

Chapter 4

Department of Social Development CMHC Social Housing Agreement

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Department of Social Development CMHC Social Housing Agreement

Summary

Introduction

- 4.1 The purpose of this chapter is to inform the Legislative Assembly about our work on the Canada Mortgage and Housing Corporation (CMHC) Social Housing Agreement administered by the Department of Social Development (the Department) and to discuss the financial impact on the Province.
- 4.2 There are several reasons why we were interested in taking a closer look at the CMHC Social Housing Agreement (the Agreement) and its impact on the Province:
- the social housing stock in the Province is aging;
 - annual funding under the Agreement is declining; and
 - the cumulative surplus in the CMHC Special Purpose Account is beginning to decline.
- 4.3 We focused on the years ended 31 March 2008, 2009 and 2010.

Objectives

- 4.4 The objectives of our work were:
- *to prepare for the Legislative Assembly an analysis of the financial impact to the Province due to the decline of funding under the CMHC Social Housing Agreement; and*
 - *to assess whether the Department manages and administers the program in accordance with four key requirements (in clause 6 (b)) of the agreement related to managing and administering the portfolio.*
- 4.5 In relation to the second objective, the four key requirements we focused on were:
1. maintain and enforce the principles and the key elements for each program in the portfolio;

2. ensure that only targeted households are eligible to receive the benefit of CMHC funding;
3. set standards of housing affordability, suitability and adequacy; and
4. comply with all reporting requirements in this Agreement.

4.6 Ultimately, our concern is whether social housing programs will be viable when the Agreement expires in 2034: in other words, will there be enough money to provide and maintain social housing in the Province?

Highlights

4.7 Some of our comments and observations include the following:

- In 1997, the New Brunswick Housing Corporation (NBHC) and the Canada Mortgage and Housing Corporation (CMHC) signed an Agreement transferring control of existing federal social housing programs and properties to the Province.
- The Social Housing Agreement carries a number of risks:
 - i. The Agreement assumes a full federal withdrawal from funding social housing by 2034. Federal financial contributions will decline each year and disappear altogether in 2034.
 - ii. Until 2034, the CMHC federal contributions will decline and are not subject to adjustment. This leaves the Province exposed if costs increase due to inflation, interest rates or the impact of deferred maintenance.
 - iii. The liability for modernizing and improving the entire social housing stock rests with the Province.
 - iv. As part of the agreement, the Province must fully indemnify CMHC for all expenses and losses arising from the failure of a CMHC-insured social housing provider. The Province assumes full liability for project failures.
- New Brunswick currently has 13,157 social housing units throughout the Province.
- The average age of the units owned and managed by the Province (public housing and rural rental units) is 40 years.
- The number of clients on the waiting list for social housing has averaged 4,200 per year since 2007. It is greatest in New Brunswick's three largest cities (Saint John, Moncton and Fredericton).

- An October 2009 report by consultants hired by the Department assessed the overall condition of the social housing stock as being in “fair” condition, though they predicted that unless additional funds for maintenance were provided, the condition would fall to “poor” in 2012 and further deteriorate to “critical” in 2022. Recent renovations have extended the life of the properties by five years; overall condition will fall to “poor” in 2017 and “critical” in 2027.
- The consultants reported that “*the current annual funding level for facility renewal is inadequate for both the short and long term preservation of the building portfolio.*” They estimated that \$13 million is needed annually to maintain the buildings in fair condition; annual maintenance spending has been closer to \$3.7 million. The Department indicated there has been no commitment from the federal government to renew the funding once the Agreement expires. Department staff do not believe a new Social Housing Agreement is forthcoming. When coupled with an aging housing stock, and the liability to maintain it, the sustainability of social housing in New Brunswick is in question.
- When we spoke with Department personnel, we learned that as mortgages on the properties end, so does the subsidy or funding from CMHC. In time, public housing subsidies and rent supplements will be 100% funded by the Province (currently valued at \$41.8 million/year).
- By 2019-2020, social housing expenditures will exceed revenues by almost \$50 million/year, at a time when the Special Purpose Account, a reserve for the social housing Agreement, will be exhausted.

What We Found

- 4.8** Our observations, conclusions and recommendations for each of our two objectives are summarized in Exhibits 4.1 and 4.2.

