

# Social Housing

## Background

Affordable and secure housing is a significant factor in a community's stability and in the social and economic well-being of its residents. Social housing is rental accommodation developed with government assistance for a range of low- and moderate-income households, including families with children, couples, singles, and seniors. It can be owned by governments, as in the case of public housing, or by non-profit or co-operative organizations. In Ontario, households in social housing that receive a rent-g geared-to-income subsidy typically pay a maximum rent equal to 30% of their total pre-tax income.

Most social housing in Ontario was built between the mid-1960s and the mid-1990s through a combination of federal, provincial- and joint federal-provincial cost-shared programs. Community groups also built non-profit and co-operative housing during the 1980s and 1990s, with more emphasis on smaller projects that included units with rents at market rates alongside those with rent geared to income.

Until the late 1990s, properties built by governments (that is, public housing properties) were subsidized and administered by Canada Mortgage and Housing Corporation (CMHC) at the federal level and Ontario Housing Corporation at the provincial

level. The non-profit and co-operative housing built by community groups was administered by those groups but funded by both levels of government.

In January 1998, the province transferred to municipalities a series of funding responsibilities, including social housing, under the Local Services Realignment program. In return, the province assumed half the education costs that had previously been paid by municipalities. The Ministry of Municipal Affairs and Housing retained responsibility for administering social housing programs during a transition period.

In November 1999, the federal government and Ontario signed the Canada-Ontario Social Housing Agreement (Agreement) to transfer federal administration of most Ontario social housing to the province (although CMHC continued to administer certain housing programs). The Agreement provides the province with the flexibility to devolve administration of social housing programs to municipalities, set policies for client assistance, and allocate federal funding to the various housing programs. The province continues to receive federal funds (\$518 million in the 2008 calendar year), most of which it allocates to municipalities.

In December 2000, the province passed the *Social Housing Reform Act, 2000 (Act)*, which required municipalities to assume responsibility for social housing programs previously administered by both CMHC and the province. The province

designated 47 regional Consolidated Municipal Service Managers (Service Managers), who also deliver such other services as social assistance and child care, to administer social housing programs at the local level. In bigger cities, the municipal government itself is the Service Manager; in smaller centres, a single Service Manager administers services for a combined group of municipalities and counties. Ontario is the only province to have passed on to municipalities the responsibility for funding and administering social housing.

As of the end of 2008, there were about 260,000 units of social housing in Ontario, consisting of 100,000 public-housing units and 160,000 non-profit and co-operative units. Although no formal figures were available, the asset value of the province's social housing stock was estimated to be approximately \$40 billion.

## Audit Objective and Scope

The objective of our audit was to assess whether the Ministry of Municipal Affairs and Housing (Ministry) had adequate systems and procedures in place to:

- measure and report on its effectiveness in helping to provide, in partnership with the federal and municipal governments, sufficient numbers of well-maintained social housing units; and
- ensure that funds provided for selected housing programs are managed with due regard for economy and efficiency, and in compliance with legislative and program requirements.

Our audit included research into the practices of other jurisdictions, a review of documentation, and interviews with ministry staff and some of the 47 Consolidated Municipal Service Managers (Service Managers) to obtain their views on the delivery of social housing programs. We also sent surveys to all 47 Service Managers and received responses from about half of them. We also interviewed

external stakeholders, including the Association of Municipalities of Ontario, Social Housing Services Corporation, the Ontario Non-Profit Housing Association, Toronto Community Housing Corporation, and Canada Mortgage and Housing Corporation for their input on how housing programs could be improved.

Our work also included a review of relevant audit reports issued by the Ministry's internal auditors. Since they had not conducted any recent work in the areas covered by our audit, their reports did not result in a reduction of the scope of our audit or extent of our procedures.

## Summary

From both a value-for-money perspective and from the perspective of those who live in it, it is critical that social housing be maintained in good condition. As well, sufficient and affordable social housing can have a significant impact on the health and safety of those Ontarians who depend on subsidized housing for a place to call home. While responsibility for this has been largely delegated by legislation to municipalities since 2000, it is in the province's long-term interests to monitor how well the province's social housing stock is being managed by Consolidated Municipal Service Managers (Service Managers).

However, despite the change in responsibilities, there has been no provincial strategy to help ensure long-term sustainability of sufficient numbers of well-maintained social housing units. Accordingly, other than ensuring that any federal or provincial housing agreements and other requirements are being adhered to, the Ministry collects little information on how well the \$40 billion in social housing stock is being maintained or whether there is an adequate supply to meet the local needs. We identified a number of issues about which we believe the province should be better informed to enable it to monitor how well social housing is being managed,

especially given the province's recent commitment to provide municipalities with more than \$600 million (its half of the \$1.2 billion federal–provincial economic stimulus package provided to it) for new and existing housing programs. Some of these issues include:

- As of December 2008, the number of households on waiting lists for social housing across the province totalled about 137,000. In many urban centres, the average wait time to secure accommodation was more than five years—and one municipality had reported a wait time of 21 years for all categories except seniors.
- Some large municipalities reported that as units became available, 25% to 40% were usually allocated to special-priority tenants, such as victims of abuse, who require complex social-support services. However, housing providers often do not have the capacity to provide security and complex support to such special needs tenants, nor were security and services for such tenants well co-ordinated with other programs.
- The deteriorating condition of the social housing stock, particularly the public-housing portfolio, whose units are an average of 40 years old, has been a significant and growing concern for municipalities. In 2006, for instance, the Toronto Community Housing Corporation conducted a building-condition assessment, which identified immediate capital-repair needs of \$300 million for its 60,000 social housing units. However, the Ministry had no up-to-date and reliable information on a province-wide basis of the overall condition of the social housing stock or of the asset-management practices of Service Managers.
- A large number of the federal government's funding agreements with housing providers will start to expire in 2015, with no guarantee they will be renewed. Without continued funding, some existing social housing projects will not be financially viable. However, Service Managers will still be required by law to

maintain the prescribed minimum number of housing units. The Ministry had no firm plans to address Service Managers' concerns regarding the possible ending of federal funding.

- In partnership with the federal government, Ontario has in recent years provided Service Managers with some additional funding for new housing programs. Although the Ministry monitors whether Service Managers comply with program requirements, there was a general lack of reporting on the success of these programs. We determined, for example, that although one such program did increase the supply of housing, the stipulated rent to be charged meant that more than half the units would not be considered affordable for households on waiting lists, or those eligible to be on the lists.
- As part of a federal–provincial economic stimulus package, both levels of government announced in March 2009 they would share equally in funding \$1.2 billion in new investments in social and affordable housing over the next two years. Improvements to the Ministry's system for monitoring these expenditures will be needed to ensure these funds are spent cost-effectively and achieve the desired impact.

### OVERALL MINISTRY RESPONSE

The Ministry of Municipal Affairs and Housing welcomes the observations and recommendations of the Auditor General and is committed to making continuous improvement in meeting its mandate. The Ministry recognizes the integral role of safe and affordable housing in the health and safety of Ontarians and is focused on supporting our municipal partners as they administer social housing in Ontario.

Since devolution in 2001, all housing partners, including the province, have been maturing in their new roles in administering

social housing in Ontario. The recent Provincial Municipal Fiscal and Service Delivery Review confirmed that the province would not upload responsibility for social housing from the Service Managers. The review recommendations supported continued municipal funding and administration, while the province will provide the opportunities to free up additional funds for social housing. The role of the province to oversee the success of the program has also evolved and the Ministry is committed to effectively meeting this role.

## Detailed Observations

### COMPLIANCE WITH AGREEMENT AND LEGISLATION

The Canada–Ontario Social Housing Agreement (Agreement) with the federal government establishes certain reporting requirements that the Ministry of Municipal Affairs and Housing (Ministry) is required to follow. Specifically, the Ministry must submit an annual performance report to the federal government and undertake annual audits and periodic program evaluations. The annual performance report must include information on the amount of funding for each program, the number of households assisted, and the average income of those receiving assistance.

In addition, under the provincial *Social Housing Reform Act* (Act), Consolidated Municipal Service Managers (Service Managers) are required to fulfill a number of key responsibilities that include:

- maintaining the prescribed minimum number of housing units;
- establishing and administering waiting lists;
- providing rules about eligibility and priority rules, creating occupancy standards, and ensuring adherence to these rules and standards;

- reporting on projects in difficulty;
- providing subsidies to, and oversight of, housing providers; and
- reporting on compliance with social housing obligations to the province.

To help ensure compliance with the federal and provincial requirements, the Ministry requires Service Managers to submit a Service Manager Annual Information Return (Return). Service Managers must state in the Return the expenditures incurred for each housing program, provide certain supplemental information, and confirm their compliance in key areas such as maintaining the prescribed number of housing units and a centralized waiting list. An external auditor hired by the Ministry must verify Returns and issue an audit opinion to CMHC on the federal money spent.

We found that the Returns were being verified and, based on the opinion of the ministry-appointed auditor, the province and municipalities were in compliance overall with the Agreement and legislation.

### PROVINCIAL STRATEGY ON SOCIAL HOUSING

Service Managers currently have primary responsibilities for funding and administering social housing programs. Even so, social housing is a shared responsibility and the Ministry, in partnership with the federal and municipal governments, is accountable to Ontarians for providing sufficient and well-maintained social housing across the province.

Despite the significant change in the responsibilities for delivery of social housing, however, there had been no provincial strategy to address potential issues that could affect the provision of sufficient and well-maintained housing in the province. Beyond the annual compliance-reporting process, the Ministry had not adequately overseen the success of municipal service delivery.

