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## MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING

### 4.11–Non-Profit Housing–Capital Reserves

(Follow-up to VFM Section 3.11, 1999 Annual Report)

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#### BACKGROUND

At the time of our 1999 audit, the Ministry of Municipal Affairs and Housing was responsible for administering the province's social-housing programs, including the non-profit housing program. Since January 1, 1998, municipalities have been responsible for funding the costs of social housing programs. Under the *Social Housing Reform Act, 2000*, the Ministry transferred all 84,000 units of public housing to municipal service managers on January 1, 2001.

Under operating agreements with each provider, the Ministry required a portion of the annual operating subsidy to be contributed to a separate capital reserve fund established by the provider. At the end of 1998, non-profit housing providers held capital reserves estimated at \$340 million. As of March 31, 1999, the province's share of mortgage guarantees on non-profit housing properties totalled about \$7.5 billion. These guarantees remain the responsibility of the province.

In our 1999 audit, we concluded that the Ministry had not taken sufficient action to ensure that non-profit housing providers prudently managed their capital reserve funds and properly maintained their assets. We were particularly concerned that many non-profit housing providers:

- had not prepared and followed preventive-maintenance plans and long-term capital plans that are based on competent assessments of the condition of their assets; and
- had not pooled capital reserve funds or employed other investment strategies to improve by millions of dollars the income earned on reserve funds and to reduce the incidence of borrowing from reserve funds for operating purposes.

The Ministry agreed with our recommendations and indicated that it would encourage and assist providers to better manage their assets and capital reserve funds using approaches acceptable to providers and to municipalities.

In 2001, implementation plans were developed for the transfer of responsibility for the remaining social-housing programs, including federal programs, to 47 service managers (Consolidated Municipal Service Managers or District Social Service Administration Boards). Transfer is to be completed by June 30, 2002. By then, municipalities will be accountable for all social-housing programs. The province will continue to manage the relationship with the federal government. The province's other responsibilities will include setting standards to ensure service levels are maintained; ensuring basic rules regarding eligibility and benefits for individuals are fair and consistent across the province; and administering supportive housing in buildings where all the units are for persons with special needs.

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## CURRENT STATUS OF RECOMMENDATIONS

Based on information that we received from the Ministry of Municipal Affairs and Housing, the Ministry has taken some action to address a number of the recommendations we made in our 1999 report. The current status of each of our recommendations is outlined below.

### ***MONITORING PROVIDER PERFORMANCE AND COMPLIANCE***

#### **Recommendation**

*To better ensure that non-profit housing providers are in sound financial condition and are complying with their operating agreements and related directives, the Ministry should use available information to track the progress of regional offices in addressing identified non-profit housing provider deficiencies.*

#### **Current Status**

The Ministry indicated that while efforts have been made to effect changes in the non-profit housing information system, they proved to be expensive and impractical given other priorities, such as the transferring of public housing to municipalities and year-2000 compliance. However, to the extent that the necessary information can be easily extracted from the existing system, the Ministry intends to track the progress of regional offices in addressing identified deficiencies. As well, the Ministry intends to:

- continue to monitor serious problems with providers through the Projects in Difficulty tracking process and ongoing operational reviews;
- establish policies and procedures for risk management and recommend a process for dealing with projects with serious problems; and
- continue to develop a process for a risk-management centre.

### ***ESTABLISHING CAPITAL PLANS AND PRIORITIES***

#### **Recommendation**

*To ensure that capital reserve funds meet priority needs and are spent prudently, the Ministry should:*

- *require non-profit housing providers to prepare multi-year capital plans based on reliable assessments of the condition of their properties; and*
- *provide clear direction to non-profit housing providers on good practices for establishing capital expenditure priorities and for preparing business cases to justify major capital expenditures.*

#### **Current Status**

The Ministry indicated that it fully supports this approach and agrees that multi-year capital planning, prioritization, and business cases are good practices. In that regard, the Ministry stated that it has decided to:

- Establish a framework for best practices and benchmarking costs and revenues, to be implemented beginning in 2002. The cost and revenue benchmarks are to be used by non-profit providers as part of the reform of the programs established in the *Social Housing Reform Act* and will establish the level of funding for housing providers.