Exhibit 4.1 Analysis of the Financial Impact to the Province

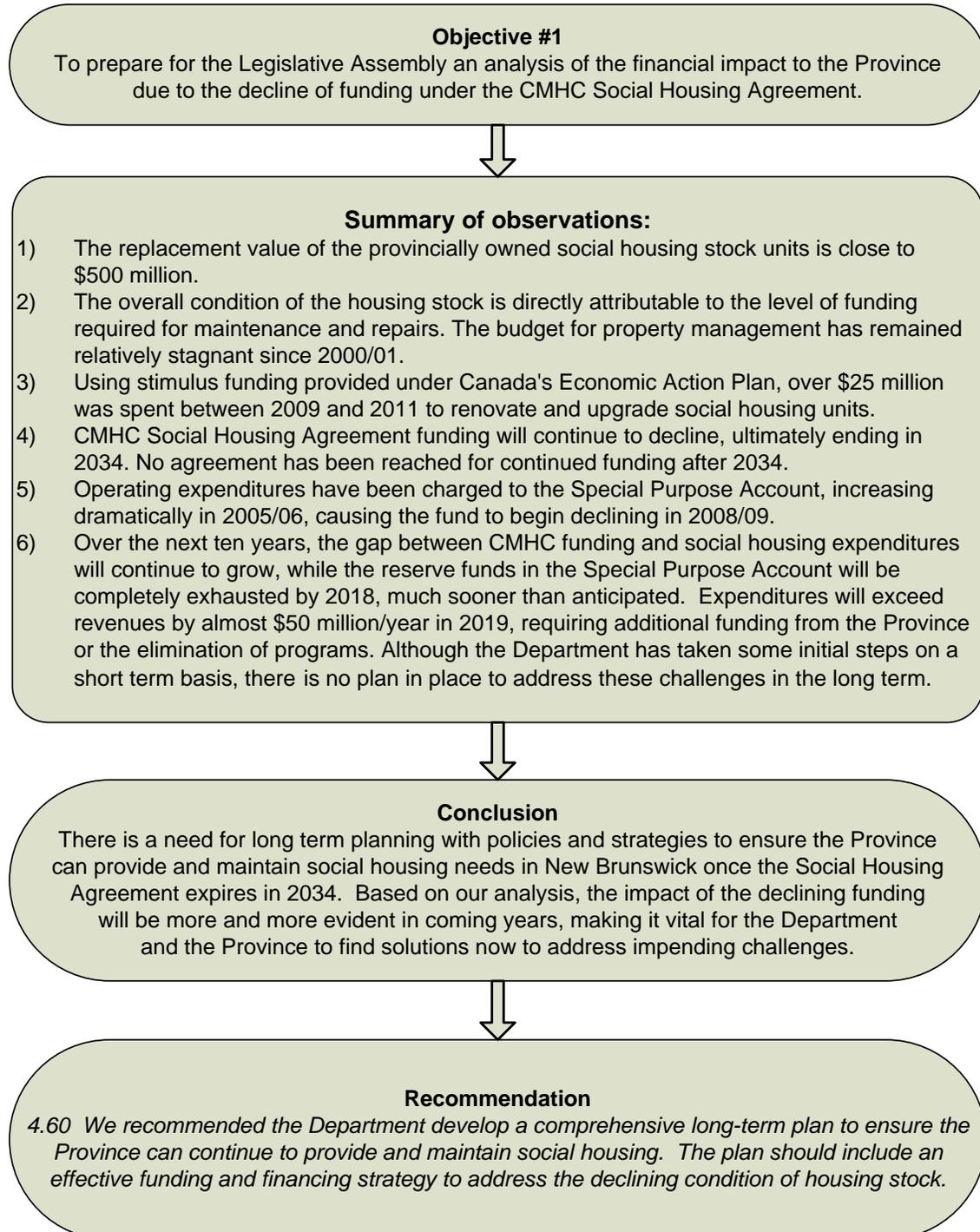
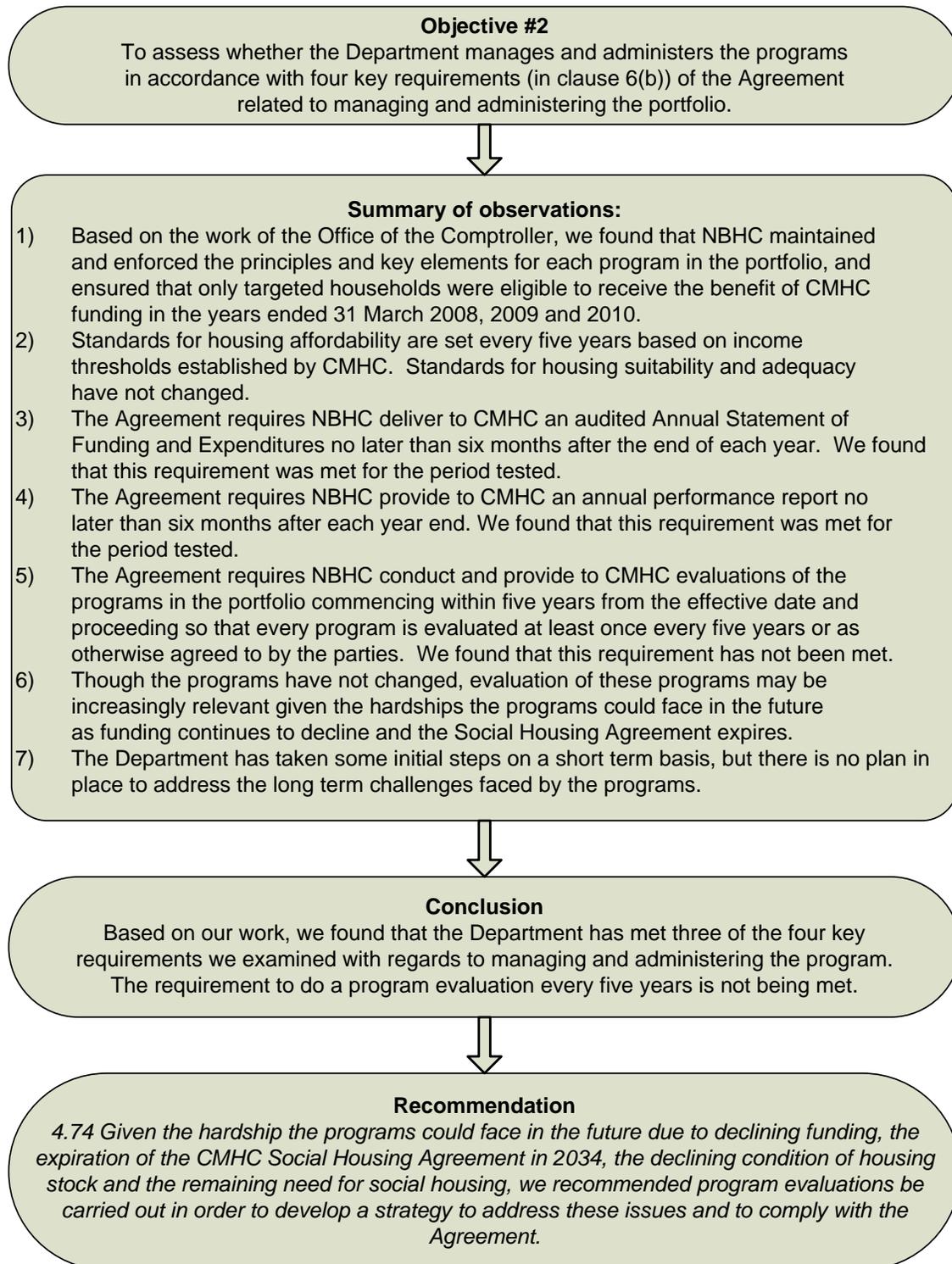


Exhibit 4.2 Management and Administration of Programs



**Background
Information
CMHC Social
Housing
Agreement**

- 4.9** Social housing provides adequate and affordable housing to low-income families, individuals and seniors in New Brunswick. This is accomplished by subsidizing rental accommodations; tenants pay rent based on their income or subsidies are provided to non-profit organizations to maintain social housing portfolios.
- 4.10** Most social housing in New Brunswick was built in the 1970's, subsidized and administered by the Canada Mortgage and Housing Corporation (CMHC) and the New Brunswick Housing Corporation (NBHC). In 1997, the CMHC began to turn control of existing federal social housing programs over to the provinces. In April 1997, the NBHC and the CMHC signed an agreement to transfer control of the management and administration of the social housing programs and related properties to NBHC.
- 4.11** As a result of the devolution, the Province assumed the financial responsibility of the social housing programs and related properties. Annual cost-shared funding was replaced by declining annual funding from CMHC until the Agreement expires in 2034. As part of the Agreement, any federal funds that are not spent at each year end are carried forward in a Special Purpose Account (SPA), but these funds must be used before the Agreement expires. In addition, the Province agreed to indemnify CMHC for any losses that it may incur as the mortgage lender for the social housing projects; CMHC paid the Province a one-time allowance to offset this risk in the amount of \$8.4 million. This amount was transferred to the Special Purpose Account in 1997-98.
- 4.12** The Agreement is straightforward when it comes to what the funding can be used for. The Agreement stipulates that all CMHC funding (annual payment and amounts carried forward in the Special Purpose Account) must be used only for *Housing*. *Housing* is defined as a residential accommodation and facilities, common areas and services used directly with the residential accommodation. *Housing* also includes management of the portfolio of programs and the management and administration of the residential accommodations and facilities, common areas and services directly used with the residential accommodation. In other words, the funding must be used for costs related to housing programs for which the Province assumed responsibility, as well as for management of the programs.