A provincial strategy is needed to define the Ministry's roles, set measurable goals and program priorities, assess risks and options to manage

the risks, determine the resources required, and measure the impact of the Ministry's contribution to social housing. In the Ministry's recent Results-based Plan (Plan), a document that all Ontario government ministries are required to submit to help ensure their programs achieve the desired outcomes, the Ministry had identified several goals and the various activities on which it intended to report. However, we found these goals and activities as reported to be overly broad, with no measurable outcomes. For example, one of the activities identified was the maintenance and upgrading of aging social housing units—but the Plan established no targets or benchmarks for success.

The need for a provincial strategy was underscored in May 2006, when a consultant engaged by the Ministry to conduct an evaluation of its social housing programs noted a number of issues similar to the ones we observed. The consultant's evaluation, required under the Canada–Ontario Social Housing Agreement, noted, among others, the following issues:

- a lack of strategic performance measurement across Ontario's social housing programs;
- the absence of province-wide benchmarks, metrics, and objectives for social housing; and
- a lack of strategic-planning initiatives to address issues, including emerging capital requirements, increasing operating costs, and demographic and economic changes that may affect long-term sustainability.

It has been three years since these issues were identified but little action has been taken to date to address them.

In this regard, a number of municipalities had developed a local strategic plan to address the issues within their communities. Our review indicated some of these plans were comprehensive and could be useful to the Ministry in developing a strategic plan. Other municipalities could also find them helpful as a guide to best practices.

## RECOMMENDATION 1

To better define and fulfill the province's roles for ensuring sustainable, well-maintained social housing, the Ministry of Municipal Affairs and Housing should:

- establish a comprehensive strategic plan that includes measurable goals and performance outcomes;
- work with municipalities to ensure a co-ordinated and integrated housing strategy within the province, and gather the information necessary to monitor progress on the strategy and on the goals and outcomes established; and
- consider requiring all Consolidated Municipal Service Managers to develop local strategic plans, and encourage the sharing of best practices in developing such plans.

## MINISTRY RESPONSE

The Ministry agrees and has already completed over 13 public consultations with key stakeholders across the province to initiate the development of a Long-term Affordable Housing Strategy. As part of the exercise in developing the Strategy, the Ministry has been working with its municipal partners to develop social-housing performance measures. The Ministry expects to release the Strategy in 2010. The Ministry will collect the information necessary to monitor progress on the Strategy and on the goals and outcomes established. As part of the Strategy, the Ministry will consider requiring municipal service managers to develop local strategic plans.

The Ministry currently requires municipalities to report annually financial and statistical information on various municipal services they provide. In addition, social housing performance measures will be established and all municipalities will be required to report on the measures annually.



## SUFFICIENT AND WELL-MAINTAINED SOCIAL HOUSING

Effective provincial oversight is needed so that the Ministry can make informed funding decisions and take appropriate, timely action on systemic issues affecting the provision of social housing. Further, good management information is needed to support the Ministry's oversight activities. As indicated in the previous section, the level of provincial oversight had been minimal since devolution. Consequently, there was little management information available at the Ministry. We identified a number of significant issues that had not been adequately addressed since devolution.

The following sections contain a discussion of some of these issues.

### Waiting Lists for Social Housing

Much of the information available to the Ministry came from the annual Returns submitted by Service Managers. In addition to financial information, Service Managers are asked to confirm that they complied with the provincial requirement for maintaining the prescribed number of housing units and to provide supplemental information.

One piece of supplemental information provided by Service Managers related to prospective tenants on waiting lists, which, according to the latest Returns, stood at about 137,000 province-wide as of December 2008.

However, there was only limited additional information at the Ministry about the waiting lists. During our audit, we gathered additional information on the breakdown and length of the waiting list, as shown in Figure 1.

Overall, the size of the province-wide waiting list has remained fairly stable over the past five years. However, the list could include households that have given up because of the lengthy wait times and others that could have been placed on more than one list. Many urban centres have wait times of five or more years for new applicants—and

one reported wait times of up to 21 years for all applicants except seniors.

Conversely, we noted that some Service Managers reported vacancy rates ranging from 0% to more than 5%, with a few smaller jurisdictions as high as 12%. Several also had a high vacancy rate despite a lengthy waiting list. Although some vacancies are temporary and unavoidable, a persistently high vacancy rate could be attributable to such reasons as lack of demand, a mismatch between size of units and demand, or, in extreme cases, units that were unusable because of poor safety and sanitary conditions. The Ministry did not monitor or assess the wait times and vacancy rates being reported by the individual Service Managers.

Some Service Managers and jurisdictions have developed extensive information processes to assess the demand and supply for social housing. For example, information on the number and types of housing units, condition of housing stock, vacancies, and availability of special-needs housing would be useful to the Ministry in assessing social housing supply from a province-wide perspective. Data on population, by segment, number and composition of households, and income factors would also be useful in analyzing housing demand. Such information is critical for improving future housing-program design to ensure that limited funds are directed to the areas of greatest housing needs.

