



THE SCHOOL OF PUBLIC POLICY

MASTER OF PUBLIC POLICY CAPSTONE PROJECT

Social Impact Bonds and Housing First:
A match made for Alberta?

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Capstone Executive Summary

In Alberta, homelessness is a persistent social issue that affects over 8,000 people directly. Not only is this emotionally, physically and mentally taxing on the person experiencing homelessness, but it also takes its toll on the public purse. It is estimated that the cost of supporting a chronically homeless person can be as high as \$100,000 annually when you take all of the publically provided services that are used.

To address this problem, in 2009 Alberta initiated a 10 year plan to end homelessness in the province. This plan uses a Housing First approach, which focuses on providing housing before any other social supports, and has been proven to be a more cost effective way of addressing homelessness than the traditional model. While Housing First may reduce the cost of addressing homelessness, the Alberta Government is facing tightening budgetary restraints and a growing deficit due to the low cost of oil. Social Impact Bonds, a financial tool that can be used to harness private capital to fund public services, could provide the capital necessary to sustain these programs as the province weathers the economic recession.

Social Impact Bonds are partnership between the public and private sector in order to deliver a social service. An investor who is interested in funding a service that has a

positive social impact will provide the upfront capital for an intervention to the charity or non-profit who is the service provider. If the intervention is successful, the government pays back the investor some rate of return based on the cost savings that were incurred as a result of the intervention.

This paper analyzes the feasibility of a Housing First Social Impact Bond in Alberta, and whether it could aid Alberta in their goal of eradicating homelessness in the province. The results of my analysis suggest that a Housing First Social Impact Bond has the potential to be successful in Alberta, however, political will and public perception, along with some regulatory issues, may prove a barrier to implementation.

Introduction

Homelessness is a serious issue in Alberta, and takes both a social and economic toll on the province and its people. Although it is difficult to ascertain exactly how many people experience homelessness in Alberta, estimates suggest that there are about 8,400 people who don't have a place to call home.¹ In an effort to help these people and end the cycle of homelessness rather than merely manage it, the Government of Alberta implemented the 10 Year Plan to End Homelessness (The Plan) in 2008, with the goal to end homelessness by 2019 using a Housing First approach.² Housing First aims to break the cycle of homelessness by providing housing for individuals experiencing homelessness as the first point of intervention. Instead of the traditional mode of intervention, which is to ensure that clients meet specific conditions related to substance use or compliance with treatment plans before providing housing, the Housing First model provides clients with permanent housing and then provides support for their specific needs.³

A good deal of research has been conducted on the subject of Housing First in Canada. In 2008 the federal government funded a four year research project called At Home/Chez Soi through the Mental Health Commission of Canada, with the goal to “generate knowledge about effective approaches for helping people experiencing serious mental illness and homelessness across five cities in Canada (Vancouver, Winnipeg,

¹ Government of Alberta, *Alberta's Challenge* (Edmonton: Ministry of Human Services), <http://www.humanservices.alberta.ca/homelessness/14602.html>

² Government of Alberta, *A Plan for Alberta: Ending Homelessness in 10 Years* (Edmonton: The Alberta Secretariat For Action on Homelessness, October 2008), http://www.humanservices.alberta.ca/documents/PlanForAB_Secretariat_final.pdf

³ Ibid.

Toronto, Montreal, and Moncton).”⁴ Using a randomized trial design, over 2,000 eligible participants were grouped in high needs or moderate needs categories over a 24 month intervention period. Results show that in regards to housing stability, Housing First was more effective than traditional modes of treatment for finding housing and remaining housed. As a result of greater housing stability, the demand for service shifted from “institutional-based and emergency care to more adequate planned visits and regular follow-up with community-based services.”⁵ Studies show that supporting a chronically homeless person can cost more than \$100,000 a year using traditional methods, but using a Housing First intervention, the cost may be reduced to \$35,000 annually to provide a home and supports.⁶ These more preventative services are cheaper to fund, and consequently Housing First results in measurable cost savings to the public sector. Due to the potential for large scale cost savings associated with the Housing First model, a Housing First intervention could be a good candidate for a Social Impact Bond (SIB) in Alberta. SIBs are a funding mechanism that use private capital as an investment into social interventions which are proven to result in lower costs to the public sector, such as Housing First. If the intervention is successful, the investors are paid a rate of return using some of the money that was saved by the government as a result of the intervention. As Housing First has been proven to be more cost effective than traditional ways of addressing homelessness, using an SIB to fund a Housing First pilot in Alberta could be a effective way of raising more capital to help the homeless in Alberta.

⁴ Ibid.

⁵ Ibid.

⁶ Government of Alberta, *Adopting a Housing First Approach* (Edmonton: Ministry of Human Services, November 16, 2015) <http://www.humanservices.alberta.ca/homelessness/15698.html>.

In this paper I will first give an introduction to Social Impact Bonds, then provide case studies of Social Impact Bonds that have been implemented in other jurisdictions. With this information providing context, I will then examine whether the landscape in Alberta is hospitable to a Housing First Social Impact Bond.

Social Impact Bond Background

What are Social Impact Bonds?

Social Impact Bonds (SIBs) are a financial tool used to fund preventative social services through a multi-stakeholder partnership. In this arrangement, the government partners with a private sector investor, who provides the upfront financial capital for a social service, such as a Housing First intervention. SIBs are also known as “pay-for-success” bonds, as the private investor is only reimbursed if the intervention accomplishes its stated goals. If the project is successful in achieving the agreed upon goals, the government repays the initial investment plus some rate of return to the investor. These payments are often based on cost savings that the government has incurred as a result of the intervention. If the program is not successful, the government does not reimburse the investor, and they lose their investment.

Innovation in funding mechanisms for social services began gaining momentum after the financial crisis of 2008, when governments were facing a lack of funding, and preventative programs were not a high priority for the cash-strapped government. SIBs were seen as a potential solution, because the government did not carry the risk of the project, and only provided funding if the project was successful. The first SIBs was introduced in the UK in 2010. Since then, at least 40 SIBs have been piloted internationally,

in Canada as well as in countries such as the USA, Australia, Belgium, the Netherlands, and Germany, with still more countries showing an interest in SIBs.⁷

Benefits of Social Impact Bonds

The main benefits of SIBs over traditional funding arrangements is the possibility of better program performance at a reduced cost.⁸ This is due to the rigorous, outcomes-based evaluation process, wherein service providers can adjust the service they provide based on frequent evaluation, and consequently learn faster about which programs work best. SIBs also foster program innovation, as the service provider often has more freedom in their service delivery model than they would under traditional funding. Furthermore, as governments are only responsible for paying if the desired outcomes are achieved, they may be more likely to invest in programs that are considered riskier than if they were using taxpayer dollars. Another benefit of SIBs is that they can result in greater transparency to taxpayers, as only those programs which achieve their set outcome metrics will be continue to be funded by the government. This could lead to an increase in investment in preventative services, as preventative programs “are complicated and costly, and . . . government authorities often have little political or financial incentive to invest in

⁷ Social Entrepreneurs Ireland and The Munk School of Global Affairs University of Toronto. “Social Entrepreneurship Considerations for Policy Makers and Practitioners.” June 2014, <http://www.collegesinstitutes.ca/file/social-entrepreneurship-considerations-for-policy-makers-and-practitioners/>

⁸ Liebman, Jeffrey B. “Testing pay-for-success bonds.” *The Public Manager* Fall 2011: 66, accessed May 26, 2016.

prevention.”⁹ As the risk is shifted from the government to the investors, governments are better able to invest in prevention rather than remediation.

In addition, SIBs have the ability to scale social interventions that have been proven to work, such as Housing First interventions. By bringing a larger group of stakeholders together under the same goal of reducing homelessness, for example, SIBs have the ability to offer the service to more people.¹⁰ Furthermore, the lessons learned are shared across a wider audience because of the collaborative approach, thus spreading best practices in the sector more readily. And with the continuous evaluation that comes with SIBs, service providers gain a better understanding of which interventions work and which do not, which can result in accelerated learning about which aspects of a program are successful when compared to traditional funding models.¹¹ Finally, SIBs guarantee funding to the service provider for the entire term of the intervention. This frees them from having to apply and reapply for government grants, and allows them to plan ahead knowing that their program will be funded.

