

Financing Social Solutions

through Outcomes Procurement

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- Work with non-profits to be more entrepreneurial and to value the work they do;
- Provide opportunities for investors to get social impact in addition to financial returns; and
- Train governments to create markets for solutions.

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Executive Summary

For decades social service agencies have provided short-term interventions to people facing social issues such as homelessness, domestic violence and food insecurity. Along with charitable donations, normally these services are funded by grants from governments or foundations. The funds are provided based on outputs such as meals served, shelter beds provided, counselling sessions attended, etc. These activities serve basic needs and do much to mitigate crises experienced by hundreds of thousands of people in Canada every year.

Government agencies and their first responders service providers – emergency medical services, police, and the court system – are also frequently called to work with the clients of the social service agencies.

Together, social service agencies and emergency responders manage social problems and relieve the crises faced by people who experience them, but neither group is *resourced well enough to significantly reduce* the prevalence of these problems.

In this paper, the issue of homelessness is used as the example of a new way to finance the provision of interventions that reduce and even prevent social problems. Chronic homelessness often results from a combination of structural, social and individual factors as well as service and system failures. For many people who experience homelessness, the solution that can start them on a path to deal with their underlying issues is supportive housing. This provision of rent supplements and the supports to stay housed in affordable housing is patchwork at best and can appear expensive to governments. Financial tools that trigger systemic changes are needed.

People who experience homelessness and who live rough on the streets are likely to have multiple contacts with emergency service providers in the course of a year. Police are often dispatched to attend unhoused people in distress who then need to be taken to either a shelter, an emergency room or in some cases to a holding cell at the police station. When there is unlawful activity, charges can be laid resulting in additional costs for legal aid, courts and jails. Large portions of these agencies' budgets are allocated for just this type of call.

When governments wish to acquire goods and services, such as military jets, bridges or a new payroll system, they contract with vendors through a procurement process. Through Outcomes Procurement, governments and their agencies can purchase the social outcome they desire – workload reduction. By creating a market for solutions, Outcomes Procurement shifts the focus from the cost of problems to the savings resulting from solutions.

For a city's police force, a desired outcome might be a reduction in their need to respond to unhoused people who are in distress on their streets. Police agencies understand that stable housing rather than a series of temporary shelter beds, reduces the number of times people need their emergency services. The police can agree to pay a non-profit agency for the value of the workload reduction that results from the provision of supportive housing to people that they see most often. By paying a portion of what they would normally budget towards emergency dispatches to social service agencies, the police procure a reduction in their workload. This frees them to focus on actual crime.

In an Outcomes Procurement model, an agency such as the police would pay only for the workload reduction that has been tracked in their system. The non-profit arranges initial financing for this type of contract from a foundation (impact investor), which receives a return on its investment. This can then be reinvested to increase their social impact.

Outcomes Procurement links previously unrecognized beneficiaries of coordinated wrap-around social services (emergency service providers) with the agencies that provide these services – providing much needed reduction in their workload. At the same time, non-profit agencies are provided with the means to reduce the need for temporary crisis intervention and to provide the preventative intervention services that their clients need.

Procurement of goods and services is a well-known tool of governments. The procurement of social outcomes is still new in Canada but has been used successfully in other countries. With the costs of temporary crisis interventions continually on the rise and the number of people who experience homelessness and other persistent social issues also increasing, the time to try a new way to finance solutions is now.

Given the multiple benefits for all parties that accrue through Outcomes Procurement, and the intangible benefit of reducing the human misery experienced by people involved with social systems, the following are recommended as initial steps:

Get everyone on the same page

Host a group of senior representatives from the stakeholders involved with homelessness including emergency service providers, funders of social housing, providers of social housing, and foundations and other impact investors to discuss the implications and advantages Outcomes Procurement could have on social issues in Alberta.

Establish the market

In the event a Procurement pilot is launched, relevant emergency service providers would issue a public offer to pay for a service once delivered. This service could be called “workload reduction” or “alternative service delivery.” The offer would include the size and relevant description of a particular cohort, a metric to quantify the number of contacts that the cohort has had with the agency, and the associated value of the metric.

Expressions of interest

The submission of expressions of interest from non-profit service providers would be followed by the negotiation of mutually beneficial procurement agreements. Non-profits would be free to value the reduction in workload across multiple agencies. They could also pool cohorts that have been identified by various service agencies.

The solutions to social issues are well known but difficult to achieve. What is required is a financial tool that orients governments toward problem solving or, more specifically, creating markets for solutions. Outcomes Procurement is that tool.

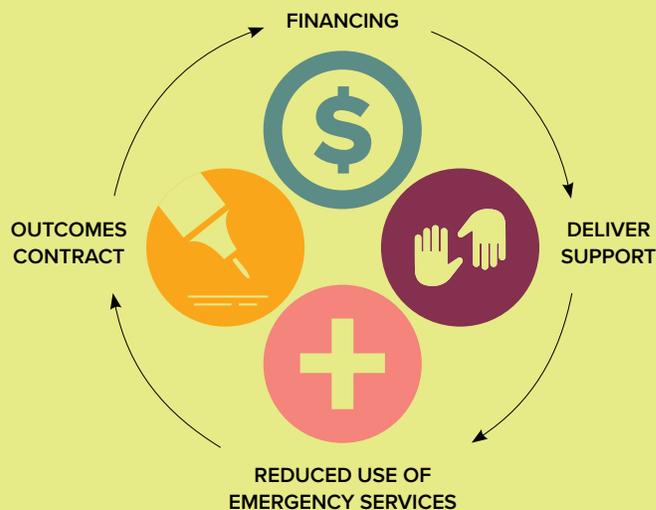
Outcomes Procurement An important tool for social innovation

To understand the nature and impact of social innovation, compare it to a technical innovation which has caused profound societal changes in a short period of time such as the rapid market penetration of digital photography and cellular phones. Open markets allowed these new technologies to compete directly with cumbersome and inefficient technologies. Once the transformation occurs, it is hard to even remember what society was like before.

Described in the context of social innovation, Outcomes Procurement has the potential to cause dramatic societal shifts in how previously stubborn issues like homelessness are approached.

Outcomes Procurement removes market barriers to allow emergency and other front-line service providers to compare deploying resources in a reactive way to the cost and service delivery benefits offered by the non-profit sector.

Sustainable revenue model



The Problem

Social issues, including homelessness, food insecurity, addictions and domestic violence, continue to persist in Canada despite the work of thousands of agencies that provide supports to those who experience those problems. Along with charitable donations, these agencies are financed, for the most part, through grant or contribution agreement funding from governments or foundations. This allows them to manage but not solve the problems their clients face.

This paper uses the example of homelessness to illustrate the problem and solution, however both the problem and the solution put forward have application across many social issues.

Agencies that provide supports to people who experience homelessness are generally funded to provide temporary solutions such as shelter housing. The amount of funding received is usually based on the specific outputs of their programs – numbers of beds filled, meals served, family supports in place, counselling sessions provided, etc.

At the same time, unhoused people are in contact with multiple systems including health, justice and police services, and these service providers have a limited toolbox with which to respond. They provide emergency and temporary services only, frequently and predictably to the same cohort of people.

