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Chair

Mr. Daryl Kramp

Standing Committee on Public Safety and National Security

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• (1530)

[English]

The Chair (Mr. Daryl Kramp (Prince Edward—Hastings, CPC)): Colleagues, welcome to meeting 24 of the Standing Committee on Public Safety and National Security. We are following up with our study on social finance as it relates to crime prevention in Canada. We have two series of witnesses, the first group from 3:30 to 4:30, and the second after that. One of them will be live; the other will be joining by video conference.

Right now we have with us Siobhan Harty, director general of the social policy directorate, strategic policy and research branch, Department of Employment and Social Development; and Blair McMurren, director of social innovation in that same branch.

Welcome, both of you here today. We certainly anticipate your comments, and I hope we'll be reasonably friendly in our questions as we move forward.

You're allowed up to 10 minutes per person for a statement.

Please carry on.

Ms. Siobhan Harty (Director General, Social Policy Directorate, Strategic Policy and Research Branch, Department of Employment and Social Development): Good afternoon. Thank you for the opportunity to address you today. I understand that you're interested in understanding social finance for your study and how it might be used in the area of crime prevention.

[Translation]

In my remarks, I will focus on explaining social finance through concrete examples and I will outline the government's approach to social finance.

[English]

Social finance is an approach to mobilizing multiple sources of capital to deliver a social dividend and an economic return in the achievement of social and environmental goals. It provides opportunities to leverage additional investments to increase the available dollars to scale up proven approaches. It also creates opportunities for investors to finance projects that benefit society and for community organizations to access new sources of funds.

Social finance includes a new approach to investing, impact investing, which has been described as actively placing capital in businesses and funds that generate social and/or environmental good, and at least a nominal principal to the investor. For government, social finance is an instrument to achieve more effective outcomes, mobilize private capital for public good, and leverage all community

assets. In Canada the momentum toward social finance came largely from the not-for-profit sector with the launch of the non-governmental Canadian Task Force on Social Finance in 2010, which published reports in 2010 and 2011.

[Translation]

The emergence of social finance initiatives in Canada is being driven by demand from stakeholders within both the private and the non-profit sectors, where a growing number of organizations are seeking access to capital markets to build more sustainable organizations and scale up their work.

Social finance is an emerging field at the international level, but other countries have already implemented several initiatives, which provide the Government of Canada with lessons learned and best practices. Internationally, several tools are being used to advance social finance.

[English]

One such tool is social impact bonds or SIBs. These are instruments for funding projects where a pre-arranged amount of money is paid out if performance results are achieved. SIBs combine a pay-for-performance element with an investment-based approach. Private investors provide upfront capital to fund interventions, and they can expect to get back their principal investment and a financial return if the results are achieved. The presence of investors is the main difference between SIBs and pay for performance. The private investors take on the risk of identifying and funding the interventions. The risk is only rewarded if, as I said, success is achieved.

[Translation]

To date, the U.K. government has led the way in piloting SIBs, launching multiple projects in a variety of strategic sectors. And it currently has some 15 projects in place. The first SIB, as you may be aware, occurred in Peterborough, England, and was focused on supporting recently released inmates to prevent reoffending.

Several SIB projects are also under way or in development in the U.S., Australia, New Zealand and Belgium.

[English]

A second tool is social enterprises. A social enterprise is a company whose goal is to provide goods and services while also advancing a social mission. This emerging business model helps increase the financial strength of community organizations by providing an alternate source of revenue to tackle complex social problems. Social enterprises are commonly run by a charity or a not-for-profit organization. Revenues raised by the business operation are then reinvested into the charity to support its programs and operations, while the business itself can help at-risk populations develop labour market skills. Several jurisdictions have created specific supports for social enterprises, such as programs to develop business skills of social entrepreneurs and make social enterprises investment-ready, hybrid corporate forms, and tax incentives that encourage investment in social enterprises.

A third tool is social investment funds, which aim to create a pool of money that can be used to invest in social finance projects. Their investments can take the form of a debt or equity.

[Translation]

They play a key role as a market intermediary, connecting organizations looking for capital with investors, and reducing transaction costs in the market.

Several countries are supporting existing social investment funds with injections of capital, notably Ireland and Australia. The U.K., again the leader in this field, has set up a wholesale lender called Big Society Capital, which plays a role similar to a social finance bank, lending money to other funds that make social investments.

• (1535)

[English]

All of these tools share similar traits. They focus on innovative approaches, the leveraging of private sector resources and acumen in addressing those issues, and a focus on outcomes and results.

Let me turn to social finance in Canada. The Government of Canada has affirmed an interest in social finance in successive budgets since 2010, including the most recent one. Despite Canada's strong safety net and community specific programs, there continues to be pressing social challenges in our country. Budget 2014 emphasized that governments are not always best placed to solve the most pressing social or economic problems. There are Canadians who possess innovative solutions to these problems, and there are others who are willing to fund social entrepreneurs in meeting these challenges. So in the most recent Speech from the Throne, the government committed to act on the opportunities presented by social finance, and in budget 2014 to support Canadians' use of innovative approaches to addressing pressing social and economic needs.

[Translation]

As in other countries, the federal government is not the only actor interested in social finance; provinces are at times closer to the ground, possess unique policy levers and can more quickly enact innovative policies. Provinces and territories have introduced new measures and initiatives to advance social finance. Here are some examples.

[English]

B.C. created a new corporate forum for social enterprises; Alberta launched a \$1 billion social innovation endowment fund that will in part fund the development of SIB projects; Saskatchewan, this week, launched Canada's first social impact bond focused on supportive housing for at-risk single mothers; Ontario launched a social enterprise strategy and a fund to provide grants and investments; it also launched a call for social-impact-bond ideas in the areas of housing, youth at risk, and barriers to employment.

• (1540)

[Translation]

Quebec has long supported the social economy, a concept that is similar, but not identical, to social finance. Some common features include the blending of revenue generation, investment and the pursuit of social good.

[English]

While these actions all speak to a growing interest in social finance across Canada, building an efficient marketplace will require coordinated action and leadership across the country. The federal government is well positioned to help create the conditions for all players to harness the potential of social finance, and has unique levers at its disposal.

In budget 2014, the government committed to working with leaders in the not-for-profit sector and private sector to explore the potential for social finance initiatives and examine whether there are barriers to their success.

Finally, I'd like to say a few words about the work on social innovation and social finance and Employment and Social Development Canada.

In recent years, ESDC has taken incremental steps toward social finance by testing the capacity of community based organizations to leverage federal grants and contributions to get matching dollars from the private sector. ESDC has also tested aspects of pay for performance, and in October 2013 we launched a literacy and essential skills initiative that is modelled on elements of a social impact bond.

In November 2012, we launched the national call for concepts for social finance. It was meant to test the level of awareness and interest in social finance in Canada. It was an open, web-based, crowd-sourcing initiative that solicited innovative and collaborative ideas from Canadians to address social challenges using social finance. We issued a report—I believe you have a copy—in May of last year, and it committed the government to four next steps.

The first was to further the conversation on social finance across the country. The second was to connect new partners across sectors. The third is to sharpen ideas by creating opportunities and venues to develop investment-ready pilot projects. The fourth one is to develop the tools of social finance by using existing program funds to test new approaches.

[Translation]

ESDC has completed the first two steps and is currently advancing the last two.

Finally, the government is participating actively on the International Social Impact Investment Taskforce established as part of the U.K.'s G8 presidency in June 2013. This international work will result in the publication of a report in September 2014 that will include policy recommendations for governments.

[English]

In closing, the government's current social finance work represents a cautious incremental approach, testing social finance to see where it works best in Canada, and making adjustments based on early lessons learned.

[Translation]

Exploring the potential of social finance does not prevent the government from also assessing other ideas or concepts that address social problems, nor does it necessitate stopping current approaches that are already working.

[English]

Social finance is potentially another tool in the toolbox. It's complementary to existing programs that tackle social problems, and it's not meant to completely replace them, nor would it be appropriate for all social issues.

Thank you.

The Chair: Thank you very much.

Mr. McMurren, do you have any comments?

Mr. Blair McMurren (Director, Social Innovation, Strategic Policy and Research Branch, Department of Employment and Social Development): No.

The Chair: Then we will go to our round of questioning.

We will start off with Ms. James, please.

Ms. Roxanne James (Scarborough Centre, CPC): Thank you, Mr. Chair, and thank you to both of our witnesses here today. I'm very pleased you could be here to give us more help on this particular issue.

I'm going to read something you said in your opening remarks. You indicated that "It provides opportunities to leverage additional

investments to increase the available dollars to scale up proven approaches" that address social and environmental challenges.

How does it increase the available dollars? When we take a look at what we're spending now on crime prevention through a Public Safety NCPC program, we have a set amount of funds that we use. They go to several different areas. One is the youth gang prevention fund, and so on.

How would social finance help us to increase the available dollars and scale up proven approaches? I'm curious to know. Explain to the committee how that works.