Principles of the Agreement

4.13 The Agreement's *principles* set out the rules on the use of the CMHC funding by NBHC. The principles are summarized in Exhibit 4.3.

Exhibit 4.3 Funding Principles

1. All CMHC funding must be used only for housing.
2. All CMHC funding must be used for the cost of housing that is in a program in the portfolio (programs (and new programs) agreed upon by CMHC and NBHC.)
3. CMHC will set housing income limits (HIL's) from time to time. HIL's are used as a financial test to determine targeted households.
4. All CMHC funding (except non-targeted amounts) must be devoted entirely for the benefit of targeted households.
5. Only the non-targeted amounts set out in the Agreement may be used for housing that is not occupied by a targeted household.
6. Savings achieved by NBHC through cost reductions or efficient management will not reduce the amount of funding.

NBHC Authorities and Responsibilities

4.14 All of the property assets of the Department of Social Development (the Department) are held by the New Brunswick Housing Corporation. The Minister of Social Development is the chair of its Board of Directors, and the Deputy Minister its president. Assets of the Public Housing and Rural and Native Housing portfolios, as well as undeveloped land, are held and administered by NBHC.

4.15 NBHC agreed to manage and administer the portfolio in accordance with the Agreement.

4.16 NBHC must:

- maintain and enforce the principles and the key elements for each program in the portfolio;
- ensure that only targeted households are eligible to receive the benefit of CMHC funding;
- set standards of housing affordability, suitability and adequacy;
- be responsible for all assistance, contributions, costs, expenses and disbursements related to the portfolio;

Advantages and Disadvantages of the Social Housing Agreement

- perform CMHC's obligations under agreements with third parties relevant to the programs in the portfolio; and
- comply with the reporting requirements of the portfolio.

4.17 The Social Housing Agreement has a number of advantages for the Province. For example:

- immediate surplus of federal funding in the early years of the agreement;
- removal of all federal controls over the Province's use of its own financial contributions;
- freedom to reduce provincial contributions: the Province no longer has an explicit obligation to the federal government to provide funding for social housing;
- increased freedom to determine for itself how federal and provincial monies will be spent;
- ability to modify programs: the Province can choose to eliminate or replace the housing programs inherited; and
- right to retain savings realized in the operation and administration of the programs.¹

4.18 The Agreement also has a number of disadvantages, such as:

- The federal contribution for these programs is declining and not subject to adjustment, leaving the Province exposed if costs increase due to inflation, interest rates or the impact of deferred maintenance.
- The liability for modernizing and improving the entire social housing stock rests with the Province.
- As part of the Agreement, the Province must fully indemnify CMHC for all expenses and losses arising from the failure of a CMHC-insured social housing provider. The Province assumes full liability for project failures.
- The Agreement assumes a full federal withdrawal from funding social housing. Federal contributions will disappear completely in 2034.²

¹ Source: *Critique of the Federal/Provincial Social Housing Agreement* Co-operative Housing Federation of Canada, 1998

² Source: *Critique of the Federal/Provincial Social Housing Agreement* Co-operative Housing Federation of Canada, 1998

Access to Social Housing

4.19 The Department has numerous programs to assist low income households in New Brunswick with their housing needs; their 2009-10 annual report listed ten such programs. The CMHC Social Housing Agreement covers four of these programs: Public Housing, Rural and Native Housing, Non-Profit Housing, and Rent Supplements. These programs will be the focus of our work. In 2009/10, the expenditures for these four programs totaled \$63.8 million, or 76% of the Housing Services budget of the Department. The objective of Housing Services is to assist households in need to obtain affordable, suitable and adequate housing.

4.20 Tenants for social housing units are chosen based on demonstrated need. All applications are prioritized at intake using a universal scoring system. Factors considered in the scoring system are:

- condition of present dwelling;
- income level;
- shelter cost to income ratio;
- number of dependents; and
- mitigating circumstances (for example, if someone's safety and well-being is at risk in their current dwelling).

4.21 During the review of the application for accommodation, a priority is formulated based on a scoring system. Priority on the waiting list for housing is decided by the points awarded on the accommodation review. Annually, the clients on the waiting list must update their application form. If the clients do not submit the required information within a specified time frame, their application will be cancelled and they are taken off the waiting list.

4.22 When a vacancy occurs, the replacement tenant is selected from the waiting list, with the person having the highest score on the accommodation review normally selected. Occasionally, a family requiring emergency shelter may be granted priority.