There are many pathways to homelessness; for most people the road out begins with long-term supportive housing.¹ This service provides a means to move unhoused people from the streets and shelter systems into more permanent homes, offering individuals a stable base from which to deal with underlying issues such as addictions, poor health, lack of job training, etc.

While the ways to reduce the problems underlying many social issues including homelessness are well understood, the challenge now is to transform the systems from managing problems to preventing them from occurring in the first place.

¹ Goering et al., (2014). "National At Home/Chez Soi Final Report." Calgary, AB: Mental Health Commission of Canada. Retrieved from <https://mentalhealthcommission.ca/>.

Supportive Housing



This paper uses the example of supportive housing for people who experience homelessness to explain Outcomes Procurement.

Also called **Housing First, supportive housing is an evidence-based intervention model that involves the immediate provision of permanent housing and wrap-around supports for individuals who are unhoused.**

Canada's cross-site At Home/Chez Soi project was the world's largest trial of Housing First and followed 2,000 participants across five cities, over a period of two years. The majority of At Home/Chez Soi project participants were recruited from emergency shelters or the streets. All participants had one or more serious mental illnesses and nearly all participants were living in extreme poverty and had at least one chronic physical health problem. For many, the catalyst that led to homelessness involved early childhood trauma and the need to escape abuse.

Participants of the At Home/Chez Soi project were provided with an apartment, a rent supplement and support services. Participants were categorized into either a high needs or moderate needs group and received supportive services accordingly. The 10 per cent of participants that incurred the highest costs prior to their participation in the study resulted in the highest cost savings – every \$10 invested yielded average savings of \$21.72.

The cost of the services provided by At Home/Chez Soi included salaries of all front-line staff and their supervisors, additional program expenses such as travel, rent, utilities, and rent supplements and support services. While participants continued to require further interventions such as addictions treatment from medical and other service providers, the provision of stable housing and supports reduced the frequency and intensity of their needs for them.

An advantage of stable housing for people who have high levels of chronic mental and physical illness is the capacity to shift their care from institutions and crisis-related services to planned visits and regular follow-up with community-based services. This results in substantial reductions in overnight stays in shelters and institutions such as hospitals, prisons, jails, and addiction treatment facilities.

Proposed Solution

This report proposes a new way to finance some social services – Outcomes Procurement. Rather than managing social issues, Outcomes Procurement can help end homelessness and reduce contact with emergency service providers.

Governments use procurement to purchase goods and services such as military hardware, roads and insurance. However, when they engage non-profits they use funding models. Through Outcomes Procurement, government agencies can purchase workload reduction and improve their delivery

For example, emergency service providers such as police respond to calls to assist people who live on the streets and who are in distress. Often the call is to assist someone they have helped numerous times. The response results in the person being taken to either a homeless shelter, an emergency room or a holding cell at the police station. This type of call is prevalent in big cities and police budgets include large amounts for these dispatches.

Through Outcomes Procurement, the police identify the value of staff time dedicated to respond to a cohort. They agree to pay a non-profit the value of any workload reduction that they might achieve. The non-profits are paid out of the savings.

But the police are not the only emergency responders or government agencies that benefit when people are no longer chronically homeless – emergency health care, courts and jails also see a reduction in workload.

Non-profit agencies can contract with multiple emergency services and government departments to create revenue streams to support the wrap-around services required to reduce the number of unhoused people.

In essence, workload reductions are purchased by emergency services providers.

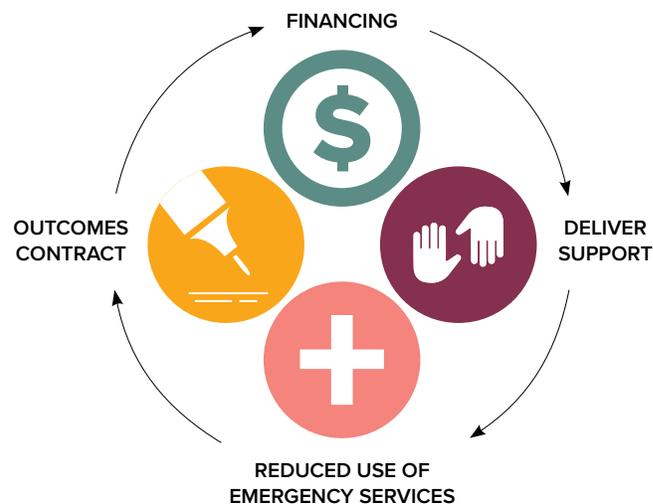
In Outcomes Procurement, because the police and other service providers do not pay until their workload has been reduced, the interventions by the non-profit service agencies are initially enabled through investment by financiers such as foundations. The foundations receive a return on their investment which they would reinvest in increasing their social impact.

Outcomes derived from supportive housing, for example, enable multiple agencies from all three levels of government to value the work of non-profits in a transparent and accountable fashion.

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This arrangement uses the procurement mechanism to buy outcomes that meet the needs of clients *and* are financially beneficial to the purchasers (e.g., reduced dispatches of emergency services) that result from the non-profit sector's work (e.g., supportive housing). The outcome is what the intervention achieves for the buying departments – the procurers – which ultimately creates a market for solutions.

Sustainable revenue model



This paper shows how Outcomes Procurement can be used to reduce the problem of homelessness. However, Outcomes Procurement can be used in many areas to achieve a reduced demand on front-line agency services.

Appendix C describes the current state of homelessness in Alberta. The Alberta Plan to End Homelessness includes an ongoing initiative called 7 Cities on Housing and Homelessness. Outcomes Procurement could become a tool for use in this initiative.

The Current Model

Funding

Traditionally, governments engage non-profit service providers to deliver a variety of services and supports to those in need through funding. Grants are usually awarded to the delivery agency at the end of an application process that is aimed at a specific purpose. Progress and spending are monitored through rigorous reporting requirements.

For example, when a government decides to allocate funding to resource supports in non-profit housing for people who have previously experienced homelessness, non-profit organizations respond with proposals. A funding proposal for this objective would require elements similar to those in the logic model presented in Figure 1.

Figure 1

Typical logic model for Supportive Housing project

Objective	<ul style="list-style-type: none">• Provision of Supportive Housing
Inputs	<ul style="list-style-type: none">• Administration, staff, capital expenses, office supplies, rent, utilities, \$10 million in funding from government sources• Housing, supportive services
Activities	<ul style="list-style-type: none">• Shelter• Triage and case management• Comprehensive community based-supports such as substance abuse treatment, mental health treatment, financial training, employment training, domestic violence, daycare and after-school programs
Outputs	<ul style="list-style-type: none">• Number of housing units• Number of individuals housed• Client dropout rate• Number of clients supported by each service provider• Number of clients transitioned to affordable housing
Intended funded “outcomes”	<ul style="list-style-type: none">• Employment skills, residential stability, food security, school attendance• Improved housing quality, health and well-being self-reports• Decrease in substance use, domestic violence, caregiving burden, stress

Not included in the *funding* logic model is the fact that there are other lucrative impacts that are not tracked or recognized. There is no positive feedback loop.