- Include best practices for capital-reserve management in its benchmarking and best practices framework. The Ministry is working with housing providers and service managers on the development of a best practices Web-based tool to assist housing providers to efficiently manage their projects.
- Include best practices on capital reserve planning in its guide to the reformed operating framework.
- Link the Provincial Auditor's recommendation to the proposed program reforms currently being assessed and analyzed by the Ministry.

The Social Housing Services Corporation (SHSC) will be responsible for the development of investment policies to be followed by housing providers and the development and delivery of information and training on best practices on capital reserve planning and budgeting.

The Ministry commissioned an independent study to review the adequacy of reserve funds and to make recommendations for improving housing providers' capital-planning and reserve-fund management. The Ministry received preliminary results from this study that confirm the need to improve capital-planning and maintenance practices. The report was expected before the end of 2001.

## **INVESTMENT OF CAPITAL RESERVE FUNDS**

### **Recommendation**

*To improve investment returns on capital funds and thereby reduce the need for additional future government funding for capital improvements to non-profit housing stock, the Ministry should, as soon as possible:*

- *require non-profit housing providers not already doing so to pool their capital reserve funds and to have them professionally managed; and*
- *encourage non-profit housing providers to use capital plans for cash flow projections of future capital outlays to help optimize the mix of investments and maturity available to them.*

### **Current Status**

We were advised by the Ministry that pooling of capital reserve funds will be mandatory under the *Social Housing Reform Act* and that a directive was issued in November 1999 reminding non-profit housing providers of the ministry policy regarding investments. The directive required that the providers examine their investments and their investment strategies and give consideration to preparing a capital plan for expenditures from reserves. The Ministry indicated that it was engaging a consultant to assist in establishing the pooling system for investing capital replacement reserves.

## **UNAUTHORIZED USE OF CAPITAL RESERVES**

### **Recommendation**

*To reduce the incidence of borrowing from capital reserve funds which will jeopardize the ability of non-profit housing providers to pay for future capital repairs, the Ministry should:*

- *more thoroughly assess the underlying reasons why non-profit housing providers have borrowed from and not restored their capital reserve funds; and*

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- *ensure that non-profit housing providers that have borrowed from their capital reserves develop and implement appropriate plans for restoring the reserve funds as quickly as possible.*

### **Current Status**

The Ministry engaged a consultant to review the procedures used by regional offices to identify and deal with providers with underfunded capital reserves. Guidelines were developed for use by the regional offices to assist in developing strategies and repayment plans for projects that have deficits and underfunded capital reserves. We were advised by the Ministry that it had implemented a tracking-and-reporting system based on the recommendations in the consultant's report.

## **PREVENTIVE MAINTENANCE AND INSPECTION**

### **Recommendation**

*To better ensure that non-profit housing providers properly maintain the condition of their properties and avoid costly, premature, major repairs or replacements, the Ministry should:*

- *re-emphasize the expectations under the operating agreement for non-profit housing providers to institute standards and practices that preserve their properties, including preventive-maintenance programs;*
- *provide further guidance to non-profit housing providers on best practices such as the checklist for roof inspection and maintenance developed by the Ontario Housing Corporation; and*
- *ensure that any technical audits conducted on non-profit housing providers assess and report on compliance with the Ontario Fire Code.*

### **Current Status**

The Ministry indicated that, since the 1999 audit, it has:

- Reiterated to housing providers the need for preventive maintenance programs through regular operational reviews by its regional offices. The November 1999 Directive on Capital Reserve Funds, which encourages providers to prepare a capital plan for expenditures from reserves, had been implemented.
- Continued to direct housing providers to available resources on preventive maintenance. Those include Ontario Housing Corporation maintenance manuals and housing-sector-association training materials.
- Given housing providers tools, including fire-safety plans and information from the Office of the Fire Marshall, to keep track of whether they are meeting their obligations for checking equipment and maintaining fire standards.