Ms. Siobhan Harty: The idea is to unlock private capital. I'm assuming the amount of money available for crime prevention is money raised from taxpayers' dollars. Whatever money you have, the idea is to get additional sources from capital markets. That money would be commercial capital. The idea is that you would add it to whatever money you have in current programs. It has to be understood as a new source, an additional source of funds.

Ms. Roxanne James: At some point a government or an organization would be responsible for providing the return on initial investment, plus in some cases, a bonus, and I don't know whether that is the proper term, but obviously if targets are met, you're going to receive something on top of what you initially invested. That's correct, right?

Ms. Siobhan Harty: That's one of the concepts. That would be applicable in a social impact bond case, but as you noted, I had outlined different tools. I think that's the one that's very much out there in the discourse, and one we're familiar with. Certainly you would be, because of the Peterborough pilot. You're probably looking at that. That would be the idea there.

The savings would potentially accrue over time. We don't know yet. This has to be proven; it's new. This is preventive. It's very much an investment model. In social policy, in my area, we often talk about the benefits of taking preventive approaches to social policy as opposed to remedial approaches, which can be far more costly. Preventive approaches demand that you make an investment up front to prevent something from happening later on. This is very much premised on that kind of model. You are making an investment.

The kinds of savings you accrue are not going to happen in your next fiscal year, presumably. You're trying to bring about change in an individual who, in the case of crime prevention or other complex social issues, requires multiple interventions, and that's embedded in doing impact investing and social finance. They require multiple interventions, often across government departments or across jurisdictions. That kind of attention to individuals and their challenges is going to occur over a period of years, and the savings you're going to see are going to be no further along.

• (1545)

Ms. Roxanne James: I want to speak about multiple interventions. When we're talking about interventions and not seeing the fruits of the labour until years down the road, how is social finance with regard to crime prevention? How do we know we're meeting targets? How do you measure targets with regard to this type of initiative?

I think that's the key. Obviously in anything we do, we invest money, but we need to make sure we're getting results. The biggest bang for the buck, obviously, is the key result for taxpayers as well.

Perhaps you could answer that, please.

Ms. Siobhan Hart: There are different targets.

The targets you're probably referring to, if I'm understanding you correctly, are the targets that are built into the contractual arrangements. When I think about the social impact bonds in the UK, there's a contractual arrangement between different sets of players, and those targets are related to something around the individual who is receiving the intervention.

For instance—and I know this one a bit better—there's a rough sleeping social impact bond, a homelessness social impact bond, in London. Some of the targets are, for instance, the reduction in the use of emergency services in hospitals by people who are sleeping rough. The idea is that the intervention, the services that you're providing the individuals should, over time, eliminate their need to always go to emergency services. You're going to set them up presumably in a safe place, a home. You're going to get them access to regular medical care. Over time that will reduce the costs on public services. Emergency costs are high costs compared with those of going to your family doctor and getting the kind of attention you need.

Those are the kinds of targets that are set, and you can see they serve a dual purpose. On the one hand, they're in aid of individuals, trying to get them back on their feet. At the same time, they're trying to decrease some costs in the public sector, some areas where we know we have high costs and we could reduce them and at the same help individuals. Those are targets in contracts.

Ms. Roxanne James: Do I have one more minute?

The Chair: Yes.

Ms. Roxanne James: Thank you very much.

When we talked about stakeholders, you mentioned stakeholders within both the private and non-profit sectors. Are these stakeholders that the government in various departments might already be engaging with? Do we know who those stakeholders are? I mean, we heard about oil and gas companies in the last meeting—

Ms. Siobhan Hart: In the private sector?

Ms. Roxanne James: We've heard about the Canadian Tires, the Tim Hortons, and so on. Is there a long list of organizations or corporations that would like to get involved in social finance in these types of programs?

Ms. Siobhan Hart: Let me answer it on two fronts. The first was the not-for-profit sector. Yes, we know that there is a long list of organizations interested in exploring this. We know that because we

ran the call for concepts. We had over a 150 responses and we've been continually working with those people, and there are others.

On the private sector side, Canada's major banks are more than interested. RBC already has a fund on social finance. TD is doing some work in this area. In Quebec, as I said in my remarks, it looks a little different. There is a lot of money in the major banks and co-ops that are already looking at more of an impact investing model, so yes.

Ms. Roxanne James: Thank you very much.

The Chair: Thank you very much.

Now, Madam Doré Lefebvre.

[*Translation*]

Ms. Rosane Doré Lefebvre (Alfred-Pellan, NDP): Thank you, Mr. Chair.

Ms. Hart and Mr. McMurren, thank you for being with us today to share your perspective on social finance.

Ms. Hart, at the end of your presentation, you say, and I quote:

Social finance is potentially another tool in the toolbox; it is complementary to existing programs that tackle social problems and is not meant to completely replace them, nor will it be appropriate for all social issues.

What are its limits? What kinds of social projects does it work for?

I know that's a rather broad question, so perhaps you could give us a general sense of where things stand.

• (1550)

Ms. Siobhan Hart: Thank you. That's an excellent question, but it's a bit difficult to answer, since we don't make much use of SIBs in Canada. We use other initiatives primarily.

Most of the programs that other countries have in place target the homeless, and some address recidivism, an issue you already study from a corrections standpoint.

I would say the transition of high school and university students to the job market is another challenge just about every country in Europe is facing. And to a lesser extent, that is the case in Canada and the U.S. as well. The U.K. is really exploring the potential SIBs have to help unemployed young people who are not in school. In the U.K., these young people are referred to as NEET, an acronym that stands for “not in education, employment or training”. These are young people seen as having no prospects, so the government is examining how SIBs can be leveraged to support them.

And some programs target even younger people. Saskatchewan has a program for young parents, single-parent families and young mothers at risk of being lost in the system. These are individuals who had children at a very young age, who dropped out of school and so forth.

In some cases, it's a matter of transitioning. They are trying to carve out a place for themselves in their community, make a home for their family or find decent employment, but they have trouble making that transition. That's why these kinds of problems are so complex.

Ms. Rosane Doré Lefebvre: I think everyone would agree that Canada has fewer problems related to homelessness, repeat offenders and young people's transition to the workplace. Nevertheless, could you tell us why it didn't work in the other countries you mentioned? Were companies opting for projects that were more appealing, or did they try unsuccessfully to make this type of investment?

Ms. Siobhan Harty: Do you mean in other countries?

Ms. Rosane Doré Lefebvre: Yes.

Ms. Siobhan Harty: There aren't any other examples. These are the projects currently under way.

Ms. Rosane Doré Lefebvre: You said the programs didn't work. Did it have to do with the fact that companies didn't want to make an investment in that area or the fact that their investment didn't pay off?

Ms. Siobhan Harty: No. I would say that the government decided to follow suit and opted for the projects I mentioned, as opposed to the other types of projects. Nothing relating to seniors was undertaken, for example. No country has used a SIB to support that group. I don't know why. The isolation of seniors is something that could be explored, but no such project has been undertaken to date.

And that's the case for certain segments of the population. Why? It may be harder to measure outcomes in relation to those groups. That's a methodological consideration. Does the necessary data exist? The rationale may be that it might not be worth the trouble to try and save money in connection with programs that don't involve a lot of spending. Considerations of that nature may be at play.

Ms. Rosane Doré Lefebvre: You've studied what's being done internationally. I must tell you that, as far as I'm concerned, the process of selecting projects under the social finance model worries me a bit. It seems to me that the political agenda is being left in the hands of the private sector.

Is there not a risk of investors cherry-picking projects that seem to be more fruitful, thereby leaving a more marginalized part of the population out in the cold? Those people would have less access to social finance projects.

Isn't that a risk?

Ms. Siobhan Harty: As far as I know, governments are the ones who chose the sectors for the projects.

Ms. Rosane Doré Lefebvre: But what if no company wants to invest in those sectors?

Ms. Siobhan Harty: It's not companies involved, it's either the financial sector—

Ms. Rosane Doré Lefebvre: What happens if the financial sector decides it's not worthwhile to invest in that sector?

Ms. Siobhan Harty: So far, that hasn't been a problem.

Ms. Rosane Doré Lefebvre: Really? That's interesting.

I've heard a lot about the positive side of social finance, including what I read in the study you did and released in March 2013. I had a chance to read some of it over the past few weeks. And I didn't see any mention of drawbacks or negative impacts.

Did you identify any when you were doing the study?

•(1555)

Ms. Siobhan Harty: The projects haven't been completed yet. The first one, which was done in Peterborough, in the U.K., is nearing completion, and we are waiting for the results. All the rest are still ongoing. So we don't have any results. It could, of course, turn out to be a failure; we are dealing with social innovation. The government's desire to find innovative solutions to complex problems underlies the strategy behind this whole approach.

Innovative solutions in other sectors aren't always totally successful either. Some elements don't work and prove to be failures. That's the risk taken. Investors run the risk of losing their capital.

Ms. Rosane Doré Lefebvre: Thank you.

[English]

The Chair: Thank you very much.

Now to Mr. Richards, please, for seven minutes.

Mr. Blake Richards (Wild Rose, CPC): Thank you, Mr. Chair.

I appreciate your both being here today.