The ongoing funding relationship is based mainly on compliance, not on outcomes. The government relationship with the non-profit focuses on how the money is spent – the activities and the outputs – rather than on the value of the impact, or outcome, that the intervention produces.

Unfunded outcomes	<ul style="list-style-type: none">• Decreased number of emergency health, policing and justice interactions• Decreased future homeless service provision
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A funding relationship typically proceeds as follows:

- **1** One agency of the government (i.e., Community Services, Department of Housing) is tasked with the allocation of funds. The spending department is rarely the agency that financially benefits from the intervention (i.e., Justice, Health).
- **2** Despite little or no front-line experience, the funding agency reviews a line-by-line budget prepared by the non-profit and makes amendments based on its own knowledge and assumptions. With a signed contract, the non-profit is committed to spend money on only the line items that have been agreed on. The list of ineligible expenditures is long.
- **3** A portion of the resources to be allocated are provided upfront before the project is underway. Because the money was allocated prior to the delivery of the intervention, the rest of the money only comes as receipts have been submitted. The non-profit is required to submit all receipts for reimbursement. The relationship is centred around how to spend the money.
- **4** Residents are selected by the non-profit. Emergency service providers are not involved in the decision of who receives the intervention although they are generally pleased that it will help reduce their workload.
- **5** Research and past practice have proven that supportive housing causes a significant reduction in court appearances, jail time, police dispatches, visits to emergency wards, nights in mental health beds and so on.² For example, the value of \$10 million in funding may well be \$15 million across all emergency systems. But each emergency service provider does not track the impact of the intervention on its workload. And neither does the non-profit. The non-profit is required to provide evidence of its direct outputs such as “number of people housed and supported.”
- **6** If the non-profit can do its work in a more cost-effective or beneficial manner than originally anticipated, it must seek permission from a funder if it wishes to change or improve service delivery strategies mid-way through the contract. Funds left unspent when the contract is completed must be returned to the funder.

Typically, one funding department pays all the costs of a supportive housing intervention while several siloed agencies – often across multiple levels of government – incur the financial benefits. If a successful intervention yields cost savings across several government departments, there is no mechanism to recognize or capture those savings.

At best, the agency could hope for additional funding for the next one to three years to engage in the same activities. Because government funding is usually scarce and under heavy demand, when civil servants say “yes” to one non-profit they are often saying “no” to another, regardless of financial savings to other departments.

² Goering et al. “National.”

Limitations of current funding model

Financial risk resides with the government. Compliance is the first priority. Therefore funding arrangements require intense administration and are largely inflexible.

Outputs are measured – not outcomes.

Funding is usually directed to specific short-term measures. Funding for services such as addictions treatment is provided separately.

Funding is often used to provide crisis intervention, not to end what causes the crisis in the first place. As the demand for crisis interventions continues to rise, services meant to be temporary become institutionalized, long-term solutions.

The full monetary value of the impact to all stakeholders of a project is rarely captured and is not connected to an ongoing business case in a coherent way.

Funding is usually drawn from one government department's budget. Other departments or levels of government may benefit but this is not tracked.

The scale of the problem

Example: Emergency Service Use

In April 2018, The Homelessness Enumeration in Barrie, Ontario determined there were approximately 700 homeless people in Simcoe County. Of these 700, 393 self-reported that they used emergency services in the previous six months. These 393 people each had an average of 21.7 interactions with various emergency services in the previous six months alone.

The vast majority of these interactions involved contacts with several emergency services in quick succession. People who provide these services understand that the reason for these alarming statistics is the result of instability that arises from a lack of individualized interventions such as the availability of supportive housing.

The following information was compiled for the cohort of 100 people who experience homelessness and are in most frequent contact with emergency services in Barrie (Table 1).

Table 1

The scale of the problem: Interactions in one year with a cohort of 100 most frequent homeless “clients”

Emergency service	Type of interaction	# of interactions by cohort of 100
Police	Call outs (no transfer/detention)	3,365
	Detention/transfer	106
	Admissions to < 24 hour cell	164
	Arrests	191
Justice	Court appearances	678
	Days in corrections facility	2,542
Fire & EMS	Fire call outs	500
	Ambulance call outs	220
Health	Days hospitalized (psychiatric)	2,600
	Days hospitalized (physical)	878
	Emergency room visits	701
	Days in treatment for substance use	1,092
	Detox admissions	297
Other	Days spent in an emergency shelter	7,624
Total interactions		20,958

Given that 100 people who experienced homelessness in Barrie needed 20,958 emergency and other services over the course of one year, it is not surprising that community leaders began to look for a better solution. They turned to Outcomes Procurement. (Note: Negotiations to implement Outcomes Procurement in Barrie have not yet been completed.)

Outcomes Procurement

How procurement works

Governments use procurement to engage businesses for the supply of goods and services. Procurement across all three levels of government in Canada is estimated to be approximately \$200 billion per year. Under a service procurement model that begins with a tender for service, request for proposals or other application process, the successful bidder is paid the market value of the goods or service. Government agencies regularly procure increased capacity to manage problems. Some examples include the procurement of police cars, recruitment of emergency room doctors or the construction of prisons.

Procurement agreements contain a formula that can best be described as price multiplied by quantity. If one police car is \$100,000 (price) and 10 police cars are purchased (quantity), the value of the successful completion of the contract is \$1 million. It is important to note that governments value what they buy and buy what they value.

How Outcomes Procurement works

Still very new to Canada, Outcomes Procurement captures the value of an intervention and the cost savings associated with the intervention (fewer police or EMS calls). The cost savings associated with the outcome of a non-profit intervention, which could be called “reduced workload” or “alternative service delivery,” are similarly determined by price (the monetary value of an avoided dispatch) multiplied by quantity (reduction in the frequency of expected contacts).

By creating a market for solutions, Outcomes Procurement shifts the focus from the cost of problems to the savings resulting from solutions.

By paying for outcomes, the several government agencies that save money use these savings to pay non-profit service providers based on achieved outcomes. The more successful the non-profit service provider is at helping other services reduce their workloads, the more revenue they earn. It becomes a positive feedback loop – the more revenue earned, the more that can be spent to address the social problem.

Outcomes Procurement example

Diabetes management in the Israeli Health Care System

The Israeli Health Care System provides a clear example of purchasing a “reduced workload” in diabetes management costs. Israel is home to roughly 500,000 pre-diabetic patients who are at high risk of developing Type 2 diabetes. Under their Outcomes Procurement model, 1,000 pre-diabetic patients are enrolled by a social purpose venture that has previously demonstrated effective strategies to lower blood sugar levels. The lead organization gets paid a set fee per pre-diabetic who does not become diabetic within five years. A portion of the savings is used to pay the social purpose venture.

Outcomes Procurement example

Manitoba – Aki Energy

Aki Energy installs cost-effective geothermal energy systems that replace other electricity sources and lower utility costs. Governed and operated by First Nations, Aki Energy trains First Nations workers, many of whom previously struggled to hold a steady job, to install, maintain and troubleshoot these geothermal systems. This process is financed through Outcomes Procurement. No government funding is involved.