Concerns about Social Impact Bonds

As there are many stakeholders participating in the development and application of a Social Impact Bond, transaction costs can be high. There is the upfront cost of the intervention that is carried by the investor, and the long run cost of reimbursing their investment plus an agreed-upon rate of return. There is also a lot of time involved to set up

⁹ Benjamin R. Cox, “Social Impact Bonds: Financing Homelessness Prevention Programs with Social Impact Bonds,” 2011-2012, accessed August 20, 2016, <https://www.bu.edu/rbfl/files/2013/09/FinancingHomelessnessPreventionPrograms.pdf>

¹⁰ Ibid.

¹¹ Liebman, “Testing pay-for-success bonds.”

the contract, which is often independently designed with each new SIB, as there is not a one-size-fits all model that exists and is reused with each new SIB. Setting up the contract can take between 18-25 months to complete. KPMG estimates that for the establishment of two SIBs in Australia, 11,712 labour resource hours were required from “service providers, government agencies, and associated advisors over two years.”¹² Therefore, SIB commissioners must look at the transaction costs as well as the costs of the intervention in order to evaluate whether the intervention will be profitable.¹³

Another risk associated with SIBs is the unintended consequence of the outcomes based model. As evaluation and payments to investors is based on a favourable outcome, there is the risk of “cherry picking” the intervention participants who will be the most successful and the easiest to help. This could prove to be a problem because the public provider may be left to deal with the high risk clients. However, as services are usually provided directly by the charity or non-profit, this is usually not the case, as these organizations have a strong ethical mandate to help everyone, no matter the monetary incentive.¹⁴ Furthermore, as service providers are usually sheltered from the financial risk, they don’t have as much financial incentive to cherry pick. There is also the risk of the investors withdrawing from the intervention early, leaving the government or social

¹² KPMG Government Advisory Services, “Evaluation of the Joint Development Phase of the NSW Social Benefit Bonds Trial,” January 2014, accessed August 22, 2016, <http://www.osii.nsw.gov.au/assets/office-of-social-impact-investment/files/Evaluation-of-the-Joint-Development-Phase.pdf>.

¹³ Stellina Galitopoulou and Antonella Noya, “Understanding Social Impact Bonds,” OECD and LEED, 2016, accessed August 20, 2016, <http://www.oecd.org/cfe/leed/UnderstandingSIBsLux-WorkingPaper.pdf>

¹⁴ The United Kingdom. Department for Communities and Local Government. *Qualitative evaluation of the London homelessness social impact bond: Second interim report*. March 2015. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414787/Qualitative_evaluation_of_the_London_homelessness_SIB.pdf.

service provider on the hook for funding the service.¹⁵ Although the transaction prices are expected to decrease as more SIBs are developed and a replicable model emerges, it is important to address these concerns while writing the contract.¹⁶

Contractual Models

Social Impact Bonds are still in the development phase, so there is no standard model for the contract. However, the primary participants necessary for an intervention are: a federal, provincial or municipal government to commission the SIB, a social service provider, investors, intermediary organizations, and an independent auditor or assessor.¹⁷ The most common legal structure for an SIB to take is through a Special Purpose Vehicle (SPV), which allocates the funding from the investors into a contract with the government commissioner.¹⁸ Another common structure is a direct contracting model, in which the government forms a contract directly with a service provider and provides payments to them.¹⁹

How Would an SIB work for a Housing First Intervention?

MaRS Centre for Impact Investing suggests two different ways that a SIB could be used for a Housing First intervention. The first method is designed to improve service delivery, and the second is motivated by a desire to reduce costs and improve service delivery. I will be focusing on the second method, as this is most relevant to the problems in Alberta.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Social Entrepreneurs Ireland and The Munk School of Global Affairs University of Toronto. "Social Entrepreneurship Considerations".

¹⁸ Ibid.

¹⁹ Ibid.

This method would target people with a mental illness who are high users of public sector services. Capital used to fund service providers would be raised from investors at the start of the intervention, and the outcome payments from the government would be tied to a reduction in public service usage such as shelter usage, health sector usage, and justice sector usage, as these are a better indication of public cost savings than housing stability.²⁰ Providing a Housing First intervention to high users of public services leads to cost savings amounting to more than twice the cost of the intervention.²¹ Consequently, targeting a SIB intervention to high users of public services could lead to significant cost savings to the government and a return to investors.

Case Studies

The purpose of this section is to assess case studies of existing Social Impact Bonds in order to learn from what has been done in the past.

Peterborough Prison

The first SIB in the world was implemented in the UK in 2010 at Peterborough Prison. This SIB ended in 2015, and therefore provides the first results of a SIB that has come to full term. The goal of the Peterborough SIB was to reduce the rate of reoffending in adult males serving prison sentences of less than 12 months. Through a program called One Service that was provided in the prison, offenders were given access to case workers who assessed

²⁰ Antonio Miguel and Samer Abughannam, "Housing First Social Impact Bond Feasibility Study," MaRS Centre for Impact Investing and Social Finance, Fall 2014, accessed August 15, 2016, <https://www.marsdd.com/wp-content/uploads/2014/10/Housing-First-Social-Impact-Bond-Feasibility-Study-2014.pdf>

²¹ Paula Goering et al., "National Final Report: Cross-site At Home/Chez Soi Project," Mental Health Commission of Canada, 2014, http://homelesshub.ca/sites/default/files/mhcc_at_home_report_national_cross-site_eng_2.pdf.

their needs, made resettlement plans before they were released, and followed up with the inmates for up to twelve months after their release. If the offender returned to prison within the SIB period, services were continued.²² The One Service intervention received £5m in funding from individuals, trusts, and Social Finance, which is a UK-based non-profit financial intermediary. There was also an agreement with the Ministry of Justice and support from the Big Lottery Fund to pay for results.²³

Structure of the Peterborough SIB

The creation of the SIB contract took approximately 18 months from when Social Finance first introduced the idea to the public sector to the program launch. At that time, there was discussion about piloting an SIB in other areas of government spending, but offenders with short sentences were chosen because “they were a group which had poor outcomes (i.e. frequent reoffending, there were clearly potential savings from improving those outcomes, and there was currently no statutory provisions of services for this group.”²⁴ The HMP Peterborough Prison was chosen as the pilot site because the prison discharged a significantly large amount of prisoners to provide an appropriate sample size, but not so large that the costs of delivering the intervention were prohibitive. In addition, many of the prisoners remained geographically close to the prison after their release, which was thought to be beneficial for sustaining the intervention once the participants were released

²² The United Kingdom, *The payment by results Social Impact Bond pilot at HMP Peterborough: final process evaluation report* (London: Ministry of Justice Analytical Series, 2015), accessed August 10, 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486512/social-impact-bond-pilot-peterborough-report.pdf

²³ Ibid.

²⁴ The United Kingdom, *Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough*, (London: Ministry of Justice, May 2011) accessed August 21, 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/217375/social-impact-bond-hmp-peterborough.pdf

from prison and for tracking their outcomes.²⁵ There were originally supposed to be three cohorts of participants in this SIB, each of approximately 1000 men. These men had to be serving less than 12 months in prison, and could participate in the SIB during their time in prison and up to 12 months after their release.²⁶ However, the Peterborough SIB was cut short in June of 2015. This was due to the introduction of a new service by the Ministry of Justice. Now all prisoners would be provided with similar services, including those targeted by the SIB who serve less than 12 months and who had not been supported before the implementation of the SIB. Therefore, the SIB model was used for cohorts 1 and 2, with cohort three transitioned to a fee for service model.²⁷

The Ministry of Justice and the Big Lottery Fund agreed to make payments to investors if there was a reduction in frequency of reconviction by 10% in each cohort, or by 7.5% in the two combined cohorts compared to a comparable group not involved in the pilot. Frequency of reconviction was chosen as the evaluation metric in order to encourage staff to continue to provide services to those who re-entered the prison within the SIB term. The total cap on payments to investors was £8m, which made for a 13% rate of return to investors.²⁸ Investors were required to provide the funding upfront. However, there was “phased funding” wherein new investors could participate in new funding phases. This allowed the intervention to begin while new investors were being recruited. Total savings to the public sector were anticipated to be £44m due a reduction in

²⁵ Ibid.