I listened to the exchange you had with the member across the way and there seemed to be a misunderstanding among the NDP. Your remarks were maybe misconstrued somewhat, I think, because there seemed to be the impression that somehow everything was going to be left to the private sector, which would not be interested in trying to help individuals. I think it is probably a really unfair view to take of the private sector, frankly, as well. On top of that, I certainly heard you indicate in your remarks that you consider this to be a complementary tool. You didn't think it would be intended to replace, completely, the current programming.

I wonder if you could you expand on that a bit. I think it would be best for the committee to hear a little more in that regard, if you could expand a bit on that and tell us about how you see this being a complementary tool, how you see this being a good addition, and why you think it would be a good addition to be able to help address social problems.

Ms. Siobhan Harty: Thanks.

No, the government has not signalled in any way that it intends to replace existing tools with this one. In fact, at this stage the government would only be interested in piloting some of this. We have done very little, to date. In my department, we have done only the one pilot that I mentioned in the area of literacy and essential skills. Other departments are considering this.

I would say that we're being very cautious about it, and that's because, on the one hand, some of our instruments work very well and there is absolutely no need to completely overhaul the toolkit. And I think this one, as I said in my remarks, is of interest when problems have resisted interventions to date. When there are complex challenges, we have not really been able to deal with the tales. We have been able to deal with, for instance, reducing poverty among seniors with real success in Canada.

We have maybe not been able to reduce poverty across all vulnerable populations. Is it because we don't have the right interventions? Is it that there is an innovation somewhere in the country that would allow us to think in different ways about addressing a complex social challenge? I think in those cases, where there's an innovation to address something that is kind of resisting normal interventions, that would be an area where we could think about it. As I said in my previous response, this is about trying to find more innovative solutions. And the government doesn't necessarily hold those innovations.

Mr. Blake Richards: Sure, and I appreciate your clarifying that a little bit. I think it's a little unfortunate that there was this characterization made. I've known a lot of people out there, entrepreneurial folks, who have a lot to offer. They have creative minds and they're innovative. They care about others in society and they want to try to use their talents to be able to help them. It's unfortunate that the characterization was made, but I do appreciate your clarifying that and explaining exactly where you see things heading and how you see it being complementary.

You mentioned in your first response to me that there were pilot projects, and this wasn't the only area that was being considered to test this and to see how it would work in Canada. I wonder if you can maybe just give me a bit of a sense of that. In what other policy areas, other than social policy, could you see these types of social finance tools being used?

• (1600)

Ms. Siobhan Harty: One area that I think is being considered or looked at—and certainly we had responses in multiple areas from the call for concepts—is public health. Again, we can think about some very complex public health issues that maybe need more innovative solutions. We have examples of innovation sometimes being able to tackle those kinds of issues.

As well, there are areas related to citizenship and immigration, so our colleagues at Citizenship and Immigration Canada are looking at ways to finance different aspects of their work. Could they use models—not necessarily social impact bonds but other funding models, for instance—in immigrant integration and settlement?

There is already an innovation out there related to that, a microloan program for new Canadians who are seeking to get accreditation in the country but can't necessarily afford to take all the tests that are sometimes required to do that. They bring in an accreditation from their home country. There is already a program that falls within the realm of social finance that's doing that, so that's an example.

I think there is interest among some first nations at looking at the potential of social finance to help them develop certain parts of business on reserve, housing on reserve, so those are areas we're exploring.

Mr. Blake Richards: Great, thank you.

How much time do I have?

The Chair: You have a minute and a half.

Mr. Blake Richards: Okay, great, thank you. Just enough time for one more question, probably, and that's great.

I want to just get a sense as to what you might see as potential risks, both for the government and for the private, charitable, or not-for-profit organizations that might be involved in using social finance. What type of risks are there?

Ms. Siobhan Harty: In addition to what I said, or just to reiterate, there is always the risk of failure, so that has to be considered seriously when you're embarking on these kinds of projects.

In some of our work we don't seek to measure outcomes so rigorously. When you engage in social finance and impact investment, you have to be prepared to measure outcomes, so you're holding yourself to quite a high standard in terms of trying to determine whether you're going to be successful. But you're also trying very hard to show that the investment with taxpayers' dollars is trying to achieve something. You're trying to measure outcomes, so there is a risk that you might not attain an outcome, and that's why I said that the innovation comes in, and you have to be prepared sometimes to fail when you're doing innovation.

Mr. Blake Richards: Sorry to interrupt, but if I'm not mistaken, I think the idea is that it really encourages that outcome because, in order for the program to work and for there to be a return, it is strongly encouraged by the fact that it is outcome based.

Ms. Siobhan Harty: Yes, it's outcome based, but you want to use approaches that are already working at the local level. I said that in my remarks. You're using approaches that are already working in some of your communities and you're asking if there is a way to scale this up and to do this in other communities.

You might have an innovative approach to dealing with homelessness in your community. What if you could take that across the country? It's proven in your community, but you want to scale it up.

Mr. Blake Richards: Replicating something that's successful.

Ms. Siobhan Harty: Yes.

The Chair: Thank you, Mr. Richards. Your time is up.

Now, Mr. Easter, please.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair.

Thank you, folks, for your presentations.

Just coming off the last line of questioning, in terms of some of these projects, do you have any idea how much money we're talking about on projects? Can you give us some examples? What are we talking about?

Ms. Siobhan Harty: In the Canadian context it hasn't really happened, but I can say that the one we are doing on literacy and essential skills is approximately \$5 million. We can double-check that, but it's been announced. In other countries it really varies.

To my last point about scaling up approaches, it really does depend on the scale you want to bring to something.

In the UK I think that most of the projects would probably have been in the realm of \$5 million to \$10 million approximately. It depends on the community; it depends on the nature of the intervention.

I think the important point, though, is that you can scale it. The cost is scalable, and it depends on the intervention, the number of people involved in the project, and the environment in which you're doing it. Is it a small community or is it a major urban centre? I think all those variables can be decided upon when you're designing it.

• (1605)

Hon. Wayne Easter: On the project of \$5 million you mentioned, how much money would be government money and how much would be from private sector?

We do this in other areas—I forget the name of the program—youth employment, for instance. The Government of Canada will leverage some money, maybe pay 40% of the salary or something like that, and the private sector will put in some funds. I don't have a problem with that. What are we talking about here in that \$5 million project?

Ms. Siobhan Harty: There's no set formula. It's a contract. Like every other contract, you would have to negotiate it.

Hon. Wayne Easter: As I said at the last meeting and still maintain, one of the concerns that I have, especially in the area of public safety, is that this could be utilized as a way for governments, especially the federal government, to back out of some of its responsibilities and pass the funding for those responsibilities on to others at the business and the community levels.

You said one thing that bothered me a little. It was something along the lines that government doesn't necessarily hold those innovations. Why not?

There seems to be this great effort, in my view, to demonize government and what it can't do. There are lots of things that government does well. I'm not necessarily saying this particular government, but not everything it does is bad. We've got Public Safety, we've got Human Resources and Skills Development, we hire people like you for their expertise. They do have those innovations. Why would you say that government doesn't necessarily hold those innovations? That's why folks are hired.

Ms. Siobhan Harty: We're not the only people who have innovations.

I think in this model the assumption is that other people have innovations too. What if you partnered with them to work through those innovations together and think about how you could implement them in different contexts and different communities?

Hon. Wayne Easter: I think the difference is that's what government should be doing all the time anyway, holding consultations with provinces, individuals, industry to come up with those innovations. My concern is about innovative ideas. The government now is trying to find ways to leverage money from elsewhere while maybe lessening its own responsibility.

Let me go to your report on social finance. On page 19, it's the heading "Public safety" and the youth reach idea, which sounds to me like a really good project. Can you maybe expand a little on that?

What I see here, I like. Is that project near completion, or just started? What are the results of that one? Where would the other funding be coming from in this case, if there is other funding?

Ms. Siobhan Harty: Thanks for that,

All these projects mentioned here are concepts. This was a call for ideas from Canadians, as I said, to test their knowledge of and level of interest. It was, in a sense, a kind of market study, if you will. Trying to understand whether Canadians would be interested in partnering to do social finance-type projects. None of them have received funding, not from the Government of Canada anyway.

Hon. Wayne Easter: So this one that's listed here under "Public Safety", JVS Toronto YouthReach, is it in operation by somebody else's funding?

Ms. Siobhan Harty: It could be in operation, but we haven't funded this particular project. It was submitted to us as an idea.

Mr. Blair McMurren: The project has been scaled up slightly since 2001, but the concept was to scale it up on a larger scale using fully fledged federal funding.

• (1610)

The Chair: You have half a minute yet, Mr. Easter.

Hon. Wayne Easter: Since 2001, regardless of where the feds are at on it, even if it's just a community fund, has it been operational at some point, and has it produced results? To me, it sounds like a great idea. That's why I'm asking.

Ms. Siobhan Harty: We have to get back to you. All they did was submit a concept to us, but I couldn't tell you what the record of success has been for this organization over time.

Hon. Wayne Easter: If it's possible, that would be good.

The Chair: Thank you, Mr. Easter.

Mr. Garrison, please.