Foundations provide the upfront revenue that Aki Energy needs to install the geothermal units and train its workers. There are five outcomes – lower utility bills, reduced social assistance costs, reduced carbon in the atmosphere, employment benefits and benefits enjoyed by Manitoba Hydro – the electrical utility. See more on this model at www.encompass.coop and www.akienergy.com

Note that Outcomes Procurement is not the same as outcomes-based or social purchasing or other social benefit models. Outcomes Procurement links previously unrecognized beneficiaries of social solutions with the providers of those solutions.

To calculate the value of the outcome to be purchased, first the buying agency must understand the costs of the status quo.

Putting a value on emergency service costs

As a result of their circumstances, people who experience homelessness access government services at the most expensive levels. The cost required to respond to crises experienced by large segments of people in the At Home/Chez Soi project was much more than the cost of providing supportive housing to them, even though these costs included salaries of all front-line staff and their supervisors, additional program expenses such as travel, rent, utilities and rent supplements. While participants continued to need further interventions from medical and other services, the provision of stable housing and supports reduced the frequency and intensity of their needs.

Service costs associated with the 100 people with the most frequent interactions with emergency services in Barrie are shown in Table 2.

Table 2

The annual cost of the status quo

Emergency service	Type of interaction	# of interactions by cohort of 100	Cost per interaction	Total cost
Police	Call outs (no transfer/detention)	3,365	\$350	\$1,177,867
	Detention/transfer	106	\$192	\$20,394
	Admissions to < 24 hour cell	164	\$443	\$72,635
	Arrests	191	\$823	\$157,109
Justice	Court appearances	678	\$3,072	\$2,082,762
	Days in corrections facility	2,542	\$200	\$508,469
Fire & EMS	Fire call outs	500	\$685	\$342,500
	Ambulance call outs	220	\$282	\$62,040
Health	Days hospitalized (psychiatric)	2,600	\$812	\$2,111,200
	Days hospitalized (physical)	878	\$1,176	\$1,032,136
	Emergency room visits	701	\$379	\$265,553
	Days in treatment for substance use	1,092	\$172	\$187,824
	Detox admissions	297	\$159	\$47,223
Other	Days spent in an emergency shelter	7,624	\$69	\$526,057
TOTAL cost of interactions				\$8,593,769

The value of Outcomes Procurement

In an Outcomes Procurement model, using the provision of supportive housing as an example, a non-profit with experience and a successful track record supplying supportive housing secures a partnership with a foundation, not funds from government. Both organizations realize that systemic change is imperative and together they approach several emergency service providers to offer a risk-free product: a reduction in workload.

Procurement agreements are negotiated with each government service provider. Like all procurement agreements, the contracts focus on price multiplied by quantity. The negotiations continue:

- An emergency service provider says they already track certain metrics so they choose these as markers.
- A value is attached to each of these markers that is fair and based on the value that they already use to request new resources to meet growing demand.
- The emergency service provider agrees to purchase the value of their workload reduction (i.e., compensate the non-profit supportive housing provider).
- Using the cohort's past contact as a baseline, each emergency service provider provides an estimated number of annual contacts relevant to a sample cohort (to respect privacy individual data is not provided).

How to determine a value of workload reduction?

Systems have never been asked to value the effects of outputs and so may, at first, struggle with the concept. The value becomes clear when new resource requirements are requested to meet a growing demand.

As an example, an EMS budget request process might read: "Dispatches are expected to increase by 500. This requires 2 new ambulances and 5 new full-time equivalent (FTE) positions in order to maintain response time standards."

The value of the avoided dispatches will grow as the number of avoided dispatches grows. For example, a few avoided dispatches may result in reduced overtime or ambulance operating costs, many avoided dispatches may avoid the need to hire new FTEs and purchase a new ambulance.

Table 3

The value assuming a 50 per cent reduction in workload

Emergency service	Outputs	Total cost	Annual value intervention at 50%
Police	Call outs (no transfer/detention)	\$1,177,867	\$588,934
	Detention/transfer	\$20,394	\$10,197
	Admissions to < 24 hour cell	\$72,635	\$36,318
	Arrests	\$157,109	\$78,555
Justice	Court appearances	\$2,082,762	\$1,041,381
	Days in corrections facility	\$508,469	\$254,235
Fire & EMS	Fire call outs	\$342,500	\$171,250
	Ambulance call outs	\$62,040	\$31,020
Health	Days hospitalized (psychiatric)	\$2,111,200	\$1,055,600
	Days hospitalized (physical)	\$1,032,136	\$516,068
	Emergency room visits	\$265,553	\$132,777
	Days in treatment for substance use	\$187,824	\$93,912
	Detox admissions	\$47,223	\$23,612
Other	Days spent in an emergency shelter	\$526,057	\$263,029
TOTAL		\$8,593,769	\$4,296,885

Outcomes Financing

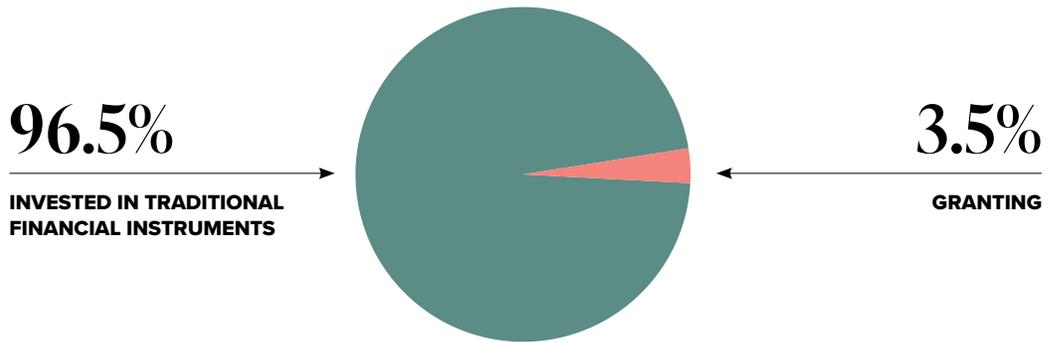
The question remains: If non-profits are not funded upfront to provide the intervention and if they only get paid after the intervention is offered, where do the upfront resources come from? A source of upfront capital is required.

Outcomes Procurement is made possible through outside financing, often through a partnership with mission-aligned foundations. The upfront resources are provided from their endowments which are currently invested in market equities or bonds. A foundation that realizes they can move their investments into instruments that get positive rates of financial return *and* also social and/or environmental returns, might be keen to invest.