²⁶ The United Kingdom. Ministry of Justice Analytical Series. *The payment by results Social Impact Bond pilot at HMP Peterborough: final process evaluation report*,

²⁷ “Peterborough SIB to Phase Out in 2015,” Nonprofit Finance Fund, <http://www.payforsuccess.org/resources/peterborough-sib-phase-out-2015>

²⁸ The United Kingdom, *Ministry of Justice: Offenders released from Peterborough Prison* (London: Centre for Social Impact Bonds), https://data.gov.uk/sib_knowledge_box/ministry-justice-offenders-released-peterborough-prison

recidivism and therefore decreased costs of housing an inmate and a reduction in costs related to crime.²⁹

Results

In August 2014 the results for the first cohort of 1,000 prisoners was released, and there was found to have been an 8.4% reduction in frequency of reconviction within the cohort. This was below the 10% target required for an outcome payment for the first cohort, so investors were not provided a return at that point, but was above the 7.5% target needed for an outcome payment from the final results of the two cohorts combined. Results detailing the frequency of reconviction for cohort 2 were expected to be released in summer 2016. Once the results for cohort 2 are released it will be possible to calculate the final return to investors and the public sector savings that were accrued as a result of the SIB.³⁰

Takeaways

The Government of the UK highlights key points that can be taken away from the SIB pilot and used to inform future SIB projects. A large majority of all One Service users who were interviewed recounted a positive experience with One Service, and highlighted that this was “an improvement on prior experience of post-release support.”³¹ Benefits on a larger scale were also realized due to the innovation that an SIB allows for. One of these innovations that is not commonly available for traditionally funded interventions is flexible

²⁹ Ibid.

³⁰ The United Kingdom. Ministry of Justice Analytical Series. *The payment by results Social Impact Bond pilot at HMP Peterborough: final process evaluation report.*

³¹ Ibid.

funding. There were no requirements to spend a certain portion of the funding per year, and it was not allocated towards any particular spending area, which allowed for funding decisions to be made more quickly in order to respond to need. Staff reported that it was easier for them to access necessary resources in an unanticipated situation, for example to provide temporary accommodation post-release, which mitigated the effects of an emergency situation such as homelessness. The flexible funding was also used to pay for training in construction skills for the participants, a program which was retained in the prison after the end of the pilot.

Service providers were able to change their delivery of service much more efficiently thanks to the regular outcomes measurement, so that service could be improved and service users needs could be properly addressed. One Service maintained contact with the prisoners once they had left the prison and continued to receive feedback from them on the service that they had received, which allowed One Service to adapt their provision of service based on this feedback to achieve better outcomes. Another change made to One Service was the implementation of a landlord liaison caseworker who would work with the prisoners to offer housing information and offer a course to prisoners about responsible tenancy. The landlord liaison caseworker was found to be successful in strengthening the relationship between landlords and released prisoners by acting as a point person between the two groups.³²

The Peterborough project also led to better relationships between “local agencies, commissioned providers and HMP Peterborough,” and to some of the agencies providing

³² Ibid.

more services in the prison for other offenders due to the ideas that were generated.³³ As a result of these wider relationships, many of the best practices of the Peterborough pilot are being adopted into the work of other agencies and service providers, and they are benefiting from learning more about using data to evaluate performance.³⁴

The feature that was found to be perhaps the most beneficial was the appointment of a One Service Director, who provided “local leadership in building partnerships, managing commissioned providers and identifying opportunities to improve the service, as well as the creation of an online, multi-agency database, and use of these data to reflect on practice, manage providers and report to investors.”³⁵ The Director ensured that all of the partnerships that make up the SIB were strong, and it is concluded that the One Service Director was to thank for keeping the stakeholders working together smoothly. The report also highlights that many project participants felt that one of the project’s strengths is that service providers were paid upfront or on a fee-for-service basis, and did not bear any of the financial risk of the project. Finally, according to the report, “stakeholders did not report any major costs or disadvantages from the operation of the pilot in the area, suggesting a consensus of opinion that the pilot was thought to deliver a good service and was well-integrated with local agencies.”³⁶

The report also discusses some challenges that were experienced in service delivery, and offers suggestions for improvement for future SIBS. One such challenge was due to the innovation and flexibility that was inherent in the intervention. Because services

³³ Ibid.

³⁴ Ibid.

³⁵ Ibid.

³⁶ Ibid.

were adapted as the pilot progressed, it may be difficult to assess which elements of the intervention are effective, as service will vary between cohorts and over time. Another area of improvement was sharing information about the risk of reoffending among clients. In the SIB pilot it was not discussed in the design stage how this information would be distributed amongst all of the relevant stakeholders, which led to inefficiencies in service provision. It is suggested that information sharing is discussed in the design stage for future SIBs in order to ensure all relevant stakeholders have the appropriate information to provide excellent service. Another challenge faced by the Peterborough pilot is the ability to engage service users in the longer term. Users are provided with support up to 12 months after their release, however most service users stopped using One Service well before the 12 month expiry date. Finally, although volunteers were very helpful throughout the course of the pilot, recruiting volunteers who provide support to the caseworkers and working with low-risk offenders proved to be a challenge. Many of these volunteers had served time in prison, and therefore could build strong relationships with the clients and had knowledge about housing and the criminal justice system. These volunteers were often difficult to retain, but were very helpful in allowing for more time for the caseworkers to engage with clients with more complex needs. Future SIBs could consider engaging volunteers who have similar experiences to the clients, but may need to devise a volunteer retention strategy.³⁷

Although it is too early to assess whether the Peterborough pilot was successful in its goal of reducing recidivism before the final cohort results are published, it is acknowledged that “the pilot was successful in meeting the initial intention of the pilot,

³⁷ Ibid.

which was to develop and implement a new service . . . funded by social investors rather than government.”³⁸ The report acknowledges that the SIB model does not by itself generate innovation, but these innovations are generated because the stakeholders are searching for new and more efficient ways of carrying out a social intervention, are focused on outcomes, and provide the flexibility to challenge traditional modes of intervention and try out new strategies. Consequently, these innovations are more likely to be present in SIBs.³⁹ Because the Peterborough SIB has shown signs of success well before the final results from cohort 2 have been released, this pilot has inspired many more SIBs around the world.

London’s Street Impact SIB

In November 2012, the Greater London Authority implemented a SIB with St. Mungo’s Broadway and Thames Reach charities using a Housing First approach. Social investors CAF Venturesome and Triodos Corporate Finance provided £650,000 of capital upfront, with the intervention slated to last three years and end in October 2015. There are five stated goals of the SIB, and outcomes payments differ for each. The goals and their percentage of outcomes payments are: reduce the amount of people sleeping on the street below a baseline number (25%), provide accommodation for tenants for 12 and 18 months (40%), reconnect clients with family members if they are from outside of the UK (25%), increase health measured in a decrease in hospital visits (5%), and engage the participants

³⁸ Ibid.

³⁹ Ibid.

in volunteer, part time or full time work (5%).⁴⁰ The target population of this intervention were 831 people who had been seen “sleeping rough and/or stayed in a London rough sleeping hostel in the last 3 months, and seen rough sleeping at least six times over the last two years.”⁴¹ Of this group, 48% had an alcohol dependency, 29% had substance abuse needs and 44% needed mental health supports. This SIB was developed to bridge the gap between two existing programs: one which focused on a long term homeless population, and another to ensure that people who are newly homeless do not spend more than one night on the street.