### Co-ordination of Social Housing with Other Support Services

The order in which people on a waiting list get housing is chronological—first-come, first-served. The one exception to this rule under the *Social Housing Reform Act* is for special-priority applicants, who are primarily victims of abuse. Service Managers at some of the larger municipalities indicated that as units became available, between 25% and 40% of them were currently being occupied by these special-priority tenants, who require support services. Due to the urgent nature of their situations, the applicants on this list justifiably

**Figure 1: Selected Wait-list Information, at December 2008**

Source of data: Selected Consolidated Municipal Service Managers

Service Manager	Total # on Waiting List	Expected Wait Time for New Applicants (Years)			
		Overall	Seniors	Non-seniors	Families
A	66,600	4.5-6	4.5	4.5	6
B	13,328	7-21	7	21	21
C	9,691	2.5-4.5	2.5	4.5	4
D	5,833	7-10	7	10	9
E	1,564	0.5-8	0.5	8	2
F	1,447	4-13	6	13	4

receive priority for housing placement. Nevertheless, Service Managers indicated that many of these households also require complex social-support services and additional security arrangements, the provision of which most housing providers do not have the capacity to ensure.

In addition to special-priority housing, there were three provincial ministries that administer more than 20 other housing and related programs, including emergency shelters, housing for people with special health needs, and accommodations for the homeless. Service Managers indicated it had been difficult to co-ordinate their work and ensure special-needs tenants received the appropriate support services. Their view was reflected in a recent Provincial–Municipal Fiscal and Service-Delivery Review, which reported that the current system is a fragmented and inefficient approach to meeting client needs.

## RECOMMENDATION 2

To help provide sufficient social housing efficiently and make the most of available funding, the Ministry of Municipal Affairs and Housing should work with Consolidated Municipal Service Managers to:

- establish more comprehensive reporting of information on social-housing portfolios and wait times so this can be taken into consideration in addressing the housing needs of individual municipalities;

- identify ways to better and more equitably address the issue of lengthy wait times in many municipalities; and
- better co-ordinate housing and other support services with other provincial and municipal stakeholders.

## MINISTRY RESPONSE

The Ministry agrees and will consider the Auditor General’s recommendation in the development of its Long-term Affordable Housing Strategy. While the Ministry currently collects information required to meet the terms of the *Social Housing Reform Act, 2000*, and its regulations, it will work with municipalities to identify and address other areas where additional and consistent information can benefit.

Support services are provided at the local level. In keeping with the direction given under the recent Provincial–Municipal Fiscal and Service-Delivery Review, the Ministry will work together with municipalities to develop a consolidated housing service to better co-ordinate housing and other support services with other provincial/municipal stakeholders. Provincial-municipal discussions are under way on this topic.

## Social Housing Portfolio

Like any other properties, buildings in the social housing portfolio require regular maintenance and periodic replacement of major capital items, such as roofs, underground garages, elevators, and mechanical systems to maintain and prolong their service life because it costs far more to build new units than to properly maintain existing ones.

Prior to downloading, all public-housing units were owned by the Ontario Housing Corporation and capital requirements were funded through the Corporation's annual budgeting process. In the case of privately owned non-profit and co-operative housing, each housing provider was required under its operating agreement with the province to contribute a portion of the operating subsidy to a separate capital-reserve fund to address capital repairs and replacements.

After the decision was made to transfer social housing to the municipalities in the late 1990s, the Ministry commissioned studies to determine the condition of the housing stock and the related capital-funding requirements for the public, non-profit, and co-operative portfolios. These studies concluded that the social housing stock was in good condition overall. The required annual capital funding for the publicly owned portfolio was determined to be in the \$100-million range. About \$52 million of this would be funded through the federal annual contribution and the remainder by Service Managers.

With respect to the non-profit and co-operative housing providers, their previous operating agreements with the province were terminated at devolution. The *Social Housing Reform Act* requires these housing providers to continue contributing to a capital-reserve fund. Except for a few large municipalities, their contributions were being managed by the Social Housing Service Corporation, created under the *Social Housing Reform Act* in 2002. Examples of the services that the Corporation provides include the pooling of capital reserves, group insurance, and bulk purchasing.

## Condition of Social Housing Stock

Notwithstanding the reasonably good condition of the social housing stock at the time of devolution a decade ago, social housing stock has deteriorated since that time, particularly those properties within the public-housing portfolio. This has been a significant and growing concern to municipalities because the average property in the public-housing portfolio is close to 40 years old and capital maintenance costs are rising more quickly.

While this concern has been identified by various stakeholders, there was a lack of up-to-date and reliable information on the province-wide condition of housing stock. Currently, such information would only be available if housing providers carried out their own building-condition assessments, which provide estimates of the cost and time frames for repairing or replacing various building elements. The results could then be used, for instance, to create a capital-reserve fund to cover replacement costs. For example, the Toronto Community Housing Corporation, which owns 60,000 social housing units accounting for two-thirds of Toronto's social housing stock, carried out such an assessment in 2006 and estimated that \$300 million was needed for immediate capital repairs. However, the Ministry did not have any information on how this estimate was determined or the magnitude of this issue on a province-wide basis.