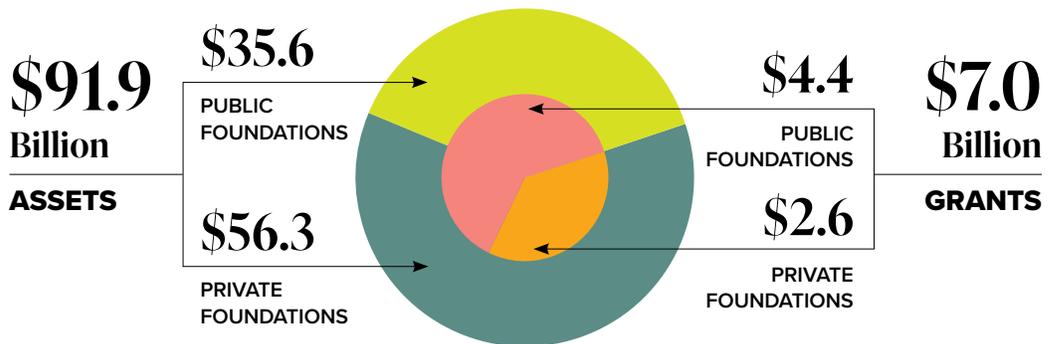
Philanthropic and community foundations all over the world are moving towards leveraging their endowments for impact by using both their grants and their investments to achieve their missions. Helping governments orient away from the management of problems to the creation of markets for solutions is very much in line with the goals of many foundations. This presents an untapped source of financing. Currently the Canadian Revenue Agency disbursement quota requires that a minimum of only 3.5 per cent of foundation resources are made available to the non-profit sector on an annual basis while the remaining 96.5 per cent is invested in financial instruments.

There are approximately 11,000 foundations in Canada with over \$90 billion in assets.³ The emerging and powerful idea is that foundations can both grant and invest in the non-profit sector.

Traditional foundation resources



Traditional foundation funds allocation

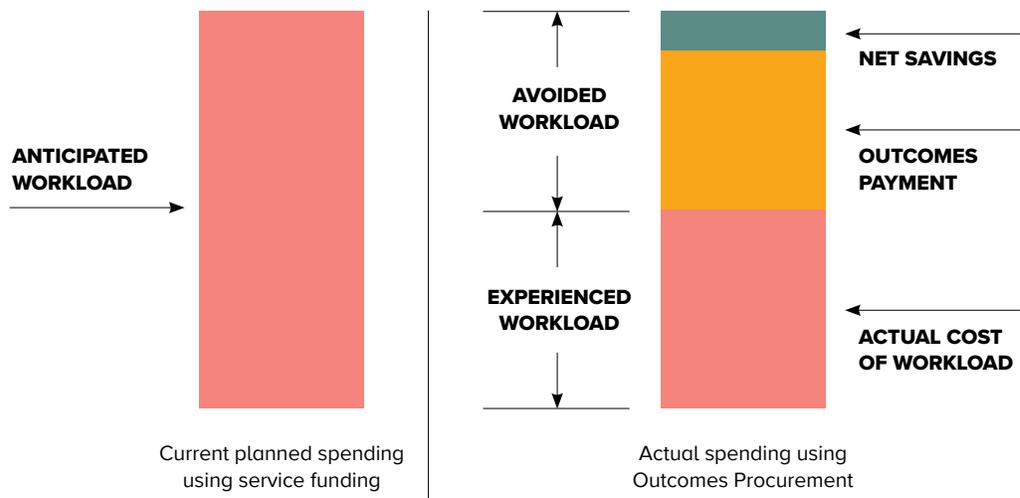


³ "Canadian Foundation Facts." *Philanthropic Foundations Canada*. Retrieved 2021-08-23.

The availability of foundation endowments depends on governments financially valuing outcomes that are delivered. This shift has started in Canada, with the moves to outcomes-based funding models and Social Impact Bonds. However, neither of these models have brought the type of transformative change needed. Outcomes Procurement is simpler, more replicable and uses a tool that governments are already familiar with. (See Appendix B). Governments, foundations and non-profits stand to benefit from opportunities which leverage the outcomes of a solutions-based market.

The chart below notionally shows the before and after from a financial perspective if a cohort's contact with an emergency service is halved. Note that there is an outcome payment to the service provider that is taken out of the savings generated by the intervention. The amount of the net cost savings, represented in green, is negotiated between the parties. At the end of the contract, the foundation that financed the upfront capital for the initiative is repaid its principal plus an agreed upon rate of return.

Funding versus Outcomes Procurement Annual budget comparison



Emergency service provider annual budget comparison – Funding versus Outcomes Procurement – Barrie cohort

Anticipated cost of workload – for 100 most frequent users of services	\$ 1,428,005
Actual cost of workload – users of service	\$ 714,002
Avoided workload – people using fewer services	\$ 714,003
Outcomes payment to non-profit agencies (out of which they provide their supportive housing services to 50 people and the return on investment to the financiers)	\$ 606,903
Net savings – emergency services (Assuming a 15% discount)	\$ 107,100

An added and significant bonus for the police department lies in the freed-up capacity to focus on their primary mandate of law enforcement.

Similar contracts would be signed with other emergency service providers to cover the cost of supportive housing services provided by the non-profits to previously unhoused people.

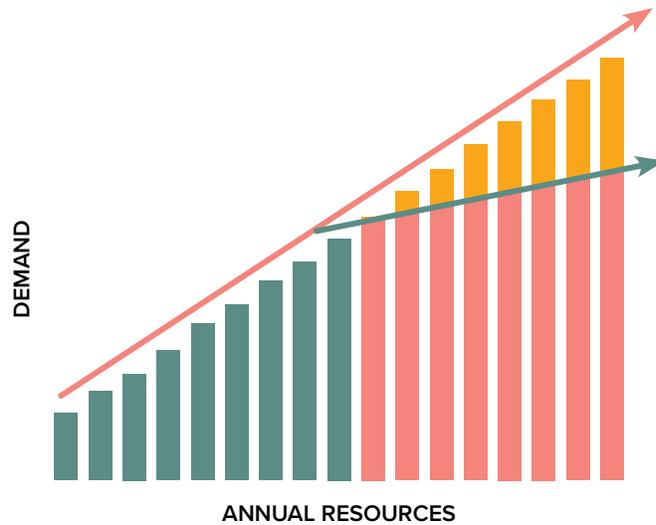
Key to the success of the Outcomes Procurement model is that central funding bodies which tie resources to workload do not reduce overall support to participating government agencies and departments that save money and improve service delivery. This would have the adverse effect of disincentivizing progress. Rather, cost savings will be realized through a reduction in future annual increases as anticipated workload increases are avoided.

Bending the curve

Year over year law enforcement and emergency services request additional resources (personnel, equipment, capital items, etc.) to respond to increasing demand for their services (crime). Governments are often alarmed at agency and/or departmental cost overruns or workload growth that increase demands on already constrained resources. To address cost pressures, they most often respond with an assumption that the problem is a lack of efficiency in the system. They may, for example, cut administrative positions, or merge departments or cut red tape. These measures can best be described as an attempt to make service delivery more efficient. However, savings are greater when the focus is on making the systems more effective.

It is possible to slow the rise of the trendline. Bending the curve creates room in future budgets, often at a discount in comparison to the status quo.

Resource trendline



The resources that would be required to offer the long-term solutions are, in most cases, less than the costs of responding to perpetual crises across multiple departments in all three levels of government.