The Street Impact SIB used what they call the “Navigator” intervention model. The Navigator refers to caseworker who carries out the SIB intervention. The Navigator works with the service user to guide them through the services that are available, and offer them support over the course of the intervention. Due to the outcomes-based approach inherent in a SIB, the Navigator is able to tailor their approach to the service user, rather than be constrained to any one method of support.

Results

Although the final results of the intervention have not been released yet, the second interim report released in Spring 2015 show promising results. The report says that “providers and their investors are pleased with their overall performance. Both providers

⁴⁰ “Street Impact – new support for people who’ve slept rough,” St. Mungo’s, November 23, 2012, accessed August 20, 2016, http://www.mungos.org/press_office/1479_street-impact-new-support-for-people-who-ve-slept-rough.

⁴¹ The United Kingdom, *Qualitative evaluation of the London homelessness social impact bond: Second interim report* (London: Department for Communities and Local Government, March 2015), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414787/Qualitative_evaluation_of_the_London_homelessness_SIB.pdf.

expect to at least break-even and more likely to make a small return.”⁴² In the following paragraphs I will go into more detail regarding the outcomes for reduced rough sleeping and stable accommodation, as these are the most relevant to a SIB in Alberta.

Unfortunately, there is no data available on health outcomes at this time due to concerns regarding data protection.

The most recent results show that the number of people sleeping on the street was reduced, although not below the baseline target. One reason that this number may not be below the baseline is that the metric does not take into account that some clients who have been provided housing may sleep on the streets occasionally due to their social connection with that community. If they are seen by the outreach team to be sleeping on the streets occasionally, they are not counted as being a success in reducing rough sleeping even though they may be progressing overall.

Results for clients entering and sustaining stable accommodation for both 12 and 18 months is below the baseline target.⁴³ Eligible stable accommodation includes living in accommodation with a tenancy agreement, living with friends or family in their own bedroom, or living in a care home where the client is there for life, not just treatment. Furthermore, a provision has been made which allows the individual to be seen to be rough sleeping two times in the first 12 months and one time in the final six months due to the social connection. As housing stability accounts for 40% of the outcomes payments, it encouraging to stakeholders that stable accommodation is showing signs of success.

⁴² Ibid.

⁴³ Ibid.

Takeaways

There were some key findings related to service delivery that could be useful for a Housing First intervention in Alberta. One finding is that it is beneficial to have one caseworker interacting with a particular client to ensure consistency and to build a relationship. Another feature of note was that the SIB covered all of London, which made it easier to serve clients who commonly move around the area. The caseworker works in partnership with organizations across the city in order to provide the best service.

There were some challenges that were highlighted. In some cases, service providers felt that it would take longer than the SIB term of three years to transition people off of the street, particularly if their social life is centered on the street. Another challenge is that this SIB was designed to enhance the supports that are already in place, and there were instances where the existing “Tenancy Support Teams” in the housing units did not support the service users sufficiently, seeing the users as the responsibility of the SIB. There are also concerns about what will happen to some clients once the SIB term comes to an end, particularly if they required intensive support.⁴⁴ A transition strategy must be implemented to ensure that clients are sheltered from these effects.

Saskatchewan Sweet Dreams

Opening its doors in Saskatoon in May 2014, Sweet Dreams is Canada’s first Social Impact Bond, and is a communal home for single mothers and their children under the age of eight with the goal to keep children out of foster care. By providing parenting and literacy skills

⁴⁴ The United Kingdom, *Qualitative evaluation of the London homelessness social impact bond: Second interim report*.

to at-risk single mothers, the goal is to help these single mothers find meaningful work and be better able to support their children. They accomplish this by taking part in workshops dedicated to developing life skills, such as gaining employment, education, promoting better health, and financial literacy. The house has capacity for 22 mothers and children to live in for at least six months. The final goal of the intervention is to keep 22 children out of foster care and living with their mothers for more than six months after taking part in the program.

This agreement is a partnership between the Government of Saskatchewan, Conexus Credit Union, private donors, and EGADZ, a non-profit that supports family and youth. A total of \$1 million was invested into the project, which will cover the up-front costs associated with the home and its programs until the end of the intervention in 2019. The projected savings to the Government of Saskatchewan is estimated to be between \$540,000 and \$1.5 million over five years depending on how successful the intervention is. The project works on the assumption that without the intervention, all of the children would have entered the foster care system. It is important to note that these cost savings are calculated only using the costs associated with children entering foster care, and don't take into account other costs associated with health, criminal justice and future social assistance, which could be expected to make the savings even higher.⁴⁵ One reason for excluding larger potential savings could be because as participating children must be eight years old or younger, it would likely be quite a few years until these longer term benefits are realized, and this would most likely occur after the SIB term has ended. With this in

⁴⁵ The United Kingdom, *Saskatchewan – Children at risk of care* (London: Centre for Social Impact Bonds), https://data.gov.uk/sib_knowledge_box/saskatchewan-children-risk-care

mind, this is likely why outcomes are evaluated based on the number of children in the program who enter foster care, as this is much more simple to track and measure.

Compared to other SIBs where the contract negotiations and development could last years, the contract for Sweet Dreams was developed in just 7 months through a relatively simple method, wherein the Government of Saskatchewan displayed interest in the program that was proposed by EGADZ, decided that SIBs were a promising method of funding it, and then got in contact with investors.⁴⁶

As Sweet Dreams is still relatively new, there has not been much analysis conducted on the results. However, the spring 2016 periodic review of Sweet Dreams found that 21 children and their mothers had reached the goal of living together continuously for more than six months after participating in the program. It is anticipated that Sweet Dreams will reach their five year goal two years early.⁴⁷ The early success of Sweet Dreams is a positive sign for the Canadian SIB landscape, and will hopefully raise awareness of the mechanism in Canada.

Necessary Conditions for Success

There are five commonly recognized considerations used to determine whether an SIB will be successful. In the following pages, I will use these five considerations to structure my analysis of the feasibility of Social Impact Bonds in Alberta. I will then will examine what

⁴⁶ "From Investment to Impact: The NFP Experience with Social Impact Bonds," The Mowat Centre, August 2014, https://mowatcentre.ca/wp-content/uploads/publications/93_from_investment_to_impact.pdf.

⁴⁷ Government of Saskatchewan, *Innovative Sweet Dreams Project Poised to Reach Five Year Goal Early*, (Regina: News and Media, June 21, 2016), <https://www.saskatchewan.ca/government/news-and-media/2016/june/21/sweet-dreams-project>

barriers to implementation exist, and discuss ways to move forward with SIBs in Alberta.

The five conditions for success are:

1. Potential for impact
2. Measurability/Economic considerations
3. Political will
4. Investor appetite
5. Service provider capability⁴⁸

Potential for Impact: Why could SIBs work well for a Housing First Intervention in Alberta?

In 2008, Alberta launched their 10 Year Plan to End Homelessness (The Plan), with the goal to eradicate homelessness in Alberta by 2019 using a Housing First approach. The government estimates that by providing people experiencing homelessness with housing, the Government of Alberta will save \$7.1 billion through indirect costs savings.⁴⁹ In the 2016 budget, the Government of Alberta announced \$892 million in new funding for housing over the next five years. Much of this money is earmarked to pay for the operations of existing housing, while some of it will be directed towards housing service providers to buy new units.⁵⁰ However, the funding for the homelessness sector in particular increased

⁴⁸ Social Entrepreneurs Ireland and The Munk School of Global Affairs University of Toronto. "Social Entrepreneurship Considerations".

⁴⁹ Government of Alberta, *A Plan for Alberta: Ending Homelessness in 10 Years*.

