
MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING AND ONTARIO HOUSING CORPORATION

Rent Supplement Programs

The Ministry of Municipal Affairs and Housing has overall responsibility for the administration of social housing programs which were designed to increase the supply of affordable housing in the province. These rental housing supply programs fall broadly into three categories: non-profit housing programs, government-owned housing operated by Ontario Housing Corporation (OHC) and rent supplement programs, which are administered by both the Ministry and OHC.

Under the rent supplement programs, a subsidy is provided to allow tenants to live in accommodation owned by private landlords and certain non-profit and cooperative housing groups. Under a global operating agreement, OHC and Canada Mortgage and Housing Corporation (CMHC) share the cost of subsidizing about 85% of the more than 21,300 units available under various rent supplement programs. The other 15% are subsidized solely by OHC.

Through its network of 54 local housing authorities (LHAs), OHC works closely with the private sector to make suitable accommodation available for households and individuals who qualify for housing assistance. Qualified candidates selected from LHA waiting lists sign a letter of agreement with the LHA to receive suitable subsidized accommodation for as long as they remain eligible under the programs. Subsidized tenants also sign a lease with the landlord requiring them to pay their portion of the rent, as calculated by OHC, directly to the landlord.

Under the terms of a rent supplement agreement, a landlord must provide a specified number of rent supplement units for which OHC pays the landlord the difference between the geared-to-income rent and the rent negotiated with the landlord.

The Ministry's regional offices oversee certain CMHC-supported non-profit and cooperative housing groups that provide rent supplement units. Unlike programs involving private landlords, these groups have been delegated responsibility for determining eligibility and geared-to-income rents for their rent supplement tenants and are required to fill only one half of their rent-supplement-unit vacancies with candidates from the LHAs' waiting lists.

The following charts summarize the number of units and total expenditures for each of the rent supplement programs administered by the LHAs and regional offices for the last two years.

Rent Supplement Units and Expenditures

Program and Share of Subsidy (fed/prov)	Units Under Subsidy		OHC Expenditures for the Years Ended December 31, 1996 and 1997*					
			Federal Share \$000s		Provincial Share \$000s		Total \$000s	
	1997	1996	1997	1996	1997	1996	1997	1996
<i>Administered by LHAs</i>								
Commercial (50/50)	10,244	10,852	26,650	27,962	26,649	27,962	53,299	55,924
Federal/Provincial (60/40)	1,635	1,735	6,308	6,605	4,206	4,403	10,514	11,008
Provincial (0/100)	3,160	3,440	—	—	20,900	24,205	20,900	24,205
<i>Administered by Regional Offices</i>								
Community Sponsored (50/50)	4,362	4,362	11,537	11,339	11,537	11,339	23,074	22,678
Cooperative Tenure Support (60/40)	1,920	1,920	6,417	6,389	4,278	4,259	10,695	10,648
Total Rent Supplement	21,321	22,309	50,912	52,295	67,570	72,168	118,482	124,463

	Units Under Subsidy		Ministry Expenditures for the Years Ended March 31, 1997 and 1998					
			Federal Share \$000s		Provincial Share \$000s		Total \$000s	
	1998	1997	1998	1997	1998	1997	1998	1997
Ontario Community Housing Assistance Program (OCHAP) — See Note**	3,928	3,928	—	—	12,568	14,687	12,568	14,687

Sources: Ontario Housing Corporation, Resource Planning and Budget Management Branch, and Ministry of Municipal Affairs and Housing

- * Included in the OHC expenditures are administrative costs of \$3.8 million for 1997 (\$3.9 million for 1996). On a per-unit per-month basis, rent subsidies averaged \$431 in both 1996 and 1997.
- ** Note: This program is considered a non-profit housing program for administrative purposes and, therefore, an expenditure of the Ministry. Rent subsidies are provided entirely by the Ministry through its regional offices and have been included in our audit scope. CMHC subsidizes the annual operating costs of these non-profit and cooperative housing groups in the amount of 2% of each project's original capital cost.

In 1994, OHC began terminating all agreements with landlords under the provincial program, and individual units are being terminated as tenants move out. In 1996, this constraint strategy was extended to the cost-shared programs but was suspended in 1997 pending the outcome of federal-provincial negotiations on social housing programs. Nevertheless, where landlord agreements had terminated, cost-shared units were also being terminated as tenants move out.