Waiting List for Social Housing

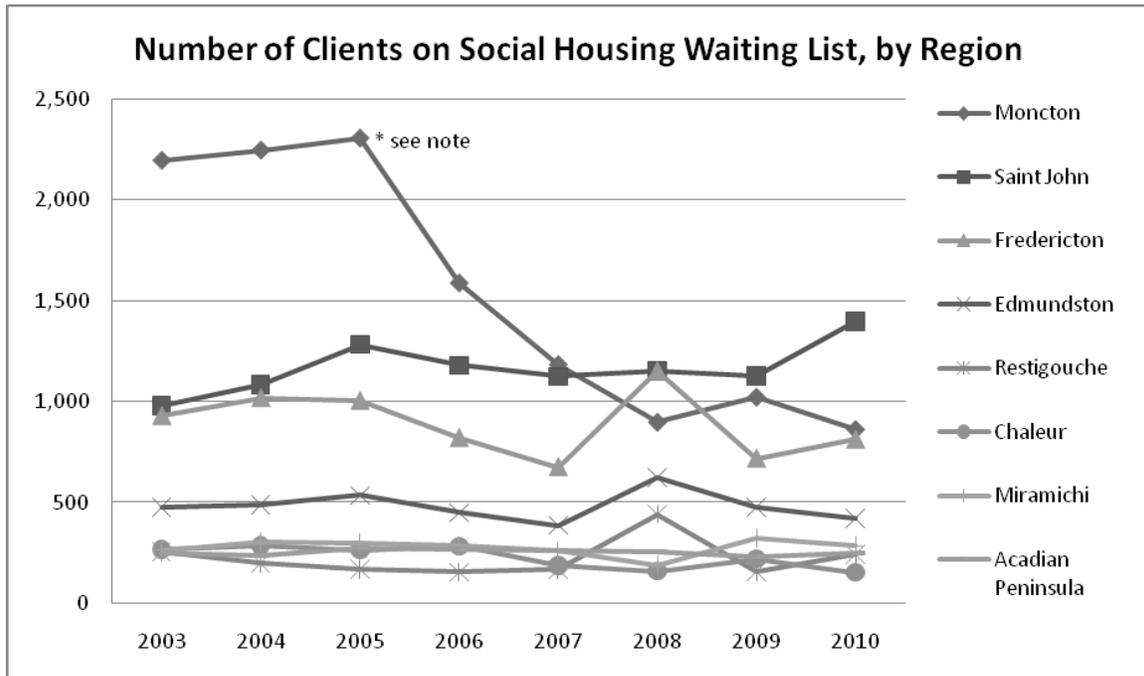
4.23 The waiting list for social housing has varied in past years, as seen in Exhibit 4.4. Staff at the Department told us that the figures from 2003 to 2005 do not necessarily reflect the actual number of people on the waiting list, because the regions were not maintaining their waiting list as well as in recent years, when the Department began requiring annual updates. Exhibit 4.4 shows the number of clients on the waiting list for social housing from 2003 to 2010. As shown in the exhibit, the number of clients on the waiting list has been relatively stable since 2007, averaging at about 4,200 clients per year. Exhibit 4.5 shows the waiting list by region; we can see that the waiting list for social housing is greatest in New Brunswick’s three largest cities (Saint John, Moncton and Fredericton).

Exhibit 4.4 Social Housing Waiting List by Year



Source: Data provided by the Department (figures not audited).

Exhibit 4.5 Social Housing Waiting List by Region



Source: Data provided by the Department (figures not audited).

Note: The Department told us that in the early years, the regions were not maintaining the waiting list as well as they have been recently. For example, people who were placed in housing were not necessarily removed from the waiting list. So, though they were able to place people in housing, the number placed is not as high as the numbers in the chart would seem to indicate.

Social Housing Programs

4.24 The CMHC Social Housing Agreement covers four programs:

- Public Housing;
- Rural and Native Housing;
- Non-Profit Housing; and
- Rent Supplements.

4.25 These programs will be the focus of our chapter. A brief description of each of the four programs follows.

Public Housing

4.26 This program provides safe and affordable housing to low-income New Brunswick families, individuals and seniors living in cities and towns by subsidizing public housing rental accommodations. Tenants accepted into public housing will pay 30% of their income for accommodations.

Rural and Native Housing

4.27 The Rural and Native Housing Program provides safe, adequate and affordable rental housing to low income New Brunswickers living in rural areas with a population of less

than 2,500 people. The Province owns and manages the rural rental units. Tenants qualifying for assistance will have their rents reduced to 30% of the adjusted household income.

Non-Profit Housing 4.28 The Non-Profit Housing Program provides subsidies to private non-profit organizations, including cooperative groups, to maintain their social housing portfolios. Assisting the non-profit organizations to maintain their social housing portfolios allows the Department to expand the number of affordable and adequate housing units available for rent by low-income households. Eligibility is determined by the criteria established by the individual non-profit/cooperative agreements.

Rent Supplements 4.29 This program helps households obtain affordable, adequate and suitable rental housing by subsidizing eligible rental dwellings in the private sector. The amount of assistance is based on the difference between the agreed-upon market rent and the tenant's ability to pay.

**Financial
Impact to the
Province of
Declining
Funding**

4.30 Our first objective is:

to prepare for the Legislative Assembly an analysis of the financial impact to the Province due to the decline of funding under the CMHC Social Housing Agreement.

4.31 We were interested in looking at the Social Housing Agreement for a number of reasons, including:

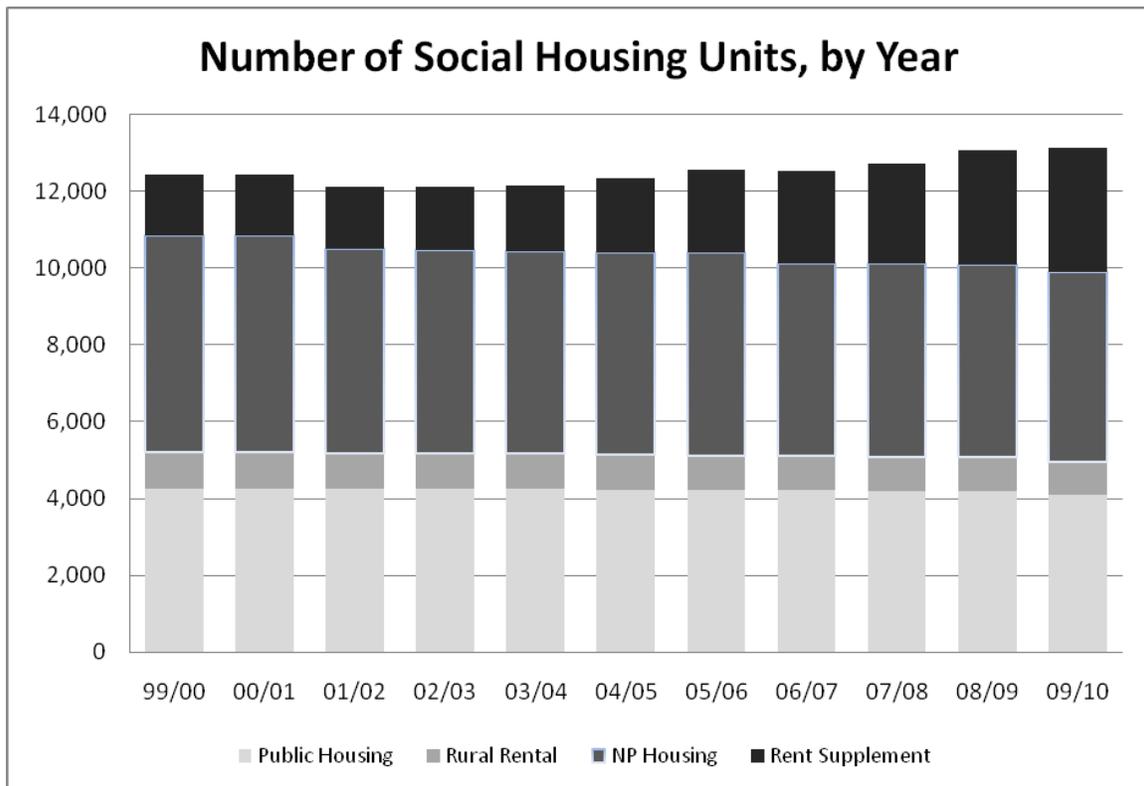
- the social housing stock in the province is aging;
- annual funding under the Agreement is declining; and
- the cumulative surplus in the Special Purpose Account is beginning to decline.