Mr. Randall Garrison (Esquimalt—Juan de Fuca, NDP): Thanks very much.

I'm sorry Mr. Richards didn't stay, because I feel we were like victims of a hit and run here in his characterization and what he had to say about Madam Doré Lefebvre's remarks.

Just to clarify, I want to say that we are skeptical on this side. We're not saying that there's no value in any individual projects, and we're not saying there are bad motivations for the non-profits or businesses. But I guess when we see what I would call "unseemly enthusiasm" for the idea by governments that are busy cutting back in all areas, then I think there are some serious questions that we need to answer.

The first of those would be on equity, for me. It's a question I raised the last time. We visited Calgary and saw all the wonderful crime prevention programs going on in Calgary, funded by the private sector. Calgary has the head operations of the oil sands. So they have lots of corporations there, both with resources and a need to buy positive public relations.

But if you go elsewhere, then we're not in that same situation of communities that have those large resources. They're dependent on the good will of small businesses, which is there, I'm not denying that, but they just don't have that same level of resources.

Is there a real concern that if we go with this model that those who already have will be able to benefit more from these programs?

Ms. Siobhan Harty: I don't know how to answer that. I've not seen that raised as a concern. I also think that you don't have to just raise money locally. This is a global market. That's why the UK, when it had the G-8 presidency, set up an international task force to look at this. For some of their projects in the UK, they have money from outside the country as well funding them.

With the EU, it's a little different, but they have service providers coming in from other countries, so service providers that already had an innovative way of doing X, in the Netherlands, who want to participate in a community project in the UK.

I've never heard that you just had to focus in on your local community to be able to get capital or to get a service provider. It's a market. The idea is to create a market. Those services should be able to travel to the business.

Mr. Randall Garrison: Can I get a bit on the direction of funds? For those elements of social financing that have a profit motive, I guess I'm worried there will be an incentive to choose the easy people to work with to achieve your goals, so to take the low-hanging fruit and then take a profit off that, rather than working with those who might be harder to deal with. Is that a concern that you've seen raised?

Ms. Siobhan Harty: That's definitely been a concern that has been raised in the UK. The need to set up the appropriate design and selection process is key. The rigour that you have to bring to the design is paramount to addressing some of the equity questions that you raised. So different approaches, like random control trials, other social science techniques, can be used to avoid this problem of "creaming" and other things.

It's the same kind of issue that you see elsewhere when there's testing, for instance, of pharmaceuticals. These are appropriate, ethical questions to raise. They're very much at the forefront of the design.

That's why it's important, as well, to have appropriate evaluation, to have a third party evaluate these projects.

Mr. Randall Garrison: A third concern, then, that I would also raise is the question of accountability when you're dealing with vulnerable populations. Lots of times we talk about people who are homeless, drug addicted, or offenders coming out of prison. When those become private projects, where is the accountability?

In a public one, we have good supervision of who works there, we have good checks on who is employed there, and we have good complaint mechanisms. But in private projects, quite often we would have none of those.

Ms. Siobhan Harty: They're not private projects, because these are partnerships, right? So the government is still there.

Mr. Randall Garrison: The employees are not public sector employees.

Ms. Siobhan Harty: But they could be from the charitable sector, correct? The service providers are from the charitable sector. That's the case in most countries. That sector is already receiving grants and contributions from governments and providing services. That hasn't changed; they're still there on the front lines.

There are different partners that have been brought in, definitely. As with any kind of multi-partner project, you have to have rigorous governance around it. That has to be put in place, definitely. It would be in the interest of government to ensure that structure is there, that oversight is there.

• (1615)

The Chair: Fine. Thank you very much.

Now for five minutes, Mr. Norlock, please.

Mr. Rick Norlock (Northumberland—Quinte West, CPC): Thank you very much.

Through you, Mr. Chair, thank you to the witnesses for appearing today.

I think you'll see by the type of questioning a sort of ideological divide. Some people are skeptical that anyone other than government can be successful in any kind of crime prevention. Skepticism is not a bad thing, by the way. I'm not saying it's bad. I simply say that when we deal with crime prevention, we don't want to keep doing things the same way in the expectation of better results.

We may be getting some good results, but would I be correct, Ms. Harty, in saying that the thrust of our social finance ideas and our beginning to explore them and institute them is, indeed, that? We're simply going to test it out. We're going to make sure that we do things right, based on the experience of other countries, those that worked well, those that didn't, and we'll try to use tools to ensure that we get the best possible outcome, knowing that there are no guarantees. Would that be correct?

Ms. Siobhan Harty: Yes, I think that one of the advantages of not being a first mover in this space, Canada gets to see what other countries have done, so there are lessons learned. There are best practices that will come from other countries, and we'll be able to examine those and decide whether we want to proceed or not. I think that provides a safeguard for us.

Mr. Rick Norlock: And we heard mention that consultation is really good, but would you not say that consultation should then lead to action? And in this case, the action would be the development of the social contract bond, or something of that sort, and that's the action you'd take. But you'd make sure that in that action, in the social impact bond, you'd have measurability. In other words, you're able to assess whether or not it's achieving the goals.

And would you not agree that for anyone who's investing money into it, including the government—which has no money other than the taxpayers' money—you'd want to make sure that they, the taxpayers in this case, are getting the best bang for their buck?

As you say, would you not agree that the partnerships are there and that the social contract bond isn't just with...? I'll try to be kind to Mr. Garrison. Profitability isn't always evil if you get good results from it. Would you say that's correct?

Ms. Siobhan Harty: I won't comment on profit, but on outcomes. What I can say on outcomes is that a government or any set of partners would only want to do this if they thought, as you made mentioned in your first comment, that it was going to improve outcomes. We're trying to solve social and economic challenges and you want to be able to improve things through the application of an innovation.

I think that all partners would have to agree to that, in order to be able to come together for a project and sign a contract. If an investor didn't think that it was going to be successful, if a government didn't think it was going to be successful, if a service provider didn't think the same, I can't imagine why they would do it. So I think it's a coming together of a perspective and a meeting of minds on trying to advance something, or why do it?

There has to be a sense that you are going to be able to improve outcomes by an intervention for individuals.

Mr. Rick Norlock: Some mention was made that the richer parts of Canada, or the so-called richer parts of Canada, can afford things whereas, say, rural communities may not. Well, I come from a rural community, and you may or may not be familiar with the program, but one of my last jobs was bringing programs to the policing perspective. One of them was community policing.

Could you foresee a social contract with a community policing organization that wants to reduce, say, vandalism in the downtown? They would get a little bit of seed money from the government and perhaps from some local businesses who are being affected by it, and even the municipal government working with another level of government.

• (1620)

Ms. Siobhan Harty: I think if the community thinks it has an innovation it wants to apply and partners are prepared to come together, with or without a level of government, I guess that's for the community to decide whether it has an innovation that it wants to apply.

What are the most appropriate areas or the most appropriate partners? I don't have the answer to that. That really depends on the context.

The Chair: Thank you very much, Mr. Norlock.

Now, Mr. Rousseau.

[Translation]

Mr. Jean Rousseau (Compton—Stanstead, NDP): Thank you, Mr. Chair.

I want to start by thanking everyone for being here today.

I have a few questions, and they don't have to do with the definitions as to what is considered evil or not.

What parameters does Employment and Social Development Canada most commonly use to determine whether a program is successful or not, whether it has met its objectives or not?

Ms. Siobhan Harty: In accordance with a Treasury Board directive, every department follows its own evaluation process. It depends on the program, but usually, a program is evaluated after five years, for example, using pre-determined criteria. The depart-

ment always has a committee that examines the various aspects of the program to figure out what the criteria should be. It depends mainly on the program's objective. The program objective serves as the basis for establishing the criteria and performance evaluation measures used.

Mr. Jean Rousseau: Is it the Minister of Employment and Social Development or the Treasury Board who oversees that?

Ms. Siobhan Harty: I couldn't tell you, given that I'm not responsible for evaluation. If you like, we could locate the Treasury Board directive and our department's policy for you.

Mr. Jean Rousseau: Okay.

Mr. McMurren, my next question is for you, as the person in charge of social innovation in your department.

Could you define "social innovation" as it relates to our study?

Mr. Blair McMurren: Some of the definitions are rather vague. In our report, we define social innovation as new ideas to address social problems in communities. The difference between social innovation and social finance is that social finance is social innovation applied. It's an umbrella term that covers ideas related to social enterprise, social finance and social investment.

Mr. Jean Rousseau: We are mostly interested in potential crime prevention applications.

You talked about the funding of literacy and essential skills training projects. But it makes the provinces nervous when we get mixed up in that area.

Have you spoken to the provinces about how SIBs could be applied to their areas of responsibility?

Ms. Siobhan Harty: We haven't formally discussed it in the context of our committees.

As I said, some provinces are already showing an interest. Some have launched these types of strategies. And that has given us an opportunity to talk to them about their experiences, their expectations and their objectives. But we don't currently have any partnerships with the provinces.

Mr. Jean Rousseau: How much time do I have left?

[English]

The Chair: You have another minute left, Mr. Rousseau.