Non-profit service delivery agencies and governments

The relationship between non-profit service delivery agencies and governments is ripe for disruption:

- People who experience a variety of social problems are more likely to be in contact with government agencies at expensive levels – such as with police, courts, jails, mental health services and emergency wards – than people who are thriving.
- Law enforcement and emergency service providers have increasingly become a “catch-all” – and respond to all kinds of situations. As social problems become exacerbated, so too has the workload of agencies that struggle with maintaining levels of service delivery expected by the public.
- The departments and agencies called on to respond to crises are not mandated nor well positioned to deliver interventions that result in a reduction in demand for their services.
- A large proportion of the work of law enforcement and emergency service providers involves repeated interactions with the same people on a regular and predictable basis.
- Government departments and agencies tasked with paying for the solutions to these social problems (e.g., social housing) do not financially benefit from the deployment of the interventions (e.g., reduction in workload).
- Non-profits and other social purpose ventures have effective solutions to these problems but are funded to provide temporary rather than long-term solutions. The resources that would be required to offer the long-term solutions are, in most cases, less than the costs of responding to perpetual crises across multiple departments in all three levels of government.
- Governments generally have two options for how to resource what they determine is in the public interest. When they engage markets, they use procurement tools. Procurement is a great tool to value outcomes. When they engage non-profits, they use funding. Funding is about compliance and is not attached to outcomes. It is a poor tool to scale for solutions. Funding is considered a cost to governments and, as a result, resources are chronically strained.
- There are 11,000 foundations in Canada with over \$90 billion in assets. The CRA requires that only 3.5 per cent of these resources be made available to non-profit organizations annually. The rest, 96.5 per cent, is invested in market financial instruments.
- Revenue for non-profits and their projects has traditionally been funding. Because there are virtually no markets for solutions, investors with a mandate for social change – such as foundations – have large pools of money inaccessible for social change.

Benefits of Outcomes Procurement

Outcomes Procurement holds potential to work where the following conditions are present:

- 1** Governments, non-profits and foundations all agree that the usual way they interact is ripe for change;
- 2** All parties must agree to act in their own self-interest. Governments agree to create cost-saving markets for solutions, investors seek financial and social impacts and non-profits value their outcomes by becoming more entrepreneurial; and
- 3** All parties agree to tackle a social problem which is expensive to manage, where solutions can be monetized and where a cohort's contact with expensive levels of government is predictable.

When Outcomes Procurement is put into action, benefits are realized by all stakeholders: the outcomes purchaser (i.e., government/public agency), the non-profit service provider, the foundation that provides financial support and the individuals who receive services.

Benefits for the Outcomes purchaser

An Outcomes Procurement contract, like other procurement contracts, is based upon the price a customer (government agency) is prepared to pay for the deliverable (an outcome provided by a non-profit). The value of the deliverable corresponds to the avoidance of a cost the public agency would otherwise incur. This difference provides funding for the contract. The payment is only a portion of the difference which results in a net savings for the purchaser.

Furthermore, compared to funding, Outcomes Procurement re-allocates the “risk” away from the customer, payments are only triggered if delivery of the outcome is successful. For the customer, Outcomes Procurement is at the same time less risky, and less expensive than the status quo.

Outcomes Procurement is particularly useful to slow the growth of demand that is expected for the foreseeable future. The ability to use budgets to avoid future increases rather than respond to them is a new tool that was not available before.

Benefits for the non-profit service provider

In the above example, the police service’s payment of \$606,903 is added to similar but separate revenue from other emergency service providers who stand to experience workload reduction from the successful intervention.

Each outcomes purchaser pays only for their agreed outcome based on a marker that is pertinent to their own operations. An ambulance service would not pay for supportive housing or a reduction in police dispatches, rather it would pay for a reduction in ambulance dispatches. Health services, for example, would pay for a reduction in the anticipated number of visits to the emergency ward and/or nights in the psychiatric ward.

The non-profit can use this combined revenue from all the Outcomes Procurement contracts in any way it decides would be best, including to secure housing and supportive services and to pay back the up-front investment from financiers. With Outcomes Procurement, because the contracted relationship is outcome based, rather than prescriptive (specifically how to spend dollars to achieve the outcome) the service provider has the flexibility to pivot quickly to deliver the outcome as effectively and as efficiently as possible. In addition, to provide the services, these non-profit enterprises will most likely create new jobs, including case-workers, which adds to the local economy.

Benefits for the foundation as financiers

Outcomes Procurement benefits financiers by creating a social return on their capital. For investors who seek social impact, Outcomes Procurement offers both a financial *and* a social return and will outcompete investments that offer only financial returns. This is especially true of foundations whose mandates are mission aligned with these opportunities. Foundations can continue granting but add to their impact the social value of their investment portfolio.

With Outcomes Procurement, impact investors such as foundations provide upfront risk-free loans. At the end of the contract, or on an annual basis, the foundation is paid back its principal plus an agreed on rate of return. As successful interventions yield significant financial and social benefit, many investors will be keen to re-invest their earnings into other Outcomes Procurement contracts to keep the cycle of investment and community benefit alive.

As successful interventions yield significant financial and social benefit, many investors will be keen to re-invest their earnings into other Outcomes Procurement contracts to keep the cycle of investment and community benefit alive.

A procurement example

A cohort of 100 people who experience homelessness triggered 300 court appearances in each of the previous two years. The emergency service provider expects it is reasonable to assume that they will trigger 300 court appearances in the year to come. Each court appearance costs \$3,000. The cohort is housed, provided support and court appearances drop to 100. An invoice is sent to the Department of Justice for 200 avoided court appearances multiplied by \$3,000, less a negotiated discount.

	100 unhooused people	100 people housed and supported
# Court appearances	300	100
\$ Cost per court appearance	\$3,000	\$3,000
\$ Cost to court system	\$900,000	\$300,000
\$ Court system pays agency to provide housing (85%)		\$510,000
\$ Savings (discount 15%) to court system		\$90,000

An Outcomes Procurement contract could also be established for the provision of reduced police dispatches. The non-profit service provider may, for instance, employ supportive housing strategies with a target population but the specifics of how the outcome is accomplished is up to the non-profit service provider. The value of the contract to the emergency service provider is related to the cost savings resulting from the outcome they purchased, not the cost of the housing and support. An intervention, such as the provision of supportive housing to 100 people who experience homelessness, will have multiple outcomes purchasers. Each emergency service provider purchases what makes sense for their particular service.

Potential Adoption Risks & Mitigations

Outcomes Procurement has not yet been proven as a way to provide revenue to social service interventions in Canada. It could be used in multiple areas of service provision including the chronically unhoused as shown, or to other programming such as pre-employment training for the chronically unemployed.

In a situation where a non-profit intervention has yet to be trialed, granting or funding is a better fit. They would fund an initial community engagement and development phase supported by grants, followed by the launch of the intervention, which, if successful would be ramped up with Outcomes Procurement.

With Outcomes Procurement, if the intervention is not successful or results in lower than projected cost savings, the foundation would absorb any loss, not the government. Moreover, to mitigate any risks to their endowments, if necessary foundations can, within some constraints, change their investment from their endowment into a grant from their community granting stream.

It is important to note that for an Outcomes Procurement contract, baseline is set in the negotiations phase. In the example provided, the police expect to be called out to the same 100 people in the contract period as often as they were in the previous period. If the contract is to reduce dispatches by 50 per cent, payment is calculated against that metric. The means to achieve that reduction are not part of the contract.

For this reason, only reputable, reliable non-profit service providers should be contracted to provide supportive housing services.