4.32 In addition, one of the disadvantages of the Agreement is that the liability for modernizing and improving the entire social housing stock rests with the Province. These factors all play an important role in our analysis of the financial impact on the Province due to the decline of funding under the Social Housing Agreement.

Aging Housing Stock

4.33 According to its annual reports, the Department of Social Development (the Department) owns and manages a number of public housing units and rural rental units located throughout the Province. In addition, the Department subsidizes private sector rental units. Exhibit 4.6 shows the number of units in the Province from 1999 to 2010. At 31 March 2010 there were 13,157 social housing units in New Brunswick.

Exhibit 4.6 Social Housing Units in New Brunswick



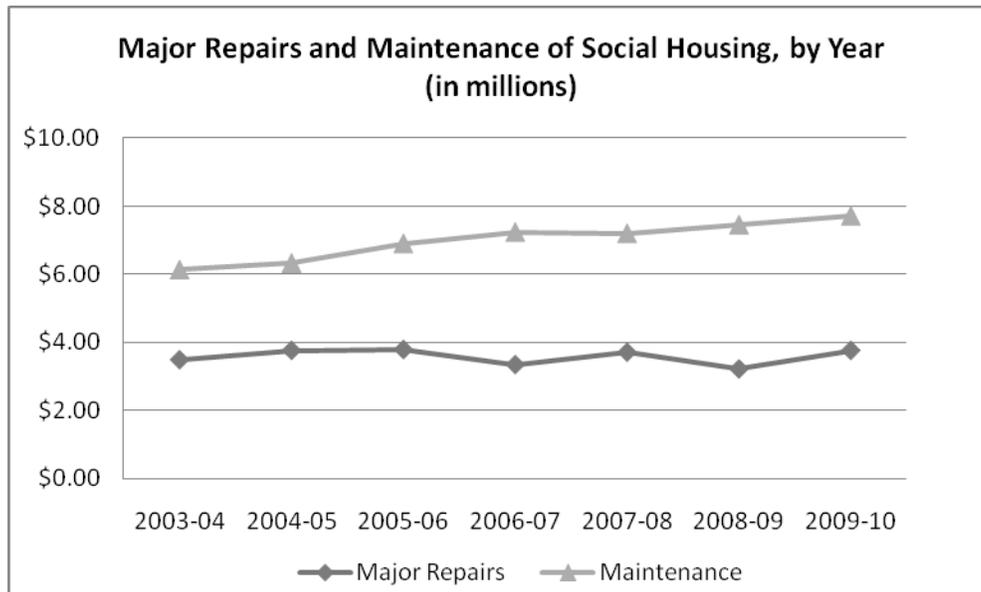
Source: Department's annual report 1999/00 – 2009/10 (figures not audited).

4.34 We can see in Exhibit 4.6 that the number of public housing and rural rental units have remained relatively unchanged since 1999, while there has been a slight decrease in the number of subsidized non-profit housing units. The area where we see an increase is the number of rent supplement units. The number of rent supplement units have gone from 1,572 in 1999/00 to 3,256 in 2009/10.

4.35 The average age of the units owned and managed by the Province (public housing and rural rental units) is 40 years; staff at the Department tell us that the oldest building the Province owns was built in 1790. The replacement value of

these buildings is \$498,107,000, as determined by consultants hired by the Department to assess the condition of the housing stock. An aging housing stock leads to additional repairs and maintenance. The overall condition of the housing stock is directly attributable to the level of funding for maintenance and repairs. We looked at the expenditures for maintenance and major repairs to these properties from 2003/04 to 2009/10. Exhibit 4.7 shows repair and maintenance expenditures for the past seven years on housing owned and managed by the Province. The exhibit shows that maintenance expenditures have increased slightly (from \$6.14 million to \$7.72 million/year), while major repairs have been fairly constant for the past seven years at \$3.5 to \$3.75 million/year.

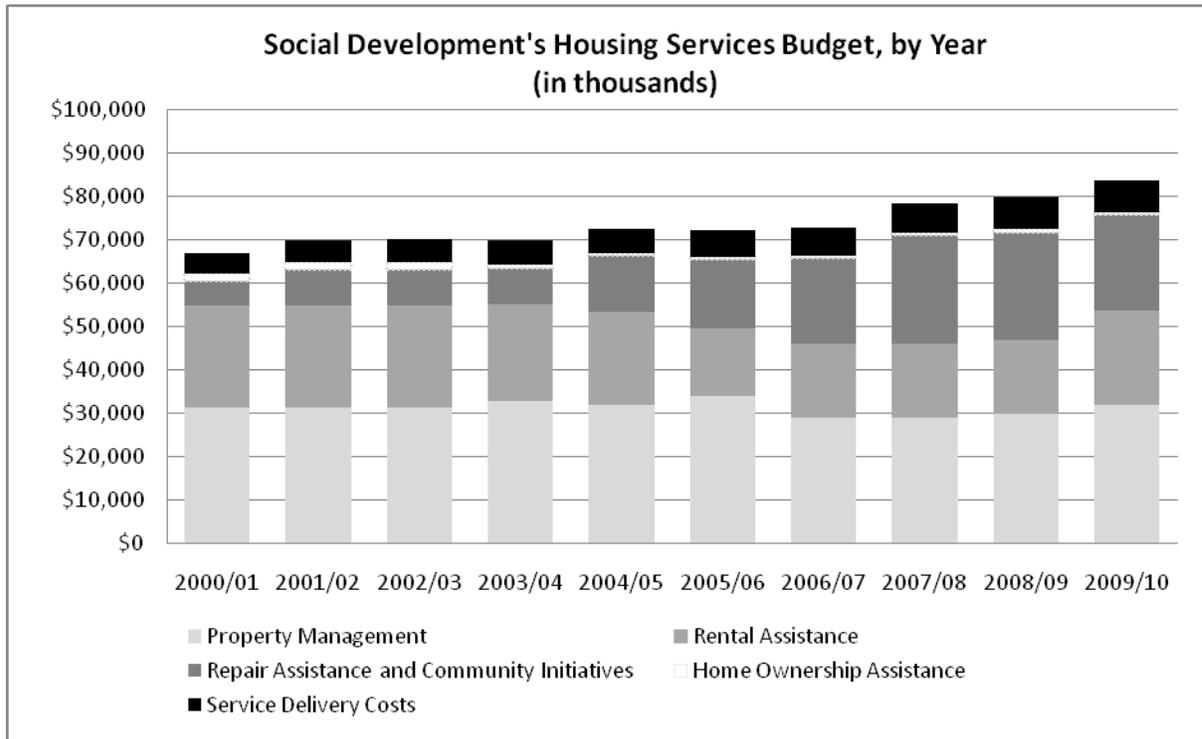
Exhibit 4.7 Repairs and Maintenance of Social Housing from 2003 to 2010



Source: Financial information provided by the Department (figures not audited).