[Translation]

Mr. Jean Rousseau: You said foreign capital could be channelled towards local programs. Would that type of investment be subject to the same free trade agreements that Canada has signed with other countries?

Ms. Siobhan Harty: Absolutely. I'm not an expert, but I do know that European countries always have to abide by the free trade agreements signed by the European Union.

I think that's easier for countries in Europe, since they're already used to doing business that way. We would need to take a closer look at that aspect in Canada.

• (1625)

Mr. Jean Rousseau: Thank you kindly.

[English]

The Chair: Thank you, Mr. Rousseau.

You have just a couple of minutes, Mr. Payne. Then we'll suspend while we do the video hookup, but you have a couple of minutes now, sir.

Mr. LaVar Payne (Medicine Hat, CPC): Thank you, Chair.

Thank you to the witnesses for coming.

This is a very interesting concept here, what we're hearing, and sometimes it's hard to get your head around how this is going to work. I guess that there is always some concern that organizations might try to take just the low-hanging fruit in terms of return of investment and that sort of thing. Where would we see return on investment in, say, some much more difficult cases? Would you see high returns of investment and the parameters much more difficult, or harder metrics to meet so that they can get the return on their investment?

Ms. Siobhan Harty: That's a good question. It's not like Blair and I have a lot of experience negotiating high finance or contracts, so what I'll share with you is simply what I hear from colleagues in other countries.

Obviously, from an investor standpoint—again, I'm not a financial investment type—the higher the risk, the more return they're going to want. It's like venture capital. So if they perceive that the project is risky, because it's an innovation and not something that necessarily has been tried on a certain scale before, they'll want a higher return. Maybe it worked in a small community, but now they want to try it in London, England. Well, what is that going to look like? It's high risk, so an investor is going to want that high return. Governments are probably not going to want to give a high return, so a negotiation has to happen there.

If it's a very proven concept, the return might be lower because the risk will be perceived as being lower. Definitely, the perception of risk is going to be very important in a negotiation.

Mr. LaVar Payne: Potentially, the higher the risk, the bigger the savings the government might have as well.

Ms. Siobhan Harty: Yes, potentially.

Mr. LaVar Payne: We could be saving all kinds of money on—

Ms. Siobhan Harty: Especially for downstream costs, as I said. You have to take a long-term view on this, which is also a risk because it's like patient capital. You'd be placing money in something that could only return in seven years.

Mr. LaVar Payne: I have another quick question. You talked about 150 non-profits across the country. Is that only from major centres, or is that from smaller centres?

Ms. Siobhan Harty: In our report we had over 150 concepts. You'll see in the report that we did break down the categorization. We didn't have it in all cases. In most of the country there were some gaps, but in terms of the urban/rural split, we didn't have that information, but you can sort of tell from reading some of the concepts.

I can't give you precise numbers.

The Chair: Very briefly.

Mr. LaVar Payne: I noticed one in B.C. for aboriginals, trying to provide trades training for them. That looks like an outstanding program and I see some huge benefits, obviously for B.C., and for first nations.

Ms. Siobhan Harty: Yes, many of these are being pursued by the relevant departments. It's up to other government departments. If they're interested in the concepts, they can launch some discussions with the concept holders. I know colleagues in Aboriginal Affairs and in other departments are doing so.

The Chair: Fine, thank you very much, Mr. Payne.

We certainly thank our witnesses very kindly for coming here today.

We will suspend for a couple of minutes while we arrange for a video conference for our next witnesses and bring them forward.

• _____ (Pause) _____

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• (1630)

The Chair: We will reconvene. At this point we have two further witnesses.

Welcome to the Standing Committee on Public Safety and National Security.

Here with us today by way of video conference from Washington, D.C., we are very pleased to have from the Center for Law and Social Policy, Ms. Elizabeth Lower-Basch, policy coordinator and senior policy analyst. We also have with us Andrew McWhinnie, director, from Andrew McWhinnie Consulting.

At this particular point we have up to 10 minutes for a presentation, should you wish.

We will start with Ms. Lower-Basch. You can certainly have the floor for 10 minutes. We'll go to Mr. McWhinnie after that, then we will open the floor to questions.

Ms. Elizabeth Lower-Basch (Policy Coordinator and Senior Policy Analyst, Center for Law and Social Policy of Washington): Thank you for inviting me to testify.

Can you hear me?

The Chair: You are loud and clear, thank you. Go ahead.

Ms. Elizabeth Lower-Basch: I appreciate the technology that lets me join you.

I am Elizabeth Lower-Basch. I'm the policy coordinator at CLASP, the Center for Law and Social Policy. We seek to improve the lives of low income people by analyzing and advocating for good practices and policies.

Earlier this year we released a report I wrote that looked at social impact bonds, or SIBs, from the perspective of assessing whether they're a good way to expand services for the disadvantaged populations that we care about. The paper looks at the stylized model of a social impact bond, reviews how the projects that are currently under way in the U.S. and in the United Kingdom compare to this model, and lays out the possible benefits and drawbacks of using SIBs. It is based on our review of the literature on SIBs, as well as on our knowledge and experience with performance measurement systems, performance-based contracting, and generally, strategies to link public policy and implementation with research evidence for programs serving low income and other disadvantaged populations.

Let me begin with a quick review of the main features of the stylized model to make sure that we're all on the same page. At the core of a SIB is a prevention or early intervention service. An intermediary organization, not part of the government, lines up private investors to provide upfront funding, which it uses to hire organizations to offer the preventive service.

At the same time, the government enters into a contract with that intermediary, in which it promises to pay a certain amount at the end of the performance period—typically five to seven years—if specified impacts have been achieved. This amount is enough to allow the investor to recoup its upfront investment, and also to make a profit, to compensate it for both the use of the funds, and for the risk involved in the project.

There is risk, because if the specified impacts are not met, the private investor is not paid and loses its investment. In some cases, the amount of the payment is also based on savings that the government expects to realize as a result of the project meeting those specified outcomes.

I'm going to focus on two of the claims that are made about SIBs. One is that they will increase the focus on outcomes of services, rather than inputs, and the other is that they will save governments money.

It's definitely true that SIBs increase the focus on outcomes of services. It pushes to the forefront the question of what are the outcomes we care about, and how much we are willing to pay to achieve them. Because there's a contract involved that's paid for success, the government has to be clear about what success would look like.

SIBs also force people to think hard about the impacts of programs—the difference between what happens because of the program and what would have happened without them—not just outcomes. This can involve a random assignment evaluation, but doesn't have to. But it does require identification of a counterfactual, in some way, based on either a comparison group or underlying trends with controls. I think everyone agrees that it's a good thing to focus on the impacts of programs in these ways. It's also important to be careful that what is incentivized is actually what we care about at the core, and not just what's easy to quantify and measure.

I'm not going to get into details today, but in the paper I spend a fair amount of time on the possible distortions that can be caused when we attach high stakes incentives to measures that are only part of what we actually care about. What do I mean by this? If you're

looking at, say, a job training program for young adults who are at risk, you might see that it reduces incarceration rates as well as promoting employment. And you might consider entering into a social impact bond to support replicating this program, with the payments tied to incarceration rates. This could have unintended consequences. For example, the program might realize that very few of the women in the control group wind up in jail, so it might decide to only serve young men. Or it might decide that it doesn't really want to focus on job training at all, but only on mentoring or other services aimed at the incarceration, if that's what the payment is tied to. So you just want to think carefully about what your goals are and what would be acceptable.

● (1635)

The second claim that people make is that SIBs will save the government money. It's really important to distinguish here between two distinct claims. The first is that prevention focused services can save the government money, and the second is that SIBs themselves save money.

In the idealized version of the SIB, these go together. The services save the government so much money that government spending can decline even after repaying the investors. There may be some cases where this is possible, but SIBs have been proposed in a range of areas, and in only some of them is there likely to be this sort of savings.

First, it's important to recognize that in not all cases does investing in prevention save the government money. That said, criminal justice is probably one of the areas where the case is strongest that preventive services can save money in a short timeframe. Putting people in jail is very expensive, so there's a lot of potential for savings, even in the short term.

In many other areas, such as early childhood or job training, the preventive services are definitely beneficial to both the participants themselves and to society as a whole, but they may not directly lead to government savings, or they may lead to savings only over a very long time period, and it is not clear that investors are willing to wait that long to be repaid. This is why so many of the early SIBs are focused on justice populations, and particularly on ex-offenders and preventing the incarceration.

But it's also important to understand that for any possible services SIBs are going to be more expensive than funding those same services and activities through a more traditional financing mechanism just because the SIB itself has incremental costs. There are the returns that have to be paid to the investors, there are also the costs of the intermediary and the evaluation, and there's also some upfront costs in negotiating and figuring out what your baselines are and what the contract's going to look like.

I'm not going to get into all the details, but McKinsey & Company has done a pro forma analysis of the costs of a SIB, which I thought was really helpful.

I will note that SIBs can potentially save money if the programs fail to meet the outcomes, and therefore the government does not have to pay the intermediary. This is obviously not desirable. In a mature market, of course, profit motivated investors will demand the profit that accounts for this risk of failure, so it gets built into the overall cost across the portfolio.