In January 1997, Cabinet announced its intention to devolve the principal role in the funding and administration of social housing, including rent supplement programs, to municipalities. Cabinet approved a three-stage devolution strategy which included:

- funding transfer as of January 1, 1998;

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- approval for the reform and devolution of social housing administration by the summer of 1998; and
 - full implementation by January 1, 2000.

To reduce any risk to taxpayers and other program stakeholders that may arise from this transfer of responsibilities, the Ministry and OHC need to ensure that programs are being satisfactorily administered before devolution is fully implemented.

OBJECTIVE AND SCOPE

Our audit objective was to assess whether the Ministry and OHC had satisfactory systems and procedures in place to manage rent supplement programs economically, efficiently and in compliance with requirements, including procedures to measure and report on program results.

Our assessment was based on audit criteria which management agreed were appropriate for cost-effective administration of rent supplement programs. Principally, it is important for management to ensure that:

- subsidies are provided only to eligible households and in the amounts to which these households are entitled;
- equitable tenant placement procedures are established and adhered to;
- rents paid to landlords do not exceed legal and market rents; and
- landlords comply with the terms of their rent supplement agreements.

Our audit was conducted in accordance with professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Specifically, our audit included work at OHC's head office, as well as at four local housing authorities and three ministry regional offices which together administered the majority of rent supplement units. We also surveyed the practices followed by most other local housing authorities and regional offices that administer rent supplement units. Our work was conducted from September 1997 to February 1998 and focused primarily on activities occurring in 1997.

We reviewed related audit work recently completed by the Ministry's Audit Services Branch and used it to ensure that our audit avoided any duplication of effort and addressed important issues raised in its reports.

Financial controls over the payment of and accounting for rent subsidies and related administrative costs are examined each year as part of our audit of the financial statements of OHC. We have reported separately to the OHC board on those financial statements. Control matters that arose from the financial statement audit were communicated to management.

OVERALL AUDIT CONCLUSIONS

We concluded the Ministry and OHC should take action to ensure that rent supplement programs are delivered more economically, efficiently and in compliance with requirements. Procedures to measure and report on results also required improvement. Such actions include:

- strengthening local oversight and reporting responsibilities for the programs before transferring program delivery responsibilities to municipalities;
- including the plans and results of rent supplement programs in published Business Plans and annual reports;
- making greater use of income tax information to verify subsidy entitlements and amounts;
- monitoring by regional offices for compliance by non-profit and cooperative housing groups with agreement requirements for eligibility, tenant selection and rent determination;
- obtaining information from the Ministry of Community and Social Services to help determine the continuing eligibility of tenants for rent subsidies as well as the appropriateness of rent subsidy amounts;
- negotiating with stakeholders the removal of program and agreement restrictions that limit the ability of LHAs to reduce rent subsidies through more rigorous negotiation of rents with landlords; and
- using sanctions in cases where landlords fail to address orders to comply with the *Ontario Fire Code* and maintenance requirements.

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Overall Ministry/Corporation Response

The government devolved the financial responsibility of the former provincial subsidy for social housing to municipalities as of January 1, 1998. In preparation for the transition to local administration, the Ministry has committed to reforming social housing programs, although no final decisions have yet been made. In the current transitional state, it may be premature to undertake any major program review or change before the direction of the program review is known. As well, Ontario Housing Corporation must operate the program within the provisions of the Canada/Ontario Global Agreement.

Nevertheless, the Ministry and the Ontario Housing Corporation will move forward on improvements to the administration of the rent supplement program, and will continue to exercise due diligence in its responsibilities.

Ontario Housing Corporation, for example, has several initiatives under way, such as benchmarking and sharing of best practices in other business areas, and will include the rent supplement program in these initiatives where possible.

DETAILED AUDIT OBSERVATIONS

PROGRAM ACCOUNTABILITY AND RESULTS REPORTING

As stated earlier, responsibility for administering federally cost-shared rent supplement programs has been delegated to the province under agreements with Canada Mortgage and Housing Corporation. Provincial administrative responsibility is split between the Ministry's regional offices, which deal with non-profit and cooperative housing groups, and OHC's local housing authorities, which deal with private landlords.