Recommended Path Forward

Given the benefits for all parties accrued through Outcomes Procurement, and the intangible benefit of reducing the human misery experienced by people involved with social systems, the following are recommended as starting steps:

Get everyone on the same page

Host a group of senior representatives from the stakeholders involved with affordable housing including emergency service providers, funders of social housing, providers of social housing, and foundations and other impact investors to discuss the implications and advantages Outcomes Procurement could have on social issues in their geographic area.

Establish the market

In the event a Procurement pilot is launched, relevant emergency service providers would issue a public offer to pay for a service once delivered. This service could be called “workload reduction” or “alternative service delivery.” The offer would include the size and relevant description of a particular cohort, a metric to quantify the number of contacts that the cohort has had with the agency, and the associated value of the metric.

Expressions of interest

The submission of expressions of interest from non-profit service providers would be followed by the negotiation of mutually beneficial procurement agreements. Non-profits would be free to value the reduction in workload across multiple agencies. They could also pool cohorts that have been identified by various service agencies.

Example invitation

We, The X Police Service, have identified 300 gang-involved individuals that consistently require our services at a frequency much higher than the general population. This group is 90 per cent able-bodied, 90 per cent male, 90 per cent Indigenous, and between the ages of 18 and 30. We anticipate an allocation of \$2 million in internal resources in the upcoming year via 820 arrests each valued at \$2,000 and 450 gang compliance checks each valued at \$250. We seek a partner to reduce this workload and will negotiate a procurement agreement at rates that provide our organization with net cost reductions and improvements in service delivery.



90%
Able-bodied

90%
Male

90%
Indigenous

18-30
Years of age

820
Arrests

\$2,000
Cost per arrest

300
Gang-involved
individuals

450
Gang compliance checks

\$250
Cost of compliance checks

Example expression of interest

We, the X, are an Indigenous non-profit service delivery agency that has been working with gang-involved youth for 20 years. From your group of 300, we would be willing to select a cohort of 50 people who express an interest in working in the trades through our social enterprise and its embedded wrap-around services. We would be willing to negotiate a procurement agreement with you to provide workload reduction at terms that are mutually beneficial.

Conclusion

Humans are creative social beings and social crises can push innovation toward the development of new strategic tools. Outcomes Procurement is a new, financially transparent tool that can give supportive housing providers the sustainable revenue needed to end chronic homelessness. This in turn, alleviates resource pressure on local emergency service providers, health and justice systems, in a symbiotic relationship welcomed by emergency service providers.

Outcomes Procurement calls on governments, non-profits and foundations to act in their best interests:

- Governments finally have a tool that can decrease anticipated cost pressures and increase service levels;
- Non-profits can access revenue to grow their interventions and fully service their clients; and
- Foundations can increase their impact by using grants and investments and in the process leverage previously unavailable social returns on their investments.

This paradigm shift requires new ways of conducting work and requires stakeholders to ask if their programs achieve positive results. The current paradigm requires a non-profit or government agency to respond with a reference point – the size of their budgets; the number of arrests; patients treated; the size of an endowment or the amount of money donated in grants.

We will know we have entered a new problem-solving paradigm when we answer the question of whether a program or organization has been successful by referencing progress on poverty levels, recidivism rates, incidence of diabetes and other preferred outcomes.

The solutions to social issues are well known but funding has been insufficient to scale their impact. What is required is a financial tool that orients governments towards problem solving or, more specifically, create markets for solutions. Outcomes Procurement is that tool. Moreover, Outcomes Procurement creates opportunity for collaboration between multiple organizations through these markets for solutions.

Appendix A

Frequently asked questions

Q Is Outcomes Procurement a way to privatize social services?

A Professionals employed by governments (police officers, nurses, paramedics, etc.) won't be replaced by those in the non-profit or private sector. The workload of these agencies will be reduced and over time the pace of growth in their ranks will decline over projections.

Q Are you saying we should send social workers on some calls to 911 instead of police and paramedics?

A No, an emergency requires an emergency response. Outcomes Procurement offers a reduction in predicted future emergency calls from a defined group of people. Consequently, this frees up emergency responders in the system overall.

Q Is this not a Social Impact Bond (SIB)?

A SIBs are a private funding model being integrated into the non-profit world. SIBs can be useful to demonstrate the efficacy of an innovative pilot project. While the focus of SIBs is on the investor, Outcomes Procurement is a systems-level shift that creates a marketplace approach and challenges incumbents to compete to deliver outcomes. Outcomes Procurement has a path to scale built in, whereas SIBs do not.

Q Why not just fund for outcomes?

A Outcomes Procurement is sometimes confused with funding tied to outputs. An output funding example might be governments paying for nights in a shelter or to compensate a non-profit service provider on a per-meal-provided basis. The outcome – the financial value of the output to all agencies – is not factored into the decision on the amount allocated to the non-profit. Another outcome may be fewer people sleeping on the street or going hungry, but this is only a temporary solution, not a long-term outcome. Outcomes-based funding has been implemented in various jurisdictions, with limited success.

Q Governments want Social Return on Investments (SROI), right?

A Social returns on investment are often calculated to show the value of funding to convince governments to continue or increase funding. Governments realize many interventions have tremendous paybacks but this knowledge rarely results in more funding. If SROI is an attempt to get more funding, the organization will be disappointed. However, an SROI might contain helpful information for use in an Outcomes Procurement contract.

Q Why not just fund the project?

A Funding is about compliance not outcomes or long term solutions. In normal financial markets, an investment that grows in value attracts more investment because there's a connection between the outcome and the investment. This is not true of the funding system.

Q Is this “defunding the police”?

A Defunding creates a situation in which the police are required to respond to a growing workload with fewer resources. Outcomes Procurement reduces police workload and frees them up to focus on crime instead of managing people who experience social issues. Defunding the police also leaves solutions undervalued because it does not directly engage other systems such as justice and health.

Q What if agencies refuse to sign procurement agreements?

A Agencies that choose more expensive approaches with poorer outcomes when there are options, can be held accountable by reduced future increases. For instance, if an agency requests a five per cent increase to keep up with a projected workload increase, politicians allocating resources might ask why they didn’t enter into an Outcomes Procurement agreement which would have resulted in a workload decrease. At some point it will be a performance issue for administration.

Q Why would, for example, a health authority or hospital pay for supportive housing if it is not in their mandate?

A Outcomes Procurement does not propose to engage the health authority around the intervention rather, on what the intervention does to reduce health authority costs. Health will be engaged around reduction in visits to their emergency wards or a reduction in nights in psychiatric wards. Of note – hospitals in many areas of the United States are building housing for homeless people based on the financial payback.⁴ Keeping people out of emergency wards and discharging them sooner to quality, supportive housing is good for the bottom line.

⁴ Kuehn, Bridget M. “Hospitals Turn to Housing to Help Homeless Patients.” JAMA 321, no. 9 (March 5, 2019): 822. <https://doi.org/10.1001/jama.2018.21476>.

Appendix B

Social Impact Bonds

Social Impact Bonds (SIBs) attempted to mobilize private capital for social purposes by investing upfront and getting paid back by the government if desired outcomes were achieved. SIBs are an important “first generation” attempt to make revenue available to solution providers where funding has consistently failed. Several SIBs have been attempted across Canada, the tool has proven ill-suited to scale or replication. SIBs are generally disliked by civil servants as the private investment model presents political risk that requires mitigation and slows the funding process down.