⁵⁰ "Ten things to know about the 2016-17 Alberta budget," Calgary Homeless Foundation, May 3, 2016, <http://calgaryhomeless.com/ten-things-to-know-about-the-2016-17-alberta-budget/>

by just 2%. When taking into account the inflation rate of 1.5% in the last year, this 2% increase in funding is negligible.⁵¹

Even though The Plan has made progress, there is still much to be done to end homelessness in Alberta. As of March 2016, more than 15,000 Albertan households were on the waitlist for social and affordable housing, or housing support.⁵² It is estimated that there is approximately \$1 billion of deferred maintenance of Alberta's social housing units, as the government faces increasing budgetary pressures.⁵³ Furthermore, the supply of rental accommodation in Calgary is quite low. As a majority of the homeless population in the province resides in Calgary, this lack of rental accommodation exacerbates the risk of homelessness.⁵⁴ The Calgary Homeless Foundation has recommended that the government "address adequate and appropriate supply of permanent housing," and "develop meaningful incentive programs to encourage private sector development of new rental stock."⁵⁵ With only three years remaining until The Plan is scheduled to hit their target of ending homelessness in Alberta, it seems that a new tactic needs to be implemented. As the Government of Alberta weathers the recession and faces tightening budgetary constraints, a Housing First Social Impact Bond has the potential to generate the funding necessary to ensure that housing services can be maintained and expanded in an effort to reach the 10 year goal of ending homelessness.

⁵¹ Ibid.

⁵² Government of Alberta, *Alberta's Affordable Housing System* (Edmonton: Ministry of Seniors and Housing, March 2016), <http://www.seniors-housing.alberta.ca/documents/Housing%20Engagement%20Infographic.pdf>.

⁵³ Ibid.

⁵⁴ Kneebone, Emery, and Grynishak, "Homeless in Alberta: The Demand for Spaces in Alberta's Homeless Shelters," The School of Public Policy, University of Calgary, September 11, 2011.

⁵⁵ "Alberta's Affordable Housing Strategy," Calgary Homeless Foundation, June 20, 2016, <http://calgaryhomeless.com/albertas-affordable-housing-strategy/>.

In order to reduce costs, the Government of Alberta should consider implementing a Housing First Social Impact Bond that is structured to target high users of public sector services, such as the mentally ill homeless population. It is estimated that the 60% of the homeless population in Calgary experiences an undiagnosed or untreated mental illness.⁵⁶ As mental illness can have a significant negative effect on quality of life, health, and social outcomes, a SIB intervention targeted towards these users could have a significant effect on the homeless population, while decreasing costs to the public sector.

Measurability/ Economic Considerations

A Housing First intervention is readily measureable because it has a defined target population and quantifiable outcomes. A measureable target population could be homeless people who suffer from a mental illness, and who are high users of the public sector system. The outcomes of this intervention are quantifiable by tracking housing outcomes and public service usage outcomes – such as jail time, hospital visits, interactions with law enforcement, etc. Furthermore, Housing First “research has demonstrated direct attribution of outcomes to Housing First.”⁵⁷ These quantifiable outcomes result in quantifiable economic benefits, as the costs of reduced public service usage are offset across the target population.⁵⁸ Results from At Home/Chez Soi show that “every \$10 invested resulted in average offsets of \$9.60 for the high needs participants, \$3.42 for the

⁵⁶ Ganesh, Aravind, M.D., Campbell, David J T, Hurley, Janette and Patten, Scott, "High Positive Psychiatric Screening Rates in an Urban Homeless Population." *Canadian Journal of Psychiatry* 58, no. 6 (06, 2013): 353-60.
<http://ezproxy.lib.ucalgary.ca/login?url=http://search.proquest.com/docview/1404748535?accountid=9838>.

⁵⁷ Antonio Miguel and Samer Abughannam, “Housing First Social Impact Bond Feasibility Study”.

⁵⁸ Ibid.

moderate needs participants and \$21.72 for the high users group.”⁵⁹ It follows then that Housing First interventions targeted towards high users have the potential to save governments the most money, and are therefore a good candidate for a SIB.⁶⁰

As mentioned earlier, The MaRS Centre for Impact Investing ran a feasibility study for using a SIB for Housing First using data from the At Home/Chez Soi results. Utilizing a usage based payment mechanism with a focus on cost savings, with the outcome payment based on a certain level of public sector usage reductions, they calculated expected costs and savings. MaRS concluded that for a cohort of 250 people, expected government savings would total \$64 million, with investors being reimbursed \$34.5 million or 54% of the expected savings. These outcomes were modeled assuming a 24 month cohort, and with payments made 12 months post-intervention after the termination of the cohort.⁶¹ Alberta specific research would need to be undertaken to determine the appropriate approach for the province, however these numbers provide a rough estimate of what could be expected from a Housing First SIB.

The ability to measure outcomes of a Housing First Intervention is evident in Alberta’s Plan to End Homelessness. In the three year progress report released in 2013, results demonstrate that 80% of Housing First clients remained housed for at least a year, and 1,455 “people have ‘graduated’ from Housing First programs, meaning they have achieved housing stability”.⁶² Furthermore, there were significant reductions in the use of

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² Government of Alberta, *A Plan for Alberta: Ending Homelessness in 10 Years*.

public systems among Housing First clients, including reduced ER visits, hospital stays, interactions with police, jail time, and court appearances.⁶³

SIBs have the overarching benefit of allowing the payer (in this case the Alberta government) to pay only for the results of a successful program without having to fund interventions that do not achieve their objectives. The innovation inherent in SIBs generates the potential for better program performance at a reduced risk and potentially smaller cost to government. With the Government of Alberta suffering from low oil prices and a deficit of \$11 billion, SIBs could be a useful mechanism to allow The Plan to continue with adequate funding.⁶⁴

Political Will

Political commitment and support for services is essential to implementing a SIB. There are many ways that different levels of government can support the implementation of SIBs, including developing a government strategy or policy frameworks, and by having a champion within the government who pushes the SIB agenda forward.⁶⁵

Federal Government

In Canada, Budgets 2011 and 2012 mentioned the viability of social innovation and SIBs as a source of funding for social programs, and mentioned plans to test SIBs to “further

⁶³ Ibid.

⁶⁴ Government of Alberta, *2016- 2017 First Quarter Fiscal Update and Economic Statement* (Edmonton: Ministry of Finance, 2016), <http://finance.alberta.ca/publications/budget/quarterly/2016/2016-17-1st-Quarter-Fiscal-Update.pdf#page=11>

⁶⁵ Stellina Galitopoulou and Antonella Noya, “Understanding Social Impact Bonds,” OECD and LEED, 2016, accessed August 20, 2016, <http://www.oecd.org/cfe/leed/UnderstandingSIBsLux-WorkingPaper.pdf>

encourage the development of government-community partnerships”.⁶⁶ Furthermore, in 2012 the Canadian government launched a National Call for Concepts for Social Finance with the goal of creating a repository of social finance ideas, which received over 150 submissions.⁶⁷ Next, the federal government declared that their goal was to build relationships between those interested in social finance while developing partnerships and further innovations through the National Call in Harnessing the Power of Social Finance.⁶⁸ In the 2015 budget, the Economic Action Plan 2015, the previous federal government said that it would “implement a social finance accelerator initiative to help promising social finance proposals to become investment ready, attract private investment and turn social entrepreneurs’ proposals into action.”⁶⁹ This initiative could have provided the government with the guidance necessary for scaling up Social Impact Bonds in Canada, although, as Ele Pawelowski notes, the federal government did not “address how it plans to deal with barriers to implementing social finance or how social finance fits into wider federal policy or funding for social programs.”⁷⁰ Consequently, there were no major policy changes made that had the effect of encouraging the implementation of SIBs in the country.

Although the current federal government did not include social finance or social impact bonds into their 2015 budget, the mandate letters for the Minister of Families, Children and Social Development, in partnership with the Minister of Employment,

⁶⁶ Government of Canada, *Harnessing the Power of Social Finance* (Ottawa: Ministry of Employment and Social Development, January 7, 2014), http://www.esdc.gc.ca/eng/consultations/social_finance/report//index.shtml

⁶⁷ Government of Canada, *Harper Government reaffirms commitment to working with communities and private sector to tackle Canada’s social challenges* (Ottawa: Ministry of Employment and Social Development, May 6, 2013), <http://news.gc.ca/web/article-en.do?nid=738929>.