The variety of programs and division of responsibilities between governments and organizations has made the delivery of rent supplement programs complex and accountability for programs more difficult to establish. We noted the following gaps and anomalies in the programs' management and reporting structure that need to be addressed before administrative responsibilities are transferred to municipalities:

- For budgetary and financial reporting purposes, all rent supplement expenditures were reported by OHC except OCHAP rent subsidies, which were included in the Ministry's non-profit housing program expenditures. However, while the Ministry's 1997/98 Business Plan included targets related to subsidies on OHC's own properties, it did not mention rent supplement programs.
- Budgets and financial results for programs administered by LHAs were prepared and reported to the OHC board but not to the local boards. Local governing boards had no real oversight role for the programs although their staff had most of the administrative responsibility. They or their successors will have even more responsibility when the devolution to municipalities has been fully implemented.
- While financial reporting and policy setting was centralized, procedures were not sufficient to ensure that LHAs and regional offices complied with policies or to identify and communicate better practices. We noted some inconsistencies and deficiencies in the procedures followed by LHAs in delivering programs, including income verification efforts, rent negotiations, unit inspections and tenant placement practices. We also found inconsistencies and deficiencies in procedures followed by regional offices to ensure that non-profit and cooperative groups complied with their rent supplement agreements. These inconsistencies and deficiencies are discussed in greater detail in later sections of this report.
- Administrative costs for the programs were not monitored separately from other LHA administrative costs, and the method of allocating costs resulted in wide variations in per-unit costs. Among LHAs with significant numbers of rent supplement units to administer, costs allocated ranged from \$50 to \$376 per unit in 1997. Consequently, economic and efficient delivery of the programs was difficult for management to benchmark and track.

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Recommendation

To strengthen accountability for the economical and efficient delivery of rent supplement programs before administrative responsibility is transferred to municipalities, the Ontario Housing Corporation should ensure that:

- plans and results for rent supplement programs are included in the combined Ontario Housing Corporation/ministry Business Plan and annual report each year;
- approved policies and procedures as well as better practices in program delivery are followed by local housing authorities and ministry regional offices;
- business planning and reporting processes consolidate locally the activities and results of all rent supplement programs delivered by both local housing authorities and ministry regional offices; and
- administrative costs are consistently accounted for and benchmarked to allow them to be meaningfully assessed and compared.

Ministry/Corporation Response

- *Ontario Housing Corporation and the Ministry will examine the feasibility of including plans and results for the rent supplement program into their Business Plans and annual reports.*
- *Ontario Housing Corporation will review its mechanisms for communicating approved policies and procedures and best practices to ensure they are timely and effective.*
- *Ontario Housing Corporation will incorporate the rent supplement program in its business planning and reporting processes. In consultation with the Ministry, Ontario Housing Corporation will consider the feasibility of consolidating local and regional activities and results for all rent supplement programs.*
- *The Ministry has incorporated operational review targets in Business Plans and performance agreements and will establish processes to monitor results.*
- *Currently, rent supplement administrative overhead is accounted for by most housing authorities as a formula-driven proportion of budget. A review of how administrative costs are allocated will be done. Ontario Housing Corporation will also consider rent supplement costs as part of its benchmarking initiative.*

ELIGIBILITY AND RENT DETERMINATION

PROGRAMS ADMINISTERED BY LOCAL HOUSING AUTHORITIES

Eligibility criteria for obtaining housing are the same for all applicants regardless of whether they are to be placed in units owned by OHC or in rent supplemented units owned by private landlords. Applicants must be over 16 years of age, permanent residents of Canada and in need of housing in Ontario. LHAs determine eligibility, select tenants as units become available, calculate tenant rents and subsidies, and verify household incomes annually.

Our testing of applicant eligibility and methods of tenant selection at the LHAs we visited revealed that satisfactory procedures were in place and that the LHAs were complying with the procedures in all significant respects. Apart from a few minor exceptions, rent calculations were being performed in accordance with established procedures.