The average age of the non-profit housing portfolio was lower than that of public housing. Many non-profit projects were built in the late 1980s to early 1990s, resulting in an average age of about 18 years. In addition, the non-profit housing providers' agreements with Service Managers were structured to require reserve funds for future capital repairs. As of 2007, the Social Housing Services Corporation invested and administered approximately \$400 million in capital reserves on behalf of non-profit housing providers. Nevertheless, the Corporation indicated that some non-profit providers were in crisis and most of the properties were just reaching the stage in their life cycle where major repairs would be necessary. However, on an overall basis,



the non-profit housing portfolio was in better condition and should be better able to address its capital requirements than should public housing.

Service Managers indicated that, as the housing stock continues to age, access to suitable financing to help pay for maintenance and repairs was emerging as a major issue. One potential source of financing, for example, would be to re-mortgage properties. However, the province had generally not agreed to housing providers' proposals to refinance, citing the province's potential liability under the Social Housing Agreement that requires Ontario to compensate CMHC for any costs arising from the default of housing providers. In the opinion of some Service Managers it is they, and not the province, who are responsible for the costs of such defaults. The Ministry should re-assess the implications of the Service Managers' refinancing proposal to determine if it may be a viable solution.

### Asset Management

Good asset-management practices, including regular preventive maintenance, are essential to prolong the life of housing assets and avoid costly repairs in future. In addition to lacking information on the condition of the social housing stock, the Ministry had no information about whether Service Managers have established good asset-management practices and whether housing providers were following them. The poor condition of some properties could be due to delays in carrying out the regular maintenance required to prolong the life of the assets. Due to increasing operating costs, we understand that some housing providers may be redirecting funds away from regular maintenance to fund more urgent day-to-day operations.

Energy-efficiency upgrades could also help free up some funds for maintenance. Older public-housing projects, for example, were built using less modern technology. Upgrading these buildings to contemporary energy-efficiency standards would generate operating-cost savings that could be used for other required capital-maintenance projects.

The Ministry has recently initiated the development of an asset-management strategy with the Social Housing Services Corporation to help housing providers improve their practices in this area. Although it was in the early stages of development, this is a much-needed initiative.

### RECOMMENDATION 3

To ensure that the housing stock is safe and of acceptable quality and that it will achieve its expected service life, the Ministry of Municipal Affairs and Housing should work with Consolidated Municipal Service Managers to:

- carry out periodic building-condition assessments and ensure that such information is summarized on a province-wide basis; and
- develop an effective funding and financing strategy for raising the capital investment required to reduce the capital maintenance backlog and sustain proper maintenance of housing stock, including consideration of requirements that a capital reserve be established for public-housing stock.

The Ministry should also continue to work with the Social Housing Services Corporation to assess the cost/benefit of implementing modern energy-efficient measures, and facilitate adoption of such measures by housing providers.

### MINISTRY RESPONSE

In 2008, the Ministry helped fund the establishment of an Asset Management Centre for Excellence by the Social Housing Service Corporation to provide the support and expertise that social-housing providers can draw upon in maintaining their buildings. The Centre promotes and recommends best practices for building condition audits and other capital planning activities. Service Managers may choose to use some of the funding under the new Social Housing Renovation and Retrofit program, established in 2009 to upgrade social-housing projects, for building condition audits.

With respect to raising the capital investment required to reduce the capital maintenance backlog, under the government's Poverty Reduction Strategy announced in 2008, most social-housing providers are now able to apply to Infrastructure Ontario for low-cost capital loans. In addition, an Asset Leveraging Working Group co-chaired by the Ministry with the Social Housing Services Corporation is developing proposals for refinancing and renewing the social housing portfolio.

With respect to energy-efficient measures, there are minimum energy-efficiency requirements under the new \$704-million Social Housing Renovation and Retrofit Program. Specifically, \$70 million of this new federal-provincial funding is targeted for renewable energy initiatives. The Ministry will continue to consider other options for energy efficiency in the sector.

## FEDERAL FUNDING OF SOCIAL HOUSING

As part of the Social Housing Agreement, the federal government began providing annual block funding to the province in 1999. The funding has several components, including capital costs, ongoing operating costs, and debt-servicing costs. The first annual payment amounted to \$525 million and total subsequent payments decreased each year as the federal government's operating agreements with housing providers began to expire. Starting in 2015, a large number of agreements will begin to expire, which means Service Managers will have to maintain the same number of units with declining federal funding, as shown in Figure 2.

The province's *Social Housing Reform Act* requires Service Managers to maintain a prescribed minimum number of rent-geared-to-income units despite the eventual end of federal funding. No agreement has been reached with the federal government for continued funding and all agreements

will have expired by 2032. This issue is critical for some municipalities, who derive the bulk of their social housing budgets from federal funding.