4.36 We also looked at the Department’s budget for Housing Services, which includes repairs and maintenance to the housing owned and managed by the Province. Exhibit 4.8 shows the Department’s budget components for Housing Services from 2000/01 to 2009/10. The description of the Property Management component of Housing Services in *Main Estimates* is: “maintain and operate rental properties that provide affordable accommodations to low income households”.

Exhibit 4.8 Social Development's Budget for Housing Services, by Component, from 2000/01 to 2009/10



Source: Main Estimates 2000/01 to 2009/10

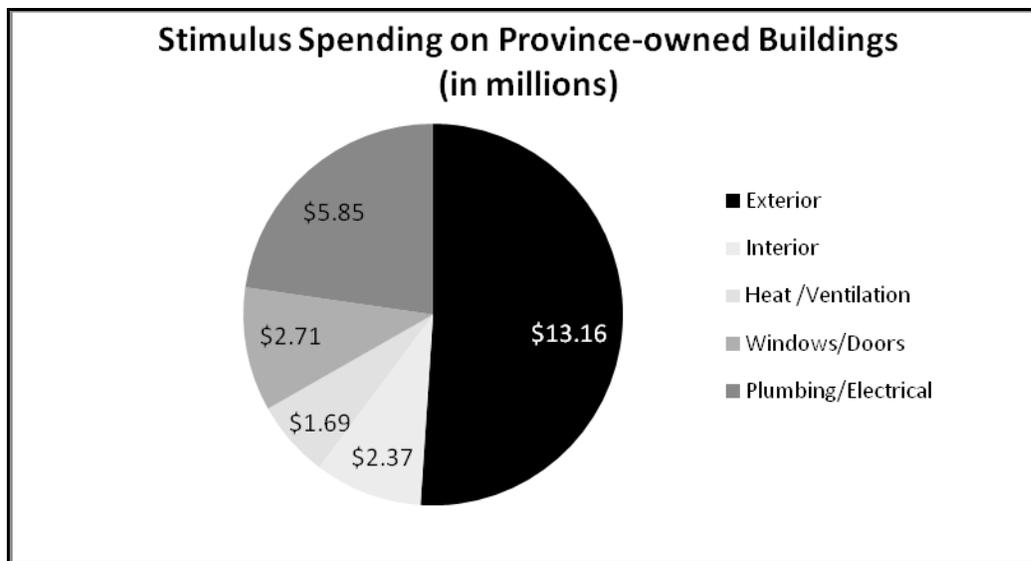
4.37 In Exhibit 4.8 we can see that though the overall budget has increased 25% (from \$66.9 million to \$83.7 million), the budget for *Property Management* has remained relatively stagnant since 2000/01, increasing by only 2% to \$31.9 million. The only increase can be seen in the *Repair Assistance and Community Initiatives* component, described in *Main Estimates* as “assist low income homeowners occupying existing sub-standard housing to repair, rehabilitate or improve their dwellings to acceptable levels of health and safety and to assist community groups in housing initiatives.” This component increased by 290% since 2000/01 (from \$5.6 million in 2000/01 to \$21.9 million in 2009/10). It is also noted that funding for *Home Ownership Assistance* is negligible in recent years (\$651,000 in 2009/10 compared to \$1.8 million in 2000/01).

4.38 In May 2009, the Province announced that federal and provincial governments would invest \$99 million in affordable housing as part of Canada’s Economic Action Plan. This amount includes a \$75 million joint federal/provincial investment under the Canada-New Brunswick Affordable Housing Agreement to build new, and renovate existing,

social housing. An additional \$24.1 million (combined federal/provincial investment) is committed to build new affordable housing and assist low-income households with renovations to their homes.

4.39 Using part of this funding, the Department carried out a number of renovations on their existing Public Housing and Rural Native Housing Units (which are owned by the Province), committing a total of \$25,783,558 to renovations and upgrades from 2009 to 2011 (at the time of our work, all but \$355,000 of this amount had been spent). The following exhibit shows the type of work carried out on the social housing units owned by the Province. In Exhibit 4.9 we can see that close to 75% of funds (\$19 million) were spent on exterior renovations (siding, roof, site work) and plumbing/electrical work.

Exhibit 4.9 Types of Repairs Carried out on Province-owned Social Housing Units From 2009 to 2011



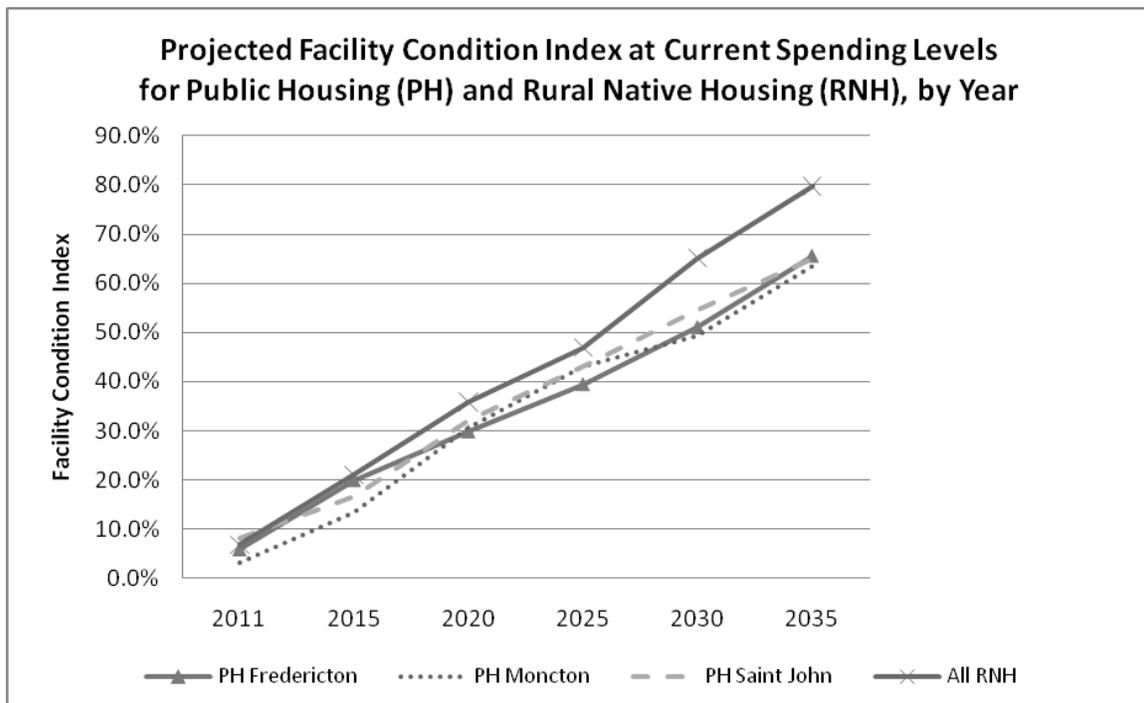
Source: Information provided by the Department (figures not audited)