Tenant incomes are verified annually to determine both subsidies and rents to be paid by the tenant. In August 1997, the OHC board resolved to require LHAs to use income tax information as part of the income verification process. However, some of the LHAs we visited and 72% of the larger LHAs we surveyed were not requesting tax information as part of the annual verification process. LHAs we visited expressed concern that requiring income tax information from each household every year was not practical or cost effective. One LHA we visited developed a risk-based approach to requesting tax information from households and had, over the last three years, detected several cases where tenants had misrepresented their income or circumstances.

Recommendation

To better ensure that rent subsidies are not higher than they should be because of undeclared income or inaccurate information provided by tenants, the Ontario Housing Corporation should establish a cost-effective approach to income verification that reflects better practices already in use at some local housing authorities, including the selective use of tax returns and assessments.

Corporation Response

The Ontario Housing Corporation will review its income verification practices with a view to implementing a more streamlined process for income verification in the local housing authorities, which will include the sharing of best practices among local housing authorities. This will be done in the context of social housing reform and local services realignment.

PROGRAMS ADMINISTERED BY REGIONAL OFFICES

Several non-profit and cooperative groups administered by the Ministry's seven regional offices receive operating subsidies exclusively from CMHC while the Ministry cost-shares and administers the rent supplement subsidy for an agreed-upon number of units owned by these groups. Responsibility for determining eligibility, rent calculations and income verification has been delegated to these groups. Groups are required to file audited financial statements annually with CMHC and with the Ministry's regional offices. Metro Region administers over 6,000 units, or about 60% of all units administered by the Ministry's regional offices.

COMPLIANCE REVIEWS

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Both CMHC and regional office staff visit these groups periodically to assess whether they have complied with their respective operating and rent supplement agreements. Regional offices we visited or contacted stated that they normally did not receive the results of reviews carried out by CMHC nor did they receive copies of any management letters issued by group external auditors following their annual audits.

Our review of files and discussion with regional offices revealed significant differences in the number and frequency of compliance reviews carried out. In one office we contacted, for example, staff conducted compliance reviews of all groups over a three-year cycle while, in another office, staff conducted reviews only when they received complaints about a particular group. Still another office conducted reviews only when the rent supplement agreement was up for renewal, which could be as infrequently as once every 15 years for some groups.

Of the programs administered by regional offices, the Ontario Community Housing Assistance Program (OCHAP) administered by non-profit housing program staff had been subject to compliance reviews that were sufficiently frequent and comprehensive to effectively monitor whether groups were complying with the terms of their agreements. However, compliance reviews were less frequent for the Cooperative Tenure Support and Community Sponsored Housing rent supplement programs. As a result, regional offices had less assurance that groups funded under these programs were in compliance with the terms of their rent supplement agreements.

Our examination of files confirmed the importance of compliance reviews. For example, the Metro Regional Office, which was the most diligent of the regional offices we visited in conducting compliance reviews, discovered problems in several of the projects reviewed in 1997. On our visits to a sample of projects in each region that had not recently been visited by ministry staff, we found similar problems, including weaknesses in income verification, rent calculation errors resulting in subsidies that were higher than necessary, and some tenants occupying more spacious accommodation than they were entitled to. Only one group visited was using tax information to verify tenant incomes.

Two notable examples also came to our attention. A group funded under the Cooperative Tenure Support Program that had not been visited for years by the Central Regional Office was recently discovered by CMHC staff to have had several problems, such as not carrying out income verifications of tenants and receiving rent subsidies for units long after the occupants had moved out. Another group under this program had experienced severe vacancies and had

allowed subsidized tenants to occupy larger units than they were entitled to. A property management firm had to be hired to rectify the problems.

COMPLIANCE WITH TENANT SELECTION REQUIREMENTS

Rent supplement agreements call for at least half of all vacancies in units subsidized under these programs to be filled from LHA waiting lists. However, the majority of groups we visited in three regions filled most of their vacancies from their own waiting lists. For example, we reviewed placements made in 1997 by groups we visited in the large Metro Region and found that 83% of placements reviewed were made from the groups' own waiting lists.

One project we visited had left 15 units vacant for periods of between 8 and 12 months over 1996 and 1997 rather than request referrals from the Metropolitan Toronto Housing Authority. Another project we visited with 55 rent supplement units had operated from January 1996 to August 1997 with only 60% of them occupied.