There's also a risk that when a SIB is failing to meet its target, it would be rational for the intermediary to cut their losses and stop providing services. In some cases that may be okay, in other cases the government will need to step back in to fill that gap, which itself incurs costs.

It would seem you could save the most money by investing in more preventive services without the social impact bond. Even if you had to borrow the funds, the interest rates would be much lower than the carrying costs of the SIB, but the reality is that in many cases policy-makers, advocates, have not been able to make that successful case for expanding investments in prevention. That seems crazy. It can be very frustrating to those of us who have worked in these areas, so if SIBs are able to overcome this problem of under-investment in prevention, it may well be worthwhile to pay the incremental cost.

I have a few recommendations.

The first is to be realistic about what can be accomplished by SIBs, or social impact bonds. Don't oversell them. Recognize it's a new approach, that it's still in the experimental stages. None of them in the world have reached the payment stage yet, so there's still a lot to learn. For that reason, I'd say they should not displace existing spending, and that you should recognize that they're not a panacea to cure the problem of underinvestment in social programs.

●(1640)

I'd also specifically urge you to start with the analysis of the desired outcomes, and how much you are willing to pay to achieve them, whether because of savings that will be achieved or because of the value to society. This framework is core to a successful SIB. You can't move forward without it. But it's also a really important conversation to have that adds value to your budgeting and to your decision-making process, whether or not you decide to move ahead with social impact bonds.

Thank you.

The Chair: Ms. Lower-Basch, thank you so kindly for taking your time to be here with us, and certainly we do appreciate this bilateral conversation.

We have now another guest with us here today. We have Mr. Andrew McWhinnie.

I would just bring to the committee's attention that Mr. McWhinnie had a number of documents that he presented to the committee to be distributed today, but as they have not been translated, they will not be distributed today. They will be given to the committee at a later date, obviously.

Of course, we will now hear from Mr. McWhinnie and perhaps in his narrative he can attest to some of the documentation that he has and make his case. After that we will open the floor to questions for both of our witnesses.

Please stand by, Ms. Lower-Basch.

You have the floor now, Mr. McWhinnie.

●(1645)

Mr. Andrew McWhinnie (Director, Andrew McWhinnie Consulting, As an Individual): Thank you, Mr. Chairman, and committee members.

It's a pleasure to be here to address parliamentarians in my country and to talk to you about something that I'm very passionate about. Unfortunately, I don't have a formal presentation to make to you today. My call to the committee came the day before yesterday while I was on retreat in the country with a group called Circles of Support and Accountability, or CoSA.

I'm going off of whatever is on my brain pan right now on Circles of Support and Accountability. I have been doing this for the better part of 20 years, so let's just see how far we can get with that.

Circles of Support and Accountability addresses the needs of a group of people that makes us all kind of squirrely and itchy and not feeling too good, and that is high risk, and let's just start there, not low risk, not medium risk, but high-risk sexual offenders returning from prison to communities. Nobody wants to work with that group. They scare us. They have caused irreparable damage in our communities. They have harmed people in ways that they will never recover from in most cases, and they are a worry, and they are a social problem as a group in our society.

In 1994 these people were returning to communities at the end of their sentence, after being detained to the very end of their sentence, to the very last day of their sentence, and put out in the community and told, "Take care of yourself and don't do that again."

One of those fellows, his name was Charlie Taylor. He is deceased now. He was released to the community of Hamilton. He had spent most of his life in jail or incarcerated in one form or another, beginning with foster homes when he was eight years of age. I think the estimate was that he had never spent more than a couple of months on the street without being locked up someplace.

Charlie was a very high-risk sex offender. He was the kind who scares us, the kind who is actually very rare in our society, believe it or not, but the kind who would, when he wasn't feeling good, when he needed to soothe himself or take care of himself, go looking for a victim. Those victims were pre-adolescent boys, very young boys around the ages of five and six. I'll spare you the details of what he might have done to them.

He was coming from Warkworth penitentiary to the City of Hamilton. I know, sir, that's your riding and you know about Warkworth Institution. The police in Hamilton were worried. Everyone estimated, including Correctional Service Canada, that his chances of reoffending were about 100%. That's rare in our society, but it does happen.

Some members of a Hamilton Mennonite street church under the direction of Reverend Harry Nigh had been visiting Charlie in jail and knew that he was coming back to the community and they thought they needed to do something about it. "What if we pulled a group of volunteers together around Charlie and stayed with him every day and walked with him through his re-entry into the community? If anything comes up, we'll make sure that he has his needs met, but more importantly than that, we'll make sure that he's held accountable for his behaviour, that we know what he's doing, and that he can answer to us for his behaviour."

The estimate was of 100% recidivism within a month. Charlie died 12 years later without another offence, the longest period of time that he had spent on the street in his entire life.

Since 1994, Circles of Support and Accountability has been replicated across this country in many of our major cities from the east coast, from St. John's, Newfoundland, to Vancouver and the Fraser Valley. There are 152 such people being served this month, high-risk sexual offenders in Circles of Support and Accountability, by 650 to 700 committed citizens, ordinary citizens with no particular expertise at all forming these circles of support and accountability around those 152 people.

I have to say that when we first came out with our statistics, we had to rerun these numbers again because we didn't believe them ourselves. In the Toronto pilot project we showed a 70% reduction in sexual recidivism among people who were in circles, compared to a matched sample control group who did not have a circle.

●(1650)

We didn't believe that. We ran it again and again and we came up with the same results and so we published them. In fact, the Correctional Service of Canada published that study in 1996, I believe it was.

We decided that we needed to replicate that study, and we did. We replicated it across the country in our projects and we came up with numbers that blew us away: an 83% reduction in recidivism; a 73% reduction in violent recidivism, including sexual reoffending; and a 70% reduction in all types of offending.

Those numbers are startling. They're startling to us, and if people wanted to question those, I think they'd be well within their right to say, "Wait a minute, there has to be something else going on here."

These studies have then been replicated in Great Britain by Circles United Kingdom. After a 10-year follow-up of their circles, they came up with numbers that were very similar to ours in terms of reoffending. In the United States, in Minnesota, the Minnesota Department of Corrections—Grant Dewey—have run the only random clinical trial for circles of support and accountability in Minnesota. They don't really want to publish anything until they're at the five-year mark, but when they go in and do a little data snooping and see where they're at, at the three-year mark, which matches where our follow-up period was, they came out with numbers almost identical to ours, in a random clinical trial.

It seems like they have something here.

Through the National Crime Prevention Centre, starting in 2009, we did a five-year evaluation of circles of support and accountability.

What the National Crime Prevention Centre did was fund circles to their capacity so that they could operate at capacity in Canada, and then evaluated the circles of support across the country. It went through a process of identifying outcome measures, what those outcome measures should look like, what meaningful measures were, including recidivism. That study is due on September 30 or October 1 of this year.

We are doing a recidivism update on the numbers that I just gave you, where we had the 83%, 73%, and 70% reductions. We're updating those. That's happening right now. Those will be ready on October 1. We're finding that we have to do a complicated analysis. Looking at recidivism this way is going to test us, and we're going to find out what those numbers look like at the 8- and 10-year mark, which will be very meaningful.

Circles of support. I know you've wrestled at times with the idea of crime prevention versus recidivism, and should social impact bonds be used for what group of people—both, and one or the other. Circles of support and accountability is at once an absolutely astounding primary crime prevention tool to reduce victimization by people who are repeat offenders, and it is a recidivism prevention project. It's both in terms of recidivism and crime prevention. If you think of the numbers 83%, 73%, and 70% replicated in this country and in other countries around the world, think also really of the number of potential victims who were not victimized by these people. If we're serious about crime prevention and about lowering recidivism rates by preventing sexual assaults against our citizens, circles of support and accountability has to be one of the tools that we can use.

The Americans have come up with a cost-benefit analysis that demonstrates for every dollar spent on circles of support and accountability, there's an 82% return. The British came up with an 18% return on investment.

The Mennonite Central Committee of Ontario has done a social return on investment study, just published this year, that shows a \$6 return for every dollar spent or invested on circles of support and accountability. It's early days in terms of social impacts and social returns, but we're beginning to identify what those factors might be. What would be the indicators for a social return? Reduced victimization, for sure. Mental health costs, for sure. A third of our people in circles of support and accountability suffer from mental health problems, and 50% suffer from mental health and addictions problems. These people are being addressed within a circle of support and accountability.

Unfortunately, the funding that brought circles of support and accountability to its capacity ends on September 30. We knew that this was going to happen. The reason that we did an evaluation study and partnered with the National Crime Prevention Centre was to demonstrate the effectiveness of circles of support and accountability.

•(1655)

It is kind of a mind boggler for us, and you're probably aware of this. Around about March 15, the Correctional Service of Canada, which is the major funder of circles of support outside of the National Crime Prevention Centre, said it was going to end funding March 31 of this year. We had our skirmish, and funding was restored until March 31, 2015, but my last conversation with the Correctional Service of Canada yesterday indicated that it will not renew the funding for Circles of Support and Accountability.