4.40 The Department also used some of the stimulus funding to hire consultants in 2009 to assist them with the assessment of the condition of their properties. The consultants developed predictive software to assist in planning maintenance work to the buildings. The software is based on a modeling program; it assesses the condition of the properties and predicts the funds needed to maintain them in good condition for a period of 30 years.

4.41 In October 2009, the consultants presented their results to

the Department. They assessed the overall portfolio as being in “fair” condition, though they predicted that unless additional funds for maintenance were provided, the condition would fall to “poor” in 2012 and further deteriorate to “critical” in 2022. The assessments are based on a Facility Condition Index (FCI) that has been assigned to all properties. The FCI is a representation of a facility’s deficiency and renewal cost in relation to its current full replacement cost. A facility’s condition is considered good if the FCI is less than 5%; fair between 5% and 10%; poor between 10% and 30%; and critical between 30% and 65%. If the FCI exceeds 65%, the cost to repair the facility is considered prohibitive, and should be under consideration for redevelopment, demolition or sale. Exhibit 4.10 shows the FCI, as determined by the consultants, of the Public Housing (PH) facilities in New Brunswick’s three largest cities, as well as the overall average of Rural Native Housing (RNH) units in the coming years at current spending levels for maintenance (before effect of stimulus funding).

Exhibit 4.10 Projected Facility Condition Index at Current Spending Levels for Public Housing and Rural Native Housing Units



Source: Information provided by the Department, pre-stimulus funding (figures not audited)

4.42 Based on current spending levels, we can see in Exhibit 4.10 that by the time the program expires in 2034, the

condition of the buildings will be considered too prohibitive to repair, with the RNH units in significantly worse condition than the PH units. The description of the assessments can be found in Exhibit 4.11.

Exhibit 4.11 Facility Condition Assessments and Implications to Building Conditions and Maintenance Needs

Assessment	Implications on Building, Residents and Maintenance
Good	Facilities will look clean and functional. Maintenance staff will be devoted to regular scheduled maintenance.
Fair	Facilities will show signs of wear. More frequent component and equipment failure will occur. Maintenance staff will be diverted from regular scheduled maintenance.
Poor	Facilities will look worn with apparent and increasing deterioration. Frequent component and equipment failure may occur. Occasional building shut down will occur. Maintenance staff will be forced to “reactive” mode.
Critical	Facilities will look worn with obvious deterioration. Equipment failure occurring frequently. Occasional building shut down will likely occur, and management risk is high. Maintenance staff will not be able to provide regular scheduled maintenance due to high level of “reactive” calls.

Source: Information provided by the Department

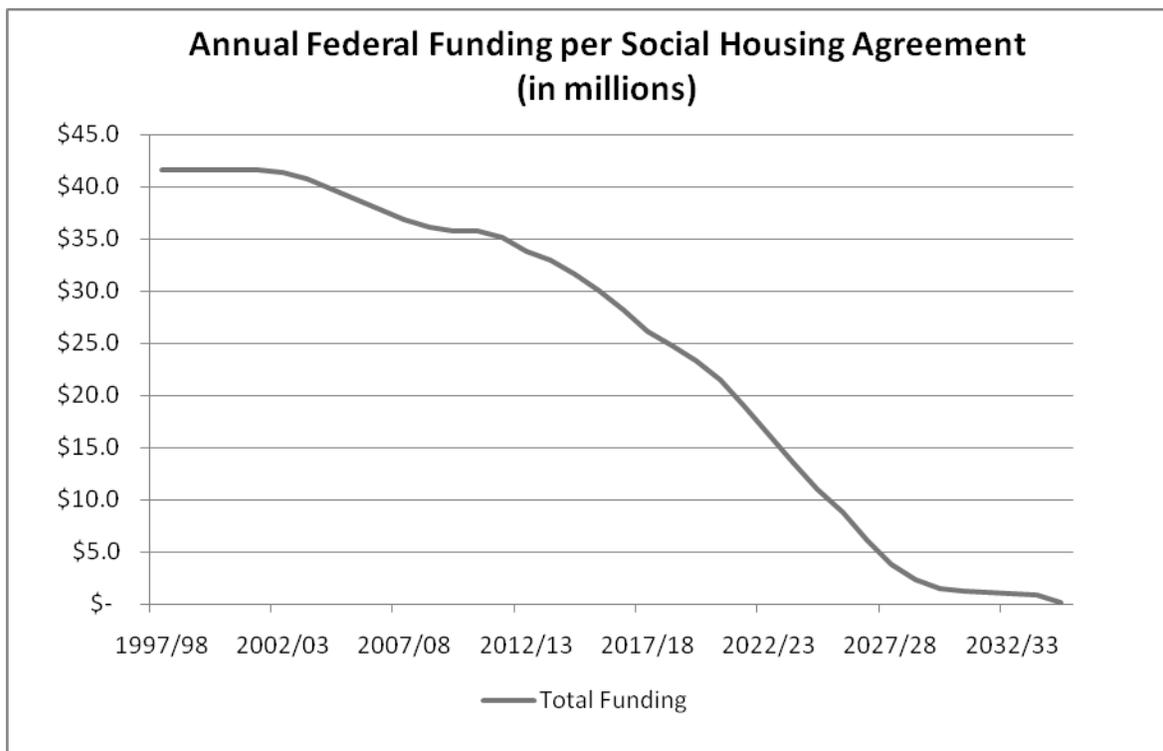
4.43 According to the consultants, deteriorating conditions in the buildings will lead to a deteriorating quality of life for the residents of the building, an increase in the failure risk to building components, and a higher burden on maintenance and operating costs. The consultants reported that “*the current annual funding level for facility renewal is inadequate for both the short and long term preservation of the building portfolio.*” They estimated that \$13 million is needed annually to maintain the buildings in fair condition; actual annual maintenance spending has been closer to \$3.7 million. They also estimated that there is a current backlog of \$45.5 million of repairs needed to the buildings. The stimulus funding mentioned earlier will reduce this backlog of repairs to \$19.7 million and improve the overall property assessments from “fair” to “good”. However, they estimate that the life of the

overall portfolio will only be extended by five years. This means that, at current funding levels, the overall housing portfolio will fall to “poor” in 2017 and “critical” in 2027.