Under these circumstances, some housing projects would no longer be financially viable because rental revenues are insufficient to cover operating costs, even when the property is mortgage-free. Properties housing a high proportion of households that pay low rent would be affected the most because they depend largely on government subsidies to meet operating costs. The expiry of these funding agreements without commitments to establish new ones could force non-profit and co-operative housing providers to stop providing a large number of social housing units. The majority of Service Managers who responded to our survey noted that they have yet to find a solution to deal effectively with this issue. The Ministry indicated the province has had ongoing discussions with the federal government regarding the pending decline in federal funding. However, there has not been any commitment from the federal government to renew the funding and the Ministry had not developed a contingency plan to address this situation.

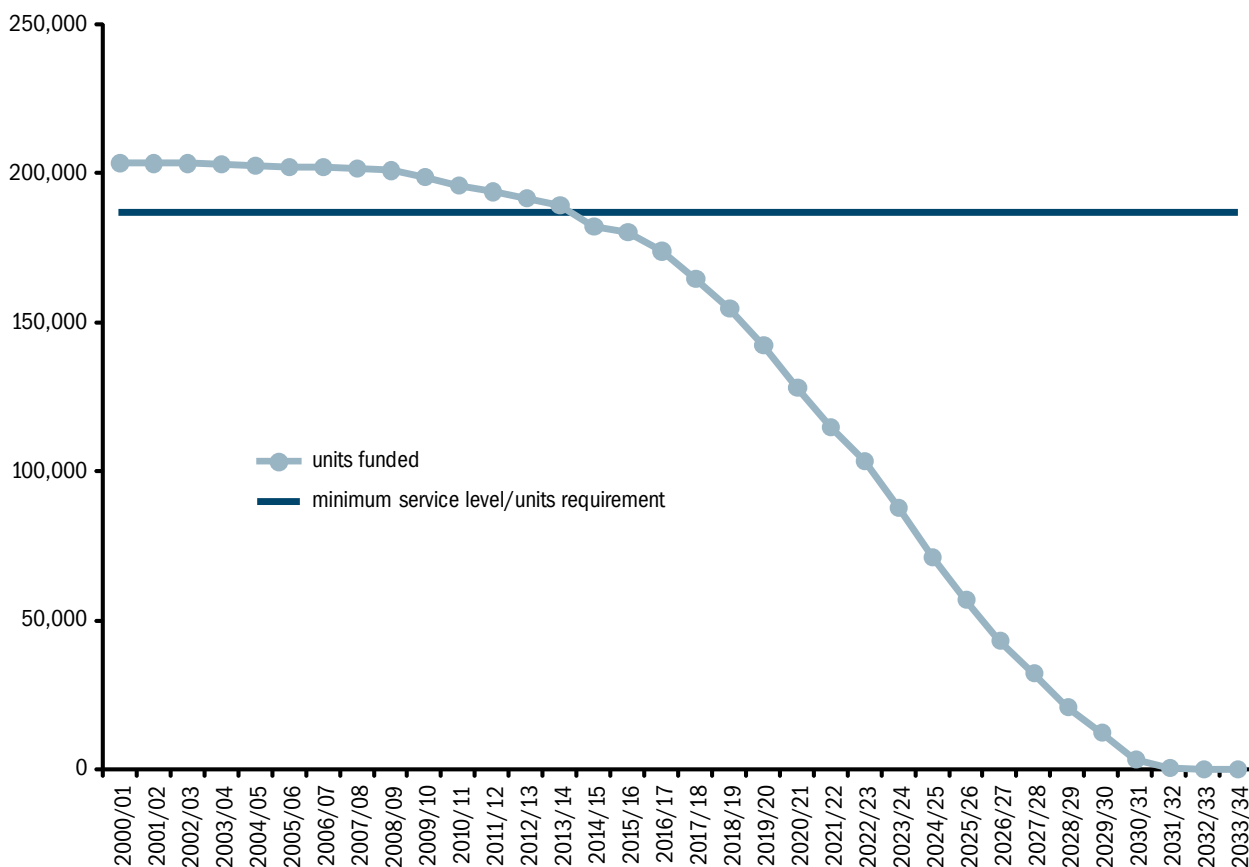
With respect to the provincial requirement for maintaining the prescribed minimum number of housing units, Service Managers indicated that the numbers were imposed by the province at the time responsibility for social housing was handed over to municipalities to protect the level of existing housing stock. Some Service Managers said that both the number and composition of housing units has never reflected the demographics and housing demand of municipalities, particularly as it has been nine years since the province downloaded this responsibility.

Service Managers also noted a difference between what the federal government transferred to the province under the Agreement and what the Service Managers received from the province, even though the Agreement stipulates federal funding must be used for eligible housing programs.