Although the Metropolitan Toronto Housing Authority was not providing a rent subsidy for these vacant units, applicants were not getting access to available accommodation. In Metro Region, compliance with tenant selection requirements is particularly critical because, as of December 1997, there were over 40,000 eligible applicants on the Region's Housing Registry, including many applicants in critical need. For example, over 100 applicants were victims of family violence.

Recommendation

To better ensure that non-profit and cooperative housing groups comply with their rent supplement agreements, the Ministry should:

- **ensure that the results of reviews conducted by Canada Mortgage and Housing Corporation and comments reported to such housing groups by external auditors are communicated to regional offices on a timely basis;**
- **develop a risk-based strategy that incorporates the information not currently obtained from external auditors and Canada Mortgage and Housing Corporation to plan and conduct compliance reviews for all rent supplement programs; and**
- **explore options for corrective action when groups fail to comply with important requirements of their agreements.**

Ministry Response

- ***The Ministry will get agreement from Canada Mortgage and Housing Corporation to share audit results with regional offices. Also, the Ministry will review its operating agreements with non-profit and cooperative housing groups regarding the issue of audit results, with a view to getting copies of reports directly from the groups' external auditors as well.***
- ***The Ministry will incorporate this information into developing a strategy for compliance reviews of rent supplement programs.***
- ***The Ministry will review program requirements and agreements with a view to developing additional remedies for non-compliance.***

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COORDINATION WITH THE MINISTRY OF COMMUNITY AND SOCIAL SERVICES

The Ministry of Community and Social Services, as part of its commitment to reform Ontario's welfare system, began several anti-fraud initiatives. The early results of one such initiative were published in October 1997.

In total, the Ministry reported that over 2,000 cases of the more than 18,000 cases they had completed investigating due to allegations received had resulted in a reduction or termination of assistance. Major categories of allegations reported and substantiated included undeclared spouses (42% of cases) and undeclared income sources (30% of cases).

Almost half of the households supported in private sector accommodation were receiving some form of social assistance in 1997. LHAs generally rely on the Ministry of Community and Social Services to verify the income and circumstances of social assistance recipients. It is therefore important that the details of confirmed cases of misrepresentation be shared with LHAs on a timely basis so that LHAs can determine any impact on rent subsidies.

Recommendation

To better ensure that households are not being over-subsidized, the Ontario Housing Corporation should establish information-sharing arrangements with the Ministry of Community and Social Services.

Local housing authorities should use the information to determine whether individuals who have been investigated and have had their social assistance terminated or reduced are also ineligible for rent subsidy or paying less rent than required.

Corporation Response

- ***Opportunities for sharing information have been under discussion with the Ministry of Community and Social Services. Information sharing is, however, restricted by the Freedom of Information and Protection of Privacy Act.***
- ***Coordination with both the Ministry of Community and Social Services and municipalities will be necessary as social assistance administration, including social housing programs administration, is being transferred to municipalities.***

NEGOTIATIONS AND AGREEMENTS WITH LANDLORDS

NEGOTIATION OF GUARANTEED RENTS

Rent negotiations with non-profit and cooperative groups are not administered by regional offices because market rents are negotiated by CMHC as the primary supporter of these

projects and are based on CMHC's own market research statistics. According to CMHC staff, rents are also monitored at the time of financial statement reviews to ensure that housing charges reflect market charges for similar types of accommodation.

Under the terms of the rent supplement agreement with a private landlord, the LHA and the landlord can annually renegotiate the full monthly rent for subsidized units to reflect the prevailing market for similar accommodation in the area.

However, a serious limitation with the design of rent supplement programs is that only the smaller federal/provincial program, which involves some 1,600 units, permits the replacement of one unit with another in the event that an existing unit must be terminated. This restriction limits the ability of LHAs to leverage negotiations with an existing landlord or to obtain cheaper or more suitable accommodation for tenants where choice exists in the market. Rent negotiations heavily favor landlords in such circumstances since the only alternative is to terminate needed units if the LHA is dissatisfied with rents or building conditions.

Even where cheaper or more suitable accommodation exists in a community, tenants cannot legally be required to move under the terms of their letters of agreement with the LHA. To strengthen their negotiating position, LHAs also need some flexibility to move tenants. This flexibility could be limited to specific circumstances to minimize inconvenience to tenants.