The funding of a nationwide program, a Canadian innovation in both crime prevention and recidivism reduction, involving ordinary citizens across this country who are invested in risk management within communities and community safety, is over as of March 31, 2015.

The Chair: Thank you, Mr. McWhinnie. Certainly you went a little over time, but we'll just carry on here, sir. It was a most interesting reality. Thank you very much.

Now we will go to a round of questioning.

Mr. Maguire, please.

Mr. Larry Maguire (Brandon—Souris, CPC): Thank you, Mr. Chairman, and through you, I want to thank both presenters for their presentations to us here this afternoon.

This is a situation that I want to ask a number of questions on, but I'd like to go back to Ms. Harty, who just made a presentation earlier, with something to put in your minds before I ask this question. She indicated there were about 150 concepts in the study that they've done, 150 responses from people who would get into being a partner with government in these areas, in these kinds of investment bonds, and that sort of thing as well.

Ms. Lower-Basch, you made a comment that there was sometimes quite a long time before there was any kind of return seen on the investment. I think you talked about six or seven years in some cases. Is that any different from some other major investments, or some other investments? Many wait a long time anyway before they see the full return on their investment. Do you see that as being a big concern or a reason not to move forward with investment bonds as well?

Ms. Elizabeth Lower-Basch: I think the question is really what the market will sustain. The social impact bonds depend on private investors being willing to wait however long to get paid back. The ones we've seen so far, which as we've said are very new, the pilot ones, are of relatively short periods. It's possible that, particularly if you have philanthropic investors rather than profit-motivated ones, they might be willing to wait longer periods, but that's not yet known.

Mr. Larry Maguire: We just talked about the SIBS. Have you looked at the other areas that were mentioned, or do you have others that you could add that would be feasible options as far as having a complementary source for government to look at this kind of social development as well?

Ms. Elizabeth Lower-Basch: I think there's a range of things that are labelled social investments. I certainly think, to the extent that there are enterprises that are able to bring in revenues, that's a positive thing, though again, you need to think about what your

outcomes are and make sure that the design to bring in profit doesn't come ahead of the social goals, but my research specifically focused on the—

Mr. Larry Maguire: Either of you can answer this question then. Do you see investments that would have maybe fewer barriers than what you see in these particular areas that we've been talking about? Are there any new areas that you would like to think would have fewer barriers than what you're seeing here?

Ms. Elizabeth Lower-Basch: I do think, as I said, that the justice area is one of the ones where you see the most immediate payoffs because prison is so expensive. Homelessness prevention is another one where there may be quite short-term payoffs. In the U.S. context, people have looked at some of the very chronically ill who have not historically always received treatments. Those are some of the ones that seem more promising in the short term.

•(1700)

Mr. Larry Maguire: Mr. McWhinnie.

Mr. Andrew McWhinnie: I think the social justice and criminal justice areas are probably the places where you'd find the most immediate benefit. Certainly, I would recommend a program like ours, to be selfish about it, and say it's ready for that kind of investment. I don't know who would invest in it.

Also, I'd probably have to say that there's an ethical issue there in that there are some things that I think government should fund and should be a collaborator with—at least with whoever the investors are going to be. And maybe there's a question about whether we should be making money or allowing people to make money off the social ills of other people?

I don't have the answer to that. I just raise it as one of the concerns. We collaborate with all levels of government, criminal justice officials, and law enforcement people, so I think that's an area where you would need to have the collaboration of government and investors.

Mr. Larry Maguire: I have another question in the time I have left.

Ms. Harty mentioned that there were four parts to the program that they have. A couple of them have already been implemented. So this isn't a new concept, it's been around for quite some time.

In the UK, we saw the other day, and it's mentioned here again too, that their big society capital program has been a leader in the world in regard to how it's been accepted.

So given that timeframe and that it's been out there, Mr. McWhinnie, can you provide me then with your thoughts as to how you have maybe, over the last couple of years, prepared yourself for a partner? You indicated there may not be some there. Have you looked at partners who might, or even thought of partners who might, consider joining with you?

Mr. Andrew McWhinnie: Not particularly. We haven't gone after individual investors. We have been educating ourselves as much as possible in terms of what this is. The findings from Great Britain, I understand, are actually quite mixed in terms of success and effectiveness, so we're mindful of that. At this stage, we're still looking to government as being the primary funder—governments from the federal government all the way down to municipal governments—and individual police forces, but we have not, no.

Mr. Larry Maguire: Ms. Lower-Basch, have you...?

Ms. Elizabeth Lower-Basch: These models, by and large, do not say that governments are now not going to be partners in this and will not pay. I think it's really a question about whether governments are paying upfront for the program, or if they're paying down the road for the outcomes that are achieved.

Mr. Larry Maguire: We have heard that this is a totally complementary program to the government continuing with its financing and just trying to get more results from it. Coming from a rural area, the way I look at it is that you don't necessarily have to be in a highly populated area with a lot of crime to have effective partners. They may not look at the high return financially as necessary to partnering with this. There may be other benefits, obviously, just from the fact that their property isn't as impacted by somebody, for example. That could be another reason as well.

The Chair: Thank you very much, Mr. Maguire. I appreciate your time.

Madame Doré Lefebvre.

[*Translation*]

Ms. Rosane Doré Lefebvre: Thank you, Mr. Chair.

Mr. McWhinnie and Ms. Lower-Basch, thank you for taking part in our meeting today. You bring very different, but equally informative, insights to the table.

Mr. McWhinnie, you discussed the ethical questions raised by these kinds of partnerships between the private sector and government.

My first question is for you, Ms. Lower-Basch. In light of your experience in Washington, you might be able to enlighten us about something.

In 2007, the Quebec government decided to pursue social finance through a philanthropic public partnership, with the focus on philanthropy as opposed to finance.

To that end, the government chose to work with the Lucie and André Chagnon Foundation. Lucie and André Chagnon were two members of the private sector who had just sold a large telecom and had a lot of money to spare. The province signed an agreement with the foundation, which was to provide up to \$500 million in funding for social projects over 10 years. For its part, the government was to invest \$350 million over the 10 years.

What many people came to realize, over time, was that the foundation wielded a tremendous amount of influence over the social policy of the provincial government in office. And right now, some 350 organizations from across the province have joined forces to pressure the government not to renew a similar agreement.

I am wondering whether you know of any such situations in the U.S.

Do foundations involved in these types of programs have more influence over the U.S. government?

What is your take on the situation the Quebec government is facing?

● (1705)

[*English*]

Ms. Elizabeth Lower-Basch: The U.S. has a program called the Social Innovation Fund, which does match philanthropic dollars and money from the government. But I think the total amount is small compared with overall government spending, so I have not heard this complaint about it influencing policy too much.

[*Translation*]

Ms. Rosane Doré Lefebvre: Mr. McWhinnie, do you think this kind of thing could happen in the public safety sector?

You are going to lose your funding after March 2015. You were told that it wouldn't be renewed. If you were able to access that type of funding, would you worry about the private sector's influence over your work for Circles of Support and Accountability?

[*English*]

Mr. Andrew McWhinnie: Thank you. That's a great question.

It has occurred to us that if we were to have a corporate investor, along with government, in Circles of Support and Accountability, they might hesitate. Indeed, the comment in the last presentation was that perhaps there's the tendency to go after the low-hanging fruit.

We go after the tough guys, the guys who are high-risk people. Let's just ask ourselves the question: who is going to invest in support services for sexual offenders? I mean honestly, really. And if they did, are they going to have a say, stating that we want you to pick this guy but not that guy? He is really high profile and if our company or our organization is associated with support services to him, that's not going to look good on us.

So I think there is a concern. Or it could be: we do not want you to recruit these volunteers but only this type of volunteer, or we don't want you to recruit from the faith community—where we spend a lot of time recruiting volunteers—because we're a secular organization and don't believe in....

Yes, in short, I do have concerns about what those partnerships would be. We'd have to select partners who can get along together very well and understand and share a vision together, which influences that.

[*Translation*]

Ms. Rosane Doré Lefebvre: What could happen to you after March 2015, once your funding from the Correctional Service of Canada runs out? Do you have a plan? What will happen to your agency?

[English]

Mr. Andrew McWhinnie: Yes. I was at a COSA retreat this week. We claim to be a community-based group and so we're now looking at our communities and our provinces to replace at least some of the funding.

Some of our circles will fail. They don't have the backing in their communities and are unable to find the backing in their communities. So Circles of Support and Accountability will shrink in Canada. But it won't end. People are quite determined and quite passionate, in terms of the services that they are providing. But it will become a lot more difficult to do these things after March 31, 2015.

Ms. Rosane Doré Lefebvre: Thank you.

The Chair: Thank you.

Now, Mrs. James, please.

Ms. Roxanne James: Thank you, Mr. Chair.

And thank you and welcome to both of our guests.

I have a couple of questions for Mr. McWhinnie. First, I want to maybe backtrack a bit as to why we started this particular review of our current funding, which is the NCPC, as you've mentioned, as well as delving into social financing of possible future endeavours the government may embark upon.