Our analysis of data supplied by the Ministry for the years 2000 to 2008 indicated that the federal government forwarded about \$4.8 billion

**Figure 2: Expiry of Funding Agreements with Federal Government for Social Housing, 2000/01–2033/34 (Units)**

Source of data: Ministry of Municipal Affairs and Housing



to Ontario for social housing during that period. Of that, approximately \$3.8 billion was allocated to Service Managers and their predecessors in the period before devolution took full effect in 2001 for eligible programs under the Agreement. Another \$414 million was allocated to other provincial and municipal social housing programs under the Agreement. For the remaining federal transfer of about \$620 million, ministry figures show:

- Approximately \$290 million was allocated to another provincial social housing program; and
- The province withheld \$330 million, of which it designated \$198 million—\$22 million a year for nine years—as what it called a “provincial constraint.” The Ministry was unable to provide support that this and the remaining \$132 million were spent on housing.

The Ministry explained that Service Managers’ social housing expenditures and not just those of the province were counted towards fulfilling the Agreement’s term that federal funds be spent only on eligible social housing programs. As long as the combined annual social housing expenditures of the Ministry and Service Managers exceeded the total federal transfer, the Ministry considered itself to be in compliance with the Agreement. The Ministry indicated that its legal counsel had confirmed that there were no legal concerns about this arrangement.

Nevertheless, we noted that although the \$3.8 billion transfer to Service Managers was published in the Ontario Gazette, the Ministry had not disclosed the use of the remaining federal funds. Therefore, Service Managers generally were not aware of the portion of federal funds spent on other housing programs. Consequently, they questioned

the difference between what the federal government transferred to the province and what they actually received.

## RECOMMENDATION 4

To mitigate the possible impact of continuing decreases in federal funding on the supply of social housing, the Ministry of Municipal Affairs and Housing should:

- develop a plan for options, should negotiations with the federal government for continued funding for the social-housing portfolio be unsuccessful;
- work with Consolidated Municipal Service Managers on alternatives to the current system of maintaining the required number of housing units with an aim to better match the supply of social housing to the demand in each municipality;
- review its current methodology to ensure funding allocations are fair and federal funds are spent on eligible housing programs; and
- provide a full and public accounting of how all federal funding provided for social housing was spent.

## MINISTRY RESPONSE

The Ministry, in co-operation with other provinces and territories, continues to raise this issue with the federal government.

The consensus recommendations of the Provincial–Municipal Fiscal and Service-Delivery Review have supported the local responsibilities for social housing. Once expenditures identified to be transferred to the province have been implemented, municipalities will have \$1.2 billion a year in net benefits so that they can respond to social housing and other local priorities.

The Ministry will work with service managers to support them in understanding the levels of discretion they currently have to change the composition of social housing units

with their existing funding, and still meet their service standards requirement under the *Social Housing Reform Act, 2000*.

The Ministry will review its current methodology for federal funding allocations, including principles of fairness. We are consulting on a long-term affordable housing strategy that could include future funding relationships.

The Ministry currently provides accounting of its revenues and expenditures according to the Printed Estimates and Public Accounts process, and reports annually to the CMHC on how the federal funding received by the province under the Social Housing Agreement is spent. The Ministry will consider how best to provide further information on how federal funding received under the Agreement is spent.

## RECENT FUNDING INITIATIVES

In partnership with the federal government, the province recently began to provide Service Managers with funding for new housing programs. We noted that the Ministry had sufficient controls in place to ensure Service Managers complied with the requirements of these new programs, but we found there was little information or front-end analysis in place to assess these new funding initiatives and ensure they would have the desired impact on social housing. There were, for example, no business cases that detailed all the costs and benefits of the new programs. In addition, there were virtually no accountability or reporting requirements for measuring the impact of funding provided. The following are some examples from our review of some of the new programs.

### Delivering Opportunities for Ontario Renters [DOOR]

DOOR was a one-time, \$127-million capital grant program to Service Managers in the 2006/07 fiscal

year to support the delivery of housing for low-income households. Grants were made without condition or reporting requirements, leaving the Ministry unable to determine whether funds were being spent fulfilling the most critical social housing needs.

### Social Housing Capital Repairs

In its 2008 budget, Ontario announced investments in municipal infrastructure that included \$100 million to address urgent capital-repair needs of the social housing stock. However, as the Ministry had no information on the condition of the social housing portfolio, allocations were made in the 2007/08 fiscal year based on each Service Manager's proportion of units in the social housing portfolio rather than on actual need for capital repairs as determined by ongoing condition assessment and sound asset-management practices.

### Affordable Housing Programs

The CMHC defines households as being in core housing need if their dwelling falls below certain standards of adequacy, suitability, or affordability, which is defined as rent not exceeding 30% of gross total household income. In 2002, the Ontario government introduced the Canada–Ontario Affordable Housing Program (Program) in partnership with the federal and municipal governments. The Program, intended to create more than 18,000 units of affordable housing for households on social housing lists, or those eligible to be on such lists, included several components and had a total funding commitment of \$624 million as of March 31, 2009. The federal government contributed \$348 million of the total while the province contributed the remaining \$276 million. New affordable housing would be created primarily through construction of new rental units, home ownership, and through rent supplements to landlords. In Northern Ontario, funds would also be available to assist with home repairs. Our audit focused on two

components of the Program, as described in the following sections.