We understand that negotiations may resume with CMHC to transfer to the province the responsibility for administering all housing assistance programs in Ontario that CMHC administers. As a minimum, these negotiations need to achieve the flexibility to permit a terminated unit to be replaced and tenants to be moved if it is necessary or beneficial to do so.

In 1995, to overcome another limitation to effective rent negotiations, the Ministry drafted a new rent supplement agreement with a stronger arbitration clause which could be exercised in the event of a dispute over market rents. The previous agreement allowed either party to refuse rent adjustments without recourse to the other party.

However, because of the constraint strategy, LHAs were directed to implement the new agreements only in cases where they wished to reinstate a previously terminated agreement. Without wider use of the new agreements, LHAs in areas with sufficient rental housing choice and, therefore, competition to reduce rents, might be prevented from realizing savings during the negotiation process.

Our analysis suggested that savings from more rigorous rent negotiations are possible, if these program design and agreement restrictions are removed. Specifically, we compared the rents paid by large LHAs to local market averages published by the CMHC. Of the LHAs with significant numbers of rent supplement units, we identified five that had maintained their negotiated rents at or below market averages and seven that paid rents which significantly exceeded local averages despite area vacancy rates that supported sufficient choice and competition. If the published average market rents are indicative of the rents charged by properties comparable to those rented by the LHAs and LHAs had the freedom to negotiate with other landlords, then subsidies paid by some LHAs might be reduced by as much as \$3 million annually.

We also believe that further savings are possible from more rigorous rent negotiations even with existing restrictions. For example, in 36% of the properties we selected for rent reviews at the LHAs we visited, the guaranteed rent exceeded the market rent, which we determined by

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calling the property, surveying nearby properties and checking ads in local publications. We estimated that renegotiations to obtain current market rents in those properties would result in annual savings of approximately \$450,000. The rent supplement coordinators in the LHAs we visited indicated that local publications, rent rolls of buildings and rents of nearby buildings were all checked prior to negotiating rents with landlords. However, we could not determine whether such research was carried out for the properties we tested because it was generally not documented.

Recommendation

To ensure that guaranteed rents are at or below local market rents and to strengthen the local housing authorities' contractual position, the Ontario Housing Corporation should:

- **negotiate more flexible agreements so that, in limited circumstances, units can be replaced and tenants can be required to move;**
- **require local housing authorities located in areas where vacancy rates support sufficient choice and competition to negotiate for the new rent supplement agreement wording on renewal dates; and**
- **collect and share information on best practice approaches to negotiations with landlords and remind local housing authorities to document the results of their market research in preparation for negotiations.**

Corporation Response

- ***Unit replacement is limited under current federal-provincial agreements and provincial policy regarding new rent supplement units. The new federal-provincial agreement, once negotiated, is expected to enable the flexibility recommended.***
- ***Most agreements with landlords are worded so that they renew under the same terms and conditions, unless a new agreement is mutually agreed upon or either party serves notice of termination. Landlords must agree to changes to existing agreements.***
- ***Housing authorities will be directed to ensure full documentation of researched market rents.***
- ***Ontario Housing Corporation has several initiatives under way, such as benchmarking, in which sharing of best practices is included. We will include the rent supplement program in this where possible.***

PROPERTIES WITH HIGH SUBSIDIES

As of December 1997, four properties involving about 300 units in the rent supplement portfolios of two LHAs we visited significantly exceeded average rents for their areas because of the high quality of accommodation. These units were 100% subsidized by OHC. The agreements were originally entered into in 1989 and 1990, around the peak of the housing

market in the Greater Toronto Area. At the time the unit subsidies were much lower than those for newly constructed non-profit and cooperative housing projects.

Tenants in these four properties not only had high quality accommodation but also had access, at a nominal cost, to amenities not available to most other geared-to-income households. For example, many units included a washer, dryer, dishwasher, microwave and air conditioning, as well as access to a pool and sauna.

In 1994, OHC renegotiated many of the rents for these units and, as a result, reduced the monthly subsidy by \$116,000. Despite these efforts, at the time of our audit, monthly rents for these units ranged from \$900 to over \$1,300 for a two-bedroom apartment. The average monthly per-unit subsidy was over \$700 as compared to an average of \$431 for the entire rent supplement unit portfolio. For perspective, the high market rents for these units result in annual subsidies that are over \$1.3 million more than for units rented at Toronto market averages.