With SIBs, non-profits rely on private investments to provide the upfront resources which causes a political liability with respect to who benefits financially from the positive payback associated with the intervention. Outcomes Procurement, however, provides **government departments with a significant advantage**. Outcomes Procurement relies on financing – more like a risk-free loan. The money paid by governments is automatically returned to support more interventions. This reduces risk for the department.

Both SIBs and Outcomes Procurement have a key benefit over funding: If something goes wrong and the intervention is not successful, the investor/financier absorbs any loss, not the government. With Outcomes Procurement, foundations can, within some constraints, change the investment to a grant. Either way, this de-risking of the relationship is very attractive to risk-averse governments.

Appendix C

The current state of homelessness in Alberta

Like most jurisdictions in Canada, Alberta faces a complicated, dynamic and critical level of homelessness in the province. While ever-changing, the magnitude of homelessness is captured regularly by Point-in-Time (PiT) studies to quantify sheltered and unsheltered homelessness.

These studies aim to identify community members who are, at any given time, “staying in homeless shelters, transitional/short-term housing (e.g., provisionally accommodated in supportive housing, hotels, hospitals, or correctional facilities), or “sleeping rough” (e.g., on the street, in parks), providing a “snapshot” of homelessness in a community”.⁵ The most recently published Alberta PiT count was performed in 2018 and enumerated 5,735 individuals experiencing homelessness.

Key characteristics of the findings, as outlined in the report generated by 7 Cities on Housing and Homelessness (based on the 2018 PiT), are as follows:

- Eighty-five per cent of individuals enumerated were in Alberta’s major urban centres: Calgary and Edmonton. The remaining 15 per cent were in Fort McMurray, Grande Prairie, Red Deer, Medicine Hat and Lethbridge.
- Males were more prevalent (72 per cent) in the homeless population than females (28 per cent).
- People who identify as Indigenous continue to be overrepresented among those who experience homelessness. Administrative data from emergency shelters and transitional housing indicate that those who identify as Indigenous make up 26 per cent of those enumerated while making up only seven per cent of the general population. Survey data produced notably different numbers: 50 per cent of respondents identified as Indigenous.
- Of those surveyed, 62 per cent met the Homelessness Partnering Strategy definition for chronic homelessness – defined as having been homeless for at least 180 cumulative days over the past year.
- Survey responses across all seven cities found that 83 individuals self-reported having served in the Canadian military and/or the RCMP – about seven per cent of the total surveyed.
- The most common reasons cited for loss of housing were addiction, job loss, inability to pay rent or mortgage, conflict with spouse/partner, and unsafe housing conditions.

The results of the PiT count, while dramatic, are not surprising. In 2008, The Alberta Secretariat For Action On Homelessness, released ‘A Plan for Alberta: Ending Homelessness in 10 Years’. The plan was extensive, thorough and detailed. In it, the Secretariat noted that:

⁵ 7 Cities on Housing & Homelessness. “2018 Alberta Point-in-Time Homeless Count: Technical Report.” https://www.7cities.ca/_files/ugd/ff2744_5d899dceff12471c835fddf4e5d119fc.pdf

- Alberta faces a growing challenge of homelessness. The reasons behind the increase in homelessness are many and complex, rooted in fiscal, social and policy decisions over many years. Although available data cannot perfectly define the scope of the challenge, we know that homelessness also has many faces. Each homeless individual and family faces unique circumstances that have contributed to their homelessness.
- These fellow Albertans don't belong on the streets or in emergency shelters. Instead, they should be moved into housing and given support to address their challenges, restore stability, and attain greater self-reliance. Each of them deserves the opportunity to succeed.
- Funding from governments and the hard work of many Albertans to address this challenge are to be commended. Despite these efforts, Alberta is simply managing homelessness. To successfully reduce and ultimately end homelessness, Alberta will need to take a fundamentally different approach.
- The Plan recognized and supports community-led action on homelessness and aims to coordinate province-wide efforts. The Plan sets out a series of actions aimed at shifting the work of homeless-serving agencies, communities and governments away from simply managing homelessness, and towards ending homelessness through a "housing first" philosophy.

Under this housing first philosophy, investments are focused on three key areas:

-
- 01** Rapid re-housing of homeless Albertans, moving them from streets and shelters into permanent housing.
-
- 02** Providing client-centered supports to re-housed clients, helping them obtain the assistance they need to restore their stability and maintain their housing.
-
- 03** Preventing homelessness through emergency assistance and by providing adequate and accessible government programs and services to Albertans.

The Plan for Alberta put an emphasis on self-reliance. It also provided for a substantially lower-cost, long-term solution versus the status quo. Most importantly, the Plan provided the opportunity to actually end homelessness in the province. This will restore dignity for thousands of citizens and inspire lasting pride in the hearts of all Albertans.

The 10-year estimate of the spending required for this plan were valued at \$3.316 billion. An analysis of the report, demonstrated enormous savings for the taxpayers of Alberta as compared to the \$6.65 billion for merely managing homelessness under the status quo for 10 years.

These plans never fully came to fruition. In fact, recent budgetary adjustments from the Alberta Government further restricts inputs into addressing homelessness.

ON MARCH 9, 2021, THE EDMONTON JOURNAL WROTE

The [2021] budget has a 22-per-cent cut to services for people who are homeless, from \$248 million in the past year to \$193 million. Even with that reduction, the government continues to see support for temporary emergency shelter as an answer to homelessness, in its support of large shelters that are unable to offer anything like a secure and dignified way to live.⁶

⁵ Natasha Riebe · CBC. "Edmonton Struggling to Find Funds to Operate Specialized Housing Units for Homeless People | CBC News." CBC, March 4, 2021 <https://www.cbc.ca/news/canada/edmonton/edmonton-city-council-housing-1.6372390>.

7 Cities on Housing and Homelessness

A major asset in Alberta's Plan to End Homelessness is 7 Cities on Housing and Homelessness (often referred to as 7 Cities). The seven Alberta cities coordinate local plans at a systems level and align funding resources for greater impact and progress towards ending homelessness.

The participants include:

- Calgary Homeless Foundation
- City of Grande Prairie
- City of Lethbridge
- Homeward Trust Edmonton
- Medicine Hat Community Housing Society
- City of Red Deer
- Regional Municipality of Wood Buffalo

7 Cities operates from an amalgam of support from all three levels of government with inputs from local service providers and the private sector. As early adopters of the Housing First model, 7 Cities housed 23,000 Albertans between 2008 and 2018. Solutions are born at the community level, implemented by jurisdiction and agency and supported by the government. Through continued efforts, 69 per cent of participants have remained housed resulting in an estimated \$2.4 billion savings in provincial expenditures through diminished access to public services such as emergency rooms, acute care, police resources and the justice system.

Alberta's ability to solve homelessness is apparent. However, support for programs offered throughout Alberta is based on traditional funding models. The structure, benefits and savings derived from Outcomes Procurement would provide the value and scaled solutions that Alberta strives to achieve.

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