⁶⁸ Ele Pawelowski, “Challenges to Implementing Social Finance Policy in Canada,” *The Philanthropist*, May 5, 2015, <http://thephilanthropist.ca/2015/05/challenges-to-implementing-social-finance-policy-in-canada/>

⁶⁹ Ibid.

⁷⁰ Ibid.

Workforce Development and Labour task them with developing “a Social Innovation and Social Finance Strategy.”⁷¹ Although no changes have been announced yet, this could signal that the federal government may create a regulatory framework that supports SIBs in Canada.

Provincial Government

Although the federal government could encourage SIBs by creating a federal regulatory framework, most of the issues that SIBs are concerned with are under provincial jurisdiction. A few Canadian provinces have displayed an interest in SIBs, including Nova Scotia, Ontario, B.C. and Alberta, with Saskatchewan being the only province to have implemented an SIB at present.

Social innovation came to the forefront in March 2014 in Alberta when then Premier Allison Redford announced the Social Innovation Endowment Fund. This fund would draw \$1 billion from the Heritage Fund to encourage the growth of social innovation in Alberta, with rumours swirling that some of this funding could be used implement a SIB. This fund was announced through the creation of *Bill 1*, which would have been the largest social innovation endowment in Canada.⁷² *Bill 1*, however, was cancelled in December 2014.⁷³ With the high turnover of premiers in the ensuing two years, SIBs or social innovation have not been a priority for the provincial government since. There are, however, foundations,

⁷¹ Government of Canada, *Minister of Families, Children and Social Development Mandate Letter* (Ottawa: Office of the Prime Minister, 2015), <http://pm.gc.ca/eng/minister-families-children-and-social-development-mandate-letter>

⁷² Carissa Halton, “Social Impact Bonds: A Good Investment?” *Alberta Venture*, April 7, 2014, <http://albertaventure.com/2014/04/social-impact-bonds-alberta/>

⁷³ Michelle Strutzenberger, “Can Alberta Become a Social Innovation Leader?” *Newscoop*, February 17, 2015, accessed July 24, 2016, <http://newscoopyyc.coop/can-alberta-become-a-social-innovation-leader/>

community groups, and non-profits in Alberta that are taking up the mantle in the absence of government support.

For example, the Edmonton Community Foundation has established the Alberta Social Enterprise Venture Fund. This came in response to the challenge from the Canadian Task Force on Social Finance for Canadian foundations to invest at least ten per cent of capital in mission related investments by 2020. The Edmonton Community Foundation has also collaborated with the City of Edmonton to create the Social Enterprise Fund, which was “created to provide financial support in the form of loans to organizations in Edmonton that were launching or developing a social enterprise.”⁷⁴ They have now expanded to loan across the province.

Furthermore, there is a lot of community interest in Housing First initiatives across the province. Both Calgary and Edmonton have their own 10 Year Plans to end homelessness. In Calgary there is also the RESOLVE campaign, which is a partnership of nine agencies in the city that have a goal of collectively raising \$120 million to build “affordable and supported rental housing for 3,000 vulnerable and homeless Calgarians.”⁷⁵ Their objective is to raise this money through private donations to supplement the funding that has already been provided by the government.

Investor Appetite

In 2014 the MaRS Centre for Impact Investing undertook a research project in conjunction with Deloitte to become familiar with the perspective of 80 Canadian investors on SIBs.

⁷⁴“Money on a Mission,” Social Enterprise Fund, accessed July 24, 2016, http://socialenterprisefund.ca/?page_id=14

⁷⁵ RESOLVE, <http://www.resolvecampaign.com/>.

Ninety per cent of investors who were asked indicated that they would take part in, or be interested in learning more about taking part in, a Canadian SIB. However, only a small number said that they were “actively exploring SIB opportunities.”⁷⁶ This study suggests that the majority of investors would be willing to invest between 25 and 100 thousand dollars, with a sizeable amount of respondents willing to invest more than \$1 million to the SIB model, with the total amount pledged between \$30 – 40 million. Although the study concedes that this is a small sub-group of all investors in Canada, the study “confirms qualitative impressions that a sizable potential pool of capital exists for Canadian SIB practitioners to leverage as concepts develop.”⁷⁷ This report found that respondents thought that the most significant challenges to the development of SIBs in Canada were “collaborating with government, risk and perception of risk, liquidity, and capacity/level of market or public education.”⁷⁸

Furthermore, a study by the U.S. Trust found that “6 in 10 wealthy individuals feel that they can have some influence on society by how they invest, and 45% agree that how they invest is a way to express their social, political and environmental values.”⁷⁹ Almost half of these individuals would be willing to take a smaller return if the investment had a stronger impact.⁸⁰ As SIBs become more widely used and investors become familiar with

⁷⁶ “Social Impact Bonds in Canada,” Deloitte and MaRS Centre for Impact Investing, accessed July 24, 2016, <http://impactinvesting.marsdd.com/wp-content/uploads/2014/04/SIBs-in-Canada-Investor-Insights.pdf>

⁷⁷ Ibid.

⁷⁸ Ibid.

⁷⁹ World Economic Forum, *From Ideas to Practice, Pilots to Strategy: Practical Solutions and Actionable Insights on How to Do Impact Investing*, December 2013. http://www3.weforum.org/docs/WEF_II_SolutionsInsights_ImpactInvesting_Report_2013.pdf.

⁸⁰ Ibid.

them, the hope is that this perception of risk will change as the market and the public learn more about SIBs.

According to an industry survey, there were \$5.3 billion of capital supply for impact investing in Canada as of 2012, which represents an increase of 20% from 2010.⁸¹

According a report issued by RBC in 2014, there are six different types of impact investors, which are described below:

High Net Worth Individuals and Angel Investors

Canada ranks seventh in the world in the number of high net worth individuals (those with over US\$1 million in investable assets), who have a shared wealth of \$897 billion in 2012, and this population is growing at 6% annually. In addition, Canada's stock of ultra high net worth individuals, who enjoy more than \$30 million in investable capital, is growing at 11% annually. The wealth that these individuals hold could be tapped into if financial advisors were better equipped to advise them on both the financial and social advantages of impact investing.

Foundations

As foundations are already often mission driven, they represent a strong funding opportunity for impact investments, and in 2013 already managed \$287 million in impact investments. However, in a survey conducted of 63 Canadian foundations, only 16% had policies related to impact investing, and 29% had assets in mission-related investments.

⁸¹ "Your Guide to Social Finance," MaRS Centre for Impact Investing, 2016, <http://impactinvesting.marsdd.com/knowledge-hub/social-finance-guide/>

Community Finance Organizations

According to RBC, community finance organizations are made up of Aboriginal Finance Institutions, and Community Loan Funds. Aboriginal Finance Institutions have provided \$1.8 billion of funding to aboriginal businesses since the 1980's. Community Loan Funds, of which there exist at least 14 across Canada, manage over \$45 million in assets. These funds provide loans to companies, non profits and co-operatives that have a social or environmental goal.

Financial Institutions

Credit unions play a large role in impact investing, with approximately \$1.35 billion in impact investing assets, which is expected to expand by 60% by 2018. Chartered banks are beginning to join the impact investing movement in the form of socially responsible investment (SRI) funds, and by providing advice on philanthropic and impact investment advice to both individuals and institutional clients.

Pension Funds

Pension funds are invested for impact in Europe and the US, however this initiative has not been undertaken in Canada. Although pension funds hold \$537.7 billion in Socially Responsible Investments (SRI), (investments that aim to generate a profit as well as some social good) account for 89% of all SRIs in Canada, this does not include any impact investments. The reason behind this could be that investment managers may not believe that impact investing meets the principles of fiduciary responsibility, however, as impact investing and SIBs become more mainstream, this may change.

Governments

In the case of SIBs, government does not usually act as an investor, and instead provides the return on investment to the investor.⁸² However, in some cases government will provide some of the funding for the investment, or act as a guarantor for the loan.