You mentioned that you were aware that the funding would run out in five years because the NCPC was almost like a pilot project in itself. So there are various streams. One was dealing with youth gangs. There was another one, and you're funded under a particular stream as well. The idea was not only just crime prevention but also to gather the data and to see what works and what doesn't work.

With your organization, Circles of Support, I know that Correctional Service Canada had said it was going to cut off that funding and I know that there was a wide support for your organization from within all parties within the government. Indeed, Minister Blaney contacted Correctional Service of Canada to make sure that the funding continued.

Obviously, as a government, we were quite concerned, based on the results that we have heard from you today. I was trying to write them down. I wasn't quite quick enough, but you talked about an 82% return, and another with an 18% return on investment, and there another one where for every \$1 invested, you're saving \$6 costs down the road.

Do you have that statistical information? Could you actually submit it?

• (1710)

Mr. Andrew McWhinnie: Yes.

Ms. Roxanne James: That would be terrific, because we'd like to see what areas are working and why some might be better than others. All seem very good, and obviously I'm glad to hear that crime prevention and protecting our communities are job number one. I'm glad you're able to provide that. Thank you very much.

You talked about your concerns with regard to possible outside investors getting involved with the Circles of Support. Prior to the

NCPC funding—which is going to end in 2015, as it's a time-limited pilot—were you being funded elsewhere or did your Circles of Support start with that particular funding pilot project?

Mr. Andrew McWhinnie: I mentioned that the Correctional Service of Canada was the primary funder outside of the National Crime Prevention Centre. So prior to NCPC's involvement—and your summation of the involvement of NCPC is entirely correct—the other organizations that were involved in terms of funding were the Mennonite Central Committee Canada, the Mennonite Central Committee Ontario, the Catholic Archdiocese of Vancouver, and a number of other small funders across the country for their projects, such as the Ontario Trillium Foundation and a number of other similar funds in other centres, the Alberta foundation in Calgary, and some police forces. I think the Calgary Police Service provides \$2,000 or \$3,000 to Circles of Support and Accountability.

Ms. Roxanne James: Thank you.

You've listed a whole bunch of organizations or groups that had been supporting you prior to the NCPC funding. These are actually investors that might be involved in a social finance type of contract with your organization through the government. Obviously, there's an intermediary in between there and someone who evaluates the project at the end, but I think that from the perspective of crime prevention and seeing that projects are working, it's important that, based on results, we use other ways to get greater bang for a buck and bring more dollars into the fold to expand it. Would you be open to looking at areas like this?

I know you said you are concerned that maybe some Circles of Support in some areas may not find the same support, but there are other ways you can do social financing. There's a model called pay for performance. Certainly, based on the results you've given here, you would be getting money and continual funding if those were based on pay for performance.

Mr. Andrew McWhinnie: The organizations I have just mentioned I would see as intermediaries and not as people who would actually invest. The organizations I've mentioned don't have any money to invest.

But yes, absolutely, while we have ethical concerns and we see that there may be some ethical questions to be answered, we're open to at least talking and entering into dialogue about these possibilities, because—oh, my gosh—we don't have much more than about 11 months before we'll be almost dead in the water.

Ms. Roxanne James: I think we're all here so we can take a look at what works and what doesn't and we can see how we can continue with crime prevention in this country.

Under our current model, we invest in the organization, and they carry out the project for five years, but we have no idea whether there are any results until after that five-year period. We're at a point now where we've gathered that information, and it's time to actually, I would say, invest in areas that we know are proven, through different methods as well so that we can extend the dollars coming into crime prevention and community safety and also get the best bang for—let's face it—the taxpayers' dollars and make sure we are investing wisely.

I really thank you for your presentation, and if you could get those statistics to us, I would very much appreciate it.

• (1715)

Mr. Andrew McWhinnie: The committee has them.

Ms. Roxanne James: Okay, thank you very much. I very much appreciate that.

I had one question as well for our other witness, Ms. Lower-Basch.

You mentioned some of your concerns, two of which had to do with social finance, but you also indicated that there are options to that. I think we have to remember that when you get into social finance, a lot of it has to do with the contract that's established up front. So if organizations are afraid they're not going to get the money from their initial investment returned to them, that would be part of the contract process. I just wanted to clarify that as well.

I guess I'll leave it be for now.

Thank you, Mr. Chair.

The Chair: Thank you very much.

We'll now go to Mr. Garrison, please.

Mr. Randall Garrison: Thank you very much, Mr. Chair.

Ms. Lower-Basch, I have your paper from March 2014 in front of me. One of the things it says is that "so far, up-front funding for SIBs has mostly been provided by foundations, or by private investors backed with a guarantee from a philanthropic source, rather than by purely profit-motivated investors".

Is this a pattern we've seen elsewhere, that in fact profit-making corporations aren't really the main participants in this kind of activity?

Ms. Elizabeth Lower-Basch: I think it's still a work in progress, and some of the more recent ones in the U.S. have more private investment. Goldman Sachs has put up some money. For example, the New York City Rikers Island one is from private funding, but then there's a guarantee from the Bloomberg foundations. So I'm talking about models like that.

I think it's really a very novel method. If you're really interested in making a profit, you're going to be entering it cautiously and figuring out whether or not it's really an opportunity.

Mr. Randall Garrison: Mr. McWhinnie, I think the first thing we need to say is thank you to the services board for the work they have been doing. The statistics are available through numerous published reports and through Corrections Canada reports. Earlier skepticism was expressed about these kinds of projects displacing government money and things that already work, but I have to say that to me what we have sitting here at the table with us is an example of an organization that is extremely successful. To me there is very little prospect, as you were saying, that you could run this same project with private financing, but I don't understand why we'd even want to think about that. This is a group that's already a community-based citizens group. This is not a government program; it's a very effective community-based program.

I just don't understand the government's determination to end the funding for this. I know you can't explain that from your end, but I know in my own community services board, and I know from my work in criminal justice....

Can you talk a little bit about what kind of support you get from communities?

Mr. Andrew McWhinnie: The support that's provided to people coming out of jail, first of all, provides stability. One of the largest protective factors against reoffending that I can think of is stability in terms of housing, in terms of relationships, in terms of a place to go during the day to combat isolation, and other sorts of things.

People who have been in jail for 15 or 20 years or more in some cases come out, and they don't know what a bank machine is. They don't know where the food bank is. They may be expected, in many cases, to travel across the city to meet appointments all on the same day. They have no means of transportation, no money, no identification, and no knowledge of how to use the public transit system, so they need stability, stress reduction, support in maintaining medications, going to the hospital, getting a doctor, making sure they take medications, making sure they don't drink, and making sure they appear for their probation and parole appointments. When they get really cranky or angry or fed up or despondent or they fall into despair or say, "My life is not working. I want to go back to jail", they have people who they can talk to about that and who can talk them through that and talk them into a better frame of mind.

• (1720)

Mr. Randall Garrison: Who are the volunteers who step forward to do this work?

Mr. Andrew McWhinnie: They're your neighbours. They're often people who belong to a faith community. They're moms and dads.

I have to tell you, when I looked at the folks sitting around the table at our retreat, there were 30-year-old people with new families, with young children, some of them churchgoers, some of them not, and they were saying, "If I don't do this, how can I say to my children that I did anything to protect them in society as much as I possibly could?"

Mr. Randall Garrison: How about broader support in the community? What's the broader reaction to the existence of the program? I know some of this because it is in my community.

Mr. Andrew McWhinnie: If you talk to a room full of people and say, "How about it? Let's provide the support and accountability network for sexual offenders," they'll run you out of the room. And if you go back to your constituencies and say that, you're not going to get re-elected. But if you're talking about the reduction of victimization, about protecting children, about protecting college students, that's what we're about. That will get you elected. And when we talk to people about that, they start to say, "Okay, I get it. I understand it."

We've done some evaluations and asked, "Do you think your community is any safer? Do you feel any better about being in your community, knowing that there is a circle of support there around these guys who are coming out of jail?" People say, "Yes, a little bit." They still think they should all go to jail and be kept there, and we should throw away the key, but they feel better that there is a circle of support for the people who are coming to the community, whether they like it or not. Because in Canada we don't have civil commitment, and we don't put people away forever—not yet, anyway. So we do have people of that high risk who are coming back to our communities.

And these are citizens who are stepping forward to do something about that.

Where else, anywhere, will you find a group of citizens, an organization that involves ordinary citizens, your constituents...? And it doesn't matter what your political stripe is: circles of support and accountability resonate on both sides of the House. You guys have proven that, just in the last go-around we had over our funding.

And you find that in our homes across the country as well. But where else will you find a program that engages citizens, where citizens engage their own communities in risk reduction? I don't know where you'll find it.

The Chair: Thank you very much. Our time has expired.

On behalf of the committee, I would certainly like to thank Mr. McWhinnie. Thank you so kindly for your time today.

Ms. Lower-Basch, thank you so much for participating today. We appreciate your taking the extra effort, and certainly your thoughts are here on record for us to evaluate now.

Once again, thank you very much. We deeply appreciate it at this committee.

Have yourselves a good day.

The meeting is adjourned.

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