Also in 1994, as part of a cost constraint strategy, the OHC board resolved to terminate the agreements with the landlords and to reduce the number of subsidized units as tenants move out. Since 1994, about half of the units have been terminated. However, the existing letters of agreement with tenants cannot be cancelled as long as the tenants continue to qualify and comply with them. Few tenants willingly move from such superior accommodation.

As a minimum, rent determination policies could include a greater surcharge than currently exists for accommodation not available to the majority of geared-to-income tenants. This would be fairer, reduce the excessive subsidies and would still allow tenants to remain in these units if they are willing and able to pay the difference.

Recommendation

To further reduce rent subsidies and to ensure that all geared-to-income tenants are treated equitably, the Ontario Housing Corporation should consider the feasibility of introducing greater surcharges to the tenant portion of rents for units in properties offering superior accommodation.

Corporation Response

Ontario Housing Corporation is already considering ways to reduce subsidy on high-cost rent supplement units. Ontario Housing Corporation will review its utility charges and allowances used for rent-geared-to-income calculations, taking this recommendation into account. The strategies will have to be implemented within the limitations of existing agreements with tenants because most of these rent supplement units are being deleted as current tenants move out.

COMPLIANCE WITH LEGAL AND MAINTENANCE REQUIREMENTS

The rent supplement agreement stipulates that the landlord must keep the units and property in a good state of repair, clean and fit for habitation. The former *Rent Control Act* and the new *Tenant Protection Act* also contain provisions requiring landlords to properly maintain their properties.

Periodic inspections of units by LHAs help to ensure that maintenance requirements are being met by landlords. However, we found that some LHAs inspect all vacated units while others inspect units only if a complaint is received or if a landlord is claiming for damages.

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We noted examples of units not properly maintained in the rent supplement portfolio of the Metropolitan Toronto Housing Authority. The inadequate maintenance of units contributed to prolonged vacancies as prospective tenants continually refused these units upon referral. For example, one building with five vacancies received referrals ranging from four to nine candidates, depending on the unit. Comments resulting from candidate refusals included: “unit needed to be cleaned and repaired” to “unit not suitable.” Four of the five units were vacant for over three months before being rented to subsidized tenants.

Under the rent supplement agreement, landlords are entitled to receive the full negotiated rent from the LHA while units are vacant as long as the landlord does not unreasonably delay the notification of vacancy or the selection of an applicant. Although agreements allow for the suspension of subsidies when landlords are found not to be in compliance with the agreement, including maintenance standards, this sanction was not imposed by Metropolitan Toronto Housing Authority. Termination of the agreement was not considered because of the demand for affordable housing in the area.

LHAs did not routinely contact local municipalities’ building or fire departments to determine whether there were outstanding repair orders to rectify *Ontario Building Code*, *Ontario Fire Code* or property standards violations prior to renewing their agreements with landlords. LHAs we visited stated that municipalities were not required to disclose such information to them and were therefore reluctant to do so. Our own contact with two municipalities uncovered some buildings housing rent-supplemented tenants that had serious *Ontario Fire Code* violations.

Recommendation

To better ensure that landlords comply with the building maintenance requirements of rent supplement agreements, the Ontario Housing Corporation should:

- **apply a risk-based approach whereby, for certain properties, units are inspected every time a tenant is replaced or more frequently if deemed necessary;**
- **assist local housing authorities to obtain any information regarding landlord non-compliance with the *Ontario Fire Code* or the *Ontario Building Code* prior to renewing their rent supplement agreements; and**
- **suspend payments to landlords when maintenance standards have not been met.**

Corporation Response

- *Ontario Housing Corporation will review its inspection policy and procedures with a view to improving its effectiveness.*
- *Ontario Housing Corporation will work with local housing authorities to develop a strategy to obtain this information.*
- *Under the terms of the agreement with landlords, Ontario Housing Corporation will make every effort to enforce its agreement and ensure that the rent supplement landlords' buildings comply with maintenance standards and codes. This will include consideration of suspension of payment where there are outstanding work orders and codes are not being complied with.*