Looking forward, some research would need to be conducted to assess the level of interest in impact investment in Alberta

Service Provider Capability

Finding capable service providers should be relatively easy in Alberta as The Plan has been working with Housing First service providers since 2009. This suggests that the current service providers in the province are familiar with implementing a Housing First intervention, and therefore in a strong position to use a SIB to fund their services. The SIB could either be contracted out to existing service providers who already facilitate Housing First interventions, or a new service delivery and housing team can be implemented, as was done in the Street Impact SIB in London.

One example is the Calgary Homeless Foundation, which was interested in SIBs a few years ago. In their Business Plan 2014-2015 one of their stated goals for Prevention and Rehousing was to “Support implementation of Social Impact Bonds for financing program expansions,” and in February 2014, this was recorded to be in progress and on

⁸² “Financing Social Good’ A Primer on Impact Investing in Canada,” RBC Social Finance, June 2014, accessed July 24, 2016, http://www.rbc.com/community-sustainability/_assets-custom/pdf/Financing-Social-Good.pdf

track.⁸³ However, there is no mention of SIBs in the 2015-2016 Business Plan. As this was just before Premier Allison Redford announced her support for the Social Innovation Endowment Fund, it may be assumed that this SIB did not come to fruition due to a lack of funding after Redford lost her position as premier.

Barriers to Implementation

With the initial six conditions for a successful SIB in mind, the SIB landscape in Alberta seems to be relatively hospitable. So why haven't we seen SIBs implemented in Alberta? In this section, I will analyze the biggest barriers that are standing in the way of the implementation of SIBs in Alberta, and then recommend steps that may contribute to the successful implementation of SIBs.

Regulatory Framework

On a federal level, there remain issues that need to be resolved in order to encourage the implementation of SIBs across the country. As demonstrated in the mandate letters of the Ministers of Families, Children and Social Development, and of Employment, Workforce Development and Labour (previously combined to be the Ministry of Human Resources and Skills Development Canada), there is some federal interest in SIBs. However, so far there has not been much movement on these mandates. In 2012 Human Resources and Skills Development Canada (which in 2015 was split into the afore mentioned ministries) created a list of legal and administrative issues that needed to be resolved before a Canadian social finance mechanism could be established. These issues are:

⁸³ "2014-2015 Business Plan," Calgary Homeless Foundation, accessed August 17, 2016, <http://calgaryhomeless.com/wp-content/uploads/2014/06/CHF-Business-Plan-2014-15.pdf>.

1. Tax – Clarification may be needed on the treatment of SIB-related investments under the *Income Tax Act* (e.g., how foundations can put money into SIBs through mission-related investments).
2. Financial Instruments – Need to identify the appropriate mechanisms (e.g., grant and contribution agreement or procurement contracts) to allow the Government to indirectly pay a profit to investors or contract for outcomes
3. Accounting and budgeting – Government funding mechanisms (i.e. appropriations) and accounting conventions (e.g. allocation of saving) will need to address SIB funds to be paid out far enough into the future (e.g. 5-7 years)
4. Intellectual property – treatment of intellectual property developed during SIB pilots.”⁸⁴

I will focus on the issues surrounding taxation, as this may effect SIBs implemented at the provincial level as well as the federal level. The *Income Tax Act* mandates that in order to be considered a non-profit organization and be exempt from paying taxes, “no part of the income of such an organization can be payable to or available for the personal benefit of any proprietor, member, or shareholder.”⁸⁵ Furthermore, the Canadian Revenue Agency recently issued a ruling which states, “it does not matter what the profit is used for, a 149(1)(1) cannot have any profit earning purpose.”⁸⁶ The rules surrounding charities are

⁸⁴ Government of Canada, *Advancing Social Finance in Canada: Moving Towards Social Impact Bonds*, (Ottawa: Ministry of Human Resources and Skills Development, September 2012), http://www.centreforliteracy.qc.ca/sites/default/files/SHarty_Cdncontext.pdf

⁸⁵ Government of Canada, *Income Tax Guide to the Non-Profit Organization (NPO) Information Return*, (Ottawa: Canada Revenue Agency), <http://www.cra-arc.gc.ca/E/pub/tg/t4117/README.html>

⁸⁶ Elizabeth Mulholland, Matthew Mendelsohn, Negin Shamshiri, “Strengthening the Third Pillar of the Canadian Union: An Intergovernmental Agenda for Canada’s Charities and Non-Profits,” The Mowat Centre, March 2011, https://mowatcentre.ca/wp-content/uploads/publications/18_strengthening_third_pillar.pdf

outlined in more detail. A charity is permitted to earn a profit from “business related activities”. The CRA defines a business as a “commercial activity undertaken with the intention to earn profit,” and lays out two kinds of related business “(1) businesses that are run substantially by volunteers; and (2) businesses that are linked to a charity’s purpose and subordinate to that purpose.”⁸⁷ If a charity is participating in an initiative such as a SIB that is not deemed to be related to the mission of the charity, or is running a business that is not run by a substantial portion of volunteers, it runs the risk of losing its charitable registration.⁸⁸ These regulations stand in the way of successful implementation of SIBs, as the charity or non-profit that acts as the service provider could come under scrutiny for generating a return for investors.

Accordingly, some provinces in Canada have created solutions to these impediments so that they can better undertake projects related to social finance. In 2010, Ontario passed Bill 65, the *Not-for-Profit Corporations Act, 2010*, which encourages more innovation among charities by implementing a “destination test” on profits that mandates that the proceeds are used for the charitable mission of the organization.⁸⁹ In 2013, BC introduced legislation that allows for Community Contribution Companies (C3). The C3 designation indicates to consumers that the business aims to have a positive social impact, provides investment opportunities for lenders who are looking for a social and financial return, and uses reporting requirements in order to demonstrate accountability for social impact.⁹⁰

⁸⁷ Canada Revenue Agency. *What is a Related Business?*. <http://www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/cps/cps-019-eng.html>

⁸⁸ Ele Pawelski, “Challenges to Implementing Social Finance Policy in Canada, *The Philanthropist*, May 12, 2015, <http://thephilanthropist.ca/2015/05/challenges-to-implementing-social-finance-policy-in-canada/>

⁸⁹ Mulholland, Mendelsohn, Shamshiri, “Strengthening the Third Pillar of the Canadian Union”.

⁹⁰ Government of British Columbia, “Social Enterprise,” accessed July 26, 2016, <http://www2.gov.bc.ca/gov/content/employment-business/business/social-innovation/social-enterprise>

Businesses with the C3 designation must assign 60 percent of their value towards social causes, with the remaining value allocated to investors.⁹¹ The creation of the C3 as a hybrid legal entity which can be both profit and socially driven has been seen by many to be a precursor to the Social Impact Bond in BC, although at this time no SIB has been created in the province.⁹² Nova Scotia implemented similar legislation in the *Community Interest Companies Act* in 2012, which will allow businesses to generate a profit as well as contribute to social good.⁹³ At the moment, no such initiatives are being undertaken in Alberta.

In the UK and the US, where SIBs are more prevalent than in Canada, there are regulations in place to get around taxation regulations. The UK brought in the *Charity Act of 2006* in order to update their laws surrounding charitable activity. They also established a Charity Commission to act as an independent body to monitor charities. In addition, a new corporate form similar to the C3 in BC was introduced in the UK, called the Community Interest Company (CIC). This allows “social purpose businesses” to earn both a financial profit and generate benefits to the public.⁹⁴ Furthermore, with David Cameron acting as the champion to get it up and running, Big Society Capital was established, which is “a wholesale financial organization that [invests] in financial intermediaries in the social investment market, increasing access to finance for social enterprise.”⁹⁵ Big Society Capital

⁹¹ Karim Harji et al., “State of the Nation: Impact Investing in Canada,” MaRS Centre for Impact Investing and Purpose Capital, 2014, accessed July 24, 2016, <http://www.marsdd.com/wp-content/uploads/2014/09/Impact-Investing-in-Canada-State-of-the-Nation-2014-EN.pdf>

⁹² John D. Malcolmson, “Social Impact Bonds: cleared for landing in British Columbia,” CUPE Research BC Region, March 2014, accessed July 26, 2016, https://cupe.ca/sites/cupe/files/Research_note-_SIBs_come_to_BC.pdf

⁹³ Government of Nova Scotia, *New Opportunities for Social Entrepreneurs*, (Halifax: Service Nova Scotia and Municipal Relations, November 28 2012), <http://novascotia.ca/news/release/?id=20121128010>

⁹⁴ Mulholland, Mendelsohn, Shamshiri, “Strengthening the Third Pillar of the Canadian Union”.

