people with intellectual disabilities. They partnered in some cases with the private sector to build housing, but it was operated on a not-for-profit basis.

I think the lesson to be drawn from that example is the absolutely fundamental importance of enlightened political leaders working in conjunction with concerned citizens to look at the big picture and move the whole field forward. I see social enterprise as kind of a mechanism filling in gaps, but in the context of that well-supported, publicly financed support system for people.

I'll leave it there.

The Chair: Anyone else?

Ms. Sally Guy: I would say that would be a perfect example where social enterprise, a form of social finance or social investment, would be perfect, but we would limit that to turning a profit. We would want to stop at the point where our private investors make a profit.

The Chair: Gentlemen, does anyone want to speak to that?

Mr. Justin Bertagnoli: I think Mr. Mulvale's comment about government leadership is an important one. Overall, SIBs or social finance are tools to reach an end and to hopefully reach great outcomes for our citizens who are ultimately at times vulnerable and are not being served. There could be an opportunity for social impact bonds, but I think in many cases social enterprise as a vehicle is a very appropriate tool to connect those individuals together to create those outcomes that we seek.

The last point I would like to make is that I think the motive of profit is not necessarily bad. It can create accountability and create a lot of opportunity, as some of the work, such as Pathways to Housing, has been able to achieve. I think profit in itself is a very effective means of being sustainable. When we look at our communities as a whole, creating long-term sustainable structures and infrastructure is an important thing for a government to be able to achieve.

• (1635)

Mr. Lars Boggild: I'd like to add, what we see when we talk about additionality—and we think about how this idea of our talking about not just philanthropic resources, but also social investments as well—is that it quite genuinely grows the pie. We're not in any way against the growth of philanthropy. We obviously are hugely supportive of that, but we've recognized we often will come up to limits there. When we talk about profit motivations of the kind of

order that I'm talking about, which can afford a 7% and that kind of reasonable rate of return, it opens up a different pool of money. Foundations can talk about investing through their endowment capital. It doesn't just have to be from their grants budget. High net worth individuals may engage. Even everyday citizens might somehow collaborate to invest. In that regard, we generally tap new resources that are also additional. I think that's pretty critical for a lot of the issues you raise.

The Chair: Thank you for taking the time to come back to be our witnesses today. We appreciate your input. It has been a very good discussion and thank you for your time.

With that, I'll quickly end this part of the meeting, but members, I'd like to point out a couple of things after I adjourn this section of the meeting.

Members, I want to remind you that on Thursday, the minister will be coming. It will be a televised meeting. The purpose of his visit is on the main estimates. He will be here for an hour and the government officials will be joining him. We will have them for the second hour on Thursday. I want to remind you of that coming up this Thursday.

Thank you.

The meeting is adjourned.

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