#### Rental and Supportive Program

The Rental and Supportive Program (Program) was intended to promote construction of new rental units for low- to moderate-income households by providing up to \$70,000 per unit. Currently, a federal contribution of up to \$26,600 per unit was to cover capital costs primarily, while the provincial contribution of up to \$43,400 per unit would pay mortgage and operational costs so as to keep rents affordable for 20 years. As of March 2009, commitments to the Program were about 10,000 units costing \$498 million.

Under the Program, housing providers would for 20 years charge affordable rent, defined as 80% of the average market rent as determined each year by the CMHC. Service Managers were required to establish maximum income levels under which households qualify for these units, along with a process for verification of tenant incomes.

According to Program guidelines, rental-housing-unit allocations were determined using a formula that took into account core housing needs and population growth. In addition, Service Managers were required to submit for the Ministry's approval a Housing Delivery Plan that addressed areas such as the housing groups to be targeted, eligibility criteria, and the strategy for take-up and delivery of the units. This was a good basis for making such allocation decisions and we found that the proposed Housing Delivery Plans contained comprehensive information on the municipalities' housing projects and their strategy. However, other than a checklist, there was no evidence that the Ministry had evaluated the Housing Delivery Plans and used the excellent information contained within to make their allocation decisions.

In addition, Service Managers had to report on their projects annually—but the only information required of them was the number of units occupied, and assurances that they were charging 80% of



average market rent for the units. They were not required to report on their success in meeting Program objectives or their Housing Delivery Plan. As well, the Ministry had not ensured that Service Managers submitted reports on a timely basis as required.

We noted that the Program objective of achieving 80% of the CMHC's average market rent for new units would be met, and that the overall supply of affordable housing did increase. However, many people on the waiting list could not afford the rent. The CMHC definition of affordable housing stipulates that households should not have to pay more than 30% of their pre-tax income on rent. We determined that more than half of the units in this Program would still be unaffordable for households on waiting lists, or eligible to be on the lists. For example, the average income of households on the waiting list in 2008 was \$15,000, putting their maximum affordable rent at \$375 a month. Our analysis showed that average rent for the new units was \$715 per month, meaning that households would need incomes of at least \$29,000 annually (on average) to consider these units affordable. The program may therefore assist moderate-income households but will do little for low-income households.

### Housing Allowance/Rent Supplement Program

The Housing Allowance/Rent Supplement Program (Program) was established in 2005 to help bridge the gap between the rent that a household can afford and the actual market rent. This program was intended for lower-income households on, or eligible to be on, the waiting list. All funding for the program was provided by the federal government, which originally committed \$80 million for 5,000 units to be paid out in five-year agreements spanning the years 2005 to 2013. However, by March 2008, the deadline for committing to new agreements, the take-up had been just \$57 million and 3,721 units.

Service Managers attributed the relatively low participation level to concerns with the Program's

design. For example, they cited the fact that under the Program, the agreements could last just five years and apply only to vacant units. That left prospective tenants facing the expense of having to move again in five years when the subsidy ran out. Service Managers said they would have preferred the supplements be provided to households for existing units rather than require them to move to vacant units.

## FUTURE FUNDING INITIATIVES

In addition to the above recent funding initiatives, in March 2009, as part of the federal-provincial economic stimulus package, both levels of government announced an increase in their investment in social and affordable housing of more than \$1.2 billion over the next two years, to be funded equally by the two levels of government. As indicated earlier, the Ministry's efforts had focused on ensuring Service Managers complied with program requirements. It had not established and dedicated staff resources toward monitoring the success of its funding programs in achieving their desired impact. Improvements to the Ministry's system of monitoring funding programs are needed to ensure these funds are spent cost-effectively.

## RECOMMENDATION 5

To ensure that funding provided achieves the desired social housing impact, the Ministry of Municipal Affairs and Housing should require that:

- each new funding program is supported by a detailed business case; and
- adequate accountability mechanisms for reporting on the results achieved by Service Managers for the funds provided be put in place for all funding programs.

In addition, the Ministry should make any necessary changes to ensure it has the resources and organizational capacity to properly monitor

the effectiveness of funding it provides to Service Managers.

### MINISTRY RESPONSE

The Ministry is required to submit a business plan to Treasury Board as part of its requests for program funding. It will review its current practice in developing business cases, to identify and implement any improvements as may be required to ensure a detailed business case is developed for each funding program.

The Ministry will review the existing accountability mechanisms established for

reporting on results by municipalities. Where adequate accountability mechanisms are lacking, the Ministry will work with them to ensure they are in place.

The Ministry recognizes the need to review its resources and organizational capacity in light of the recent funding initiatives and directions provided under the Provincial–Municipal Fiscal and Service-Delivery Review. The Ministry will assess its current resource requirements to undertake its obligations and monitor the effectiveness of funding provided to Service Managers.