⁹⁵ Ibid.

actively invests in intermediaries that participate in Social Impact Bonds, therefore strengthening the intermediary.⁹⁶

In the US the New Markets Tax Credit was enacted in 2000, with the goal to help community investments obtain the necessary funding. The New Markets Tax Credit works in tandem with the Community Development Entity, which is defined as “any entity that services or provides investment capital for low-income people or communities and allows residents of low-income communities to be represented on any governing or advising board of the entity.”⁹⁷ Investors in the CDE can take advantage of the New Markets Tax credit by receiving a credit of 39% of the amount invested. In 2015, this credit had raised over \$23 billion USD.⁹⁸ Many states have also passed legislation that allows them to create low-profit limited liability companies (L3Cs) which is similar to the CIC in the UK and the C3 in BC. The L3C is “designed to facilitate investment in social purpose, for-profit ventures, while simplifying compliance with Internal Revenue Service rules for program related investments by foundations.”⁹⁹ Alberta stands to benefit from implementing a similar program in order to facilitate the adoption of SIBs in the province.

By implementing tax programs and subsidies, governments have an opportunity to encourage capital to flow to SIBs and make the regulatory process simpler. The MaRS Centre for Impact Investing recommends that the federal and provincial governments “clarify and simplify” the rules surrounding revenue generation for charities and non-

⁹⁶ Big Society Capital, “Who We Invest In,” accessed July 26, 2016, <https://www.bigsocietycapital.com/what-we-do/investor/our-approach/who-we-invest>

⁹⁷ “Policy Guide: New Markets Tax Credit,” Community-Wealth.org, accessed July 26, 2016, <http://community-wealth.org/strategies/policy-guide/nmtc.html>

⁹⁸ Ibid.

⁹⁹ Mulholland, Mendelsohn, Shamshiri, “Strengthening the Third Pillar of the Canadian Union”.

profits in order to allow them to earn a profit that contributes to their mission as an organization.¹⁰⁰

Public Perception

Another area that could prove to be a barrier to SIBs in Alberta is public perception of the mechanism. There is some discussion that criticizes SIBs as a tool for governments to shirk their responsibilities by privatizing the public sector, to the sole benefit of investors.¹⁰¹

They allege that the risk will not be transferred from the government to the investors, that the government will pay no matter what, and that there will be no advantage to this model over traditional funding arrangements.¹⁰² The Alberta College of Social Workers strongly

condemned the idea in 2013, saying that SIBS “commodify social services and allow investors to make money off of the suffering of vulnerable people,” and also that SIBs will cherry pick the programs with the easiest outcomes.¹⁰³ These criticisms do not

acknowledge that the current approaches used to address homelessness have not worked.

They also overlook the savings to the government of implementing a successful SIB and fail to mention that by incenting the private sector with the promise of profits, there is more funding available to introduce of programs that would not otherwise exist. If the

government chooses to move forward with SIBs, they will need to lay out a comprehensive

¹⁰⁰ Harji et al., “State of the Nation: Impact Investing in Canada”.

¹⁰¹ John Loxley and Marina Puzyreva, “Social Impact Bonds: An Update,” Canadian Centre for Policy Alternatives Manitoba, January 2015, <https://www.policyalternatives.ca/sites/default/files/uploads/publications/Manitoba%20Office/2015/01/Social%20Impact%20Bond%202015%20FINAL.pdf>.

¹⁰² David Macdonald, “Social Impact Bonds,” *Alberta Views*, December 2014, <https://albertaviews.ab.ca/2013/11/27/social-impact-bonds/>

¹⁰³ Karla Cote, “Alberta’s New Social Program Stock Market: the Introduction of Social Impact Bonds,” Alberta College of Social Work, [http://www.acsw.ab.ca/document/1944/AB's%20new%20social%20prgm%20stock%20market%20the%20intro%20of%20social%20impact%20bonds%20\(PDF\).pdf](http://www.acsw.ab.ca/document/1944/AB's%20new%20social%20prgm%20stock%20market%20the%20intro%20of%20social%20impact%20bonds%20(PDF).pdf)

communications plan in which they address these concerns and clearly inform people how SIBs work, and how they can be beneficial to both the public and private sector, without jeopardizing public service.

Political Will

Although creating a stronger regulatory framework at the federal level will make it easier for charities and non-profits to earn revenue, most housing programs are under provincial jurisdiction, so provinces are better suited to implementing the Social Impact Bond.¹⁰⁴ That being said, political will may prove to be the biggest barrier to implementation in Alberta. Government interest is paramount to uptake of SIBs and without interest from the government SIBs will not be implemented.¹⁰⁵ Alberta needs to find a champion for the cause, as David Cameron was in the U.K. and Allison Redford was in 2014.¹⁰⁶ Without someone willing to spearhead the project within the provincial government, it does not matter whether the environment is hospitable, SIBs will not be developed.

From a cost savings perspective, a Housing First SIB could be a good option in Alberta as it is already in line with the 10 Year Plan to End Homelessness in Alberta, which is a priority that the government has committed to. In the face of public backlash due to decreasing investment in new housing stock as a result of the recession SIBs could provide the Government of Alberta with a tool to fill the funding gap that currently exists, and to ensure that the 10 Year Plan is successfully achieved.

¹⁰⁴ Pawelski, "Challenges to Implementing Social Finance Policy in Canada".

¹⁰⁵ "From Potential to Action: Bringing Social Impact Bonds to the US," McKinsey & Company, May 2012, http://mckinseysociety.com/downloads/reports/Social-Innovation/McKinsey_Social_Impact_Bonds_Report.pdf

¹⁰⁶ Galitopoulou and Noya, "Understanding Social Impact Bonds".

Concluding Remarks

Homelessness affects a large number of Albertans, at a great cost to the public purse.

Alberta's 10 Year Plan to End Homelessness has a goal to end homelessness by 2019, but there remains a gap between the funding that is necessary for new social housing units and the funding that the government has provided. My analysis suggests that the right conditions are in place in Alberta for Social Impact Bonds to be used to fund a Housing First intervention, as long as the government provides support.

Alberta is a strong candidate for using an SIB to fund a Housing First intervention, as many of the necessary conditions are already in place. The Plan already adheres by Housing First principles, is outcomes focused and evidence based, and has been tracking progress.¹⁰⁷ These factors will make the transition to a SIB easier, as an evaluation process is already familiar to participating service providers.

In order to begin the process of establishing a deal, a champion for SIBs needs to step up in government, and undertake a feasibility study that establishes a timeline for the deal based on other interventions, and analyze the political and legal aspects that will need to be changed, such as the regulations surrounding revenue generation for charities and non-profits.¹⁰⁸ Research should also be conducted to ascertain the level of investment interest in the province. The Alberta government can learn from interventions that have been piloted in other jurisdictions, and ensure that they build upon the lessons learned. Finally, a robust communications strategy will help to shift public perception of SIBs and

¹⁰⁷ "A plan for Alberta: Ending Homelessness in 10 Years 3 Year Progress Report," Alberta Secretariat for Action on Homelessness, presented to the Minister of Human Services, January 2013, accessed August 18, 2016,

¹⁰⁸ Galitopoulou and Noya, "Understanding Social Impact Bonds".

how they can benefit public services, the clients, and the taxpayer, as well as providing a return for the investor.