Declining Annual Federal Funding

4.44 The CMHC Social Housing Agreement was designed with a declining federal contribution toward social housing, with funding ultimately ending in 2034. Exhibit 4.12 shows the declining federal funding as planned in the Agreement. It shows that the decline, which began slowly in 2002/03, is more rapid between 2012/13 and 2027/28.

Exhibit 4.12 Federal Social Housing Funding Over the Life of the Agreement



Source: Schedule E of the Canada-New Brunswick Social Housing Agreement

4.45 Our main concern is whether the Department can maintain the social housing units with declining federal funding. No agreement has been reached for continued funding once the agreement expires in 2034 and the Department indicated there has been no commitment from the federal government to renew the funding once the Agreement expires. Department staff do not believe a new Social Housing Agreement is forthcoming. When coupled with an aging housing stock, and the liability to maintain it, the sustainability of social housing in New Brunswick is in question.

4.46 This concern is echoed in the Department's *Policy Framework and Housing Strategy* and NBHC's "*Hope is a Home – New Brunswick's Housing Strategy*." In it, NBHC stated that it will invest in "*ensuring the sustainability of government assisted housing*". It goes on to state that "*overall funding for housing is expected to decline, yet costs associated with creating new units and maintaining existing units continue to rise. The majority of the existing social housing within New Brunswick was constructed under federal/provincial cost-shared agreements. (...) The majority of the current federal contribution annually is tied to the Social Housing Agreement. Under this Agreement, no provisions were made for funding the ongoing operation of these facilities and federal funding declines to \$0 by the year 2034 as project mortgages or debentures expire.*"

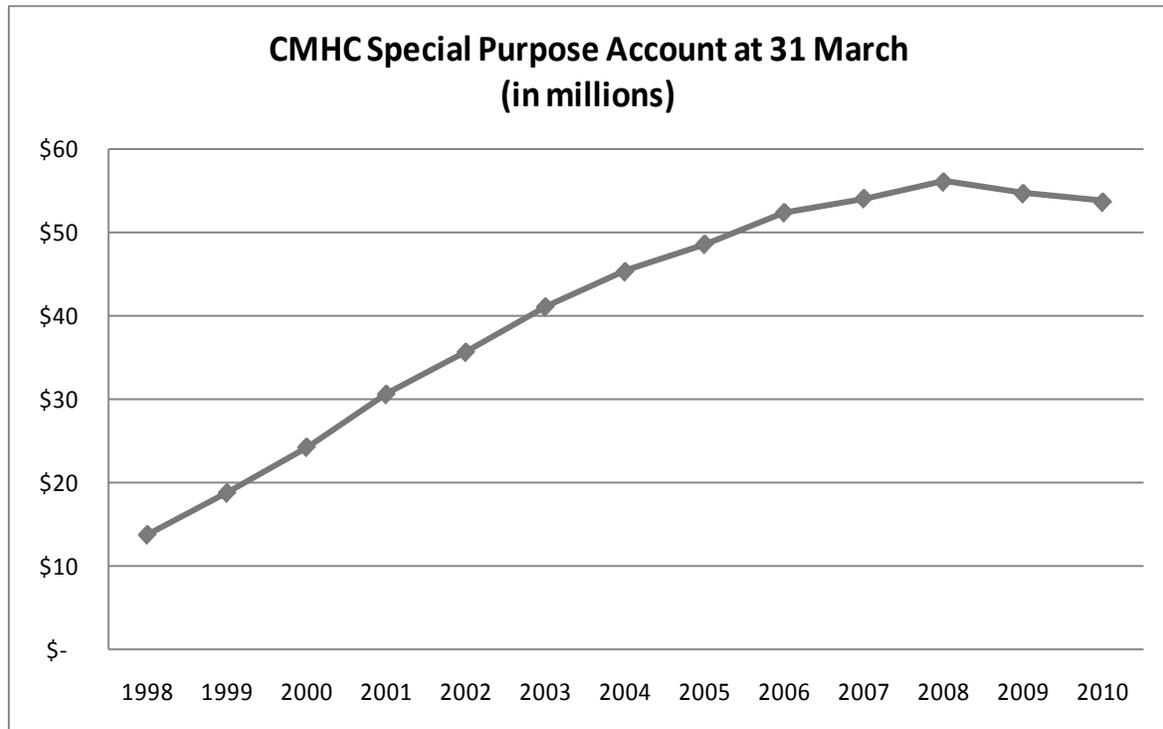
4.47 Further, it states that "*New Brunswick has some of the oldest housing in the country. The majority of the public housing owned and managed by the Housing Corporation was constructed over 40 years ago. The age of this housing combined with the limited availability of repair dollars over the years has resulted in the deterioration of this housing stock. The state of repair of some units is substandard to a point where the health and safety of their residents are a concern. This is especially true with the rural housing stock, where some units remain vacant because of their condition. Clients struggle to pay their utility bill because these old units are not energy efficient and are costly to maintain. Many units were designed for larger families and no longer meet the need of our changing demographic. Subsequently, some clients may be in the position of having to heat units that are larger than they require given the size of their household.*"

4.48 When we spoke with departmental personnel, we learned that as mortgages on the properties end, so does the subsidy or funding from CMHC. In time, Public Housing subsidies and Rent Supplements will be 100% funded by the Province. As shown earlier in exhibit 4.6, the number of Rent Supplement units has been growing steadily since 2005/06. In the case of Non-Profit Housing, once the subsidies end, the funding to these organizations will cease completely.

Declining Cumulative Surplus in CMHC Special Purpose Account

4.49 As part of the Agreement, any unexpended CMHC funding can be carried over from year to year until the Agreement expires. Exhibit 4.13 shows the level of funding in the CMHC Special Purpose Account at 31 March since 1998. We can see that the level of funds in the account grew steadily from 1998 to its peak in 2008. Since that time, it has begun decreasing.

Exhibit 4.13 Balance of the CMHC Special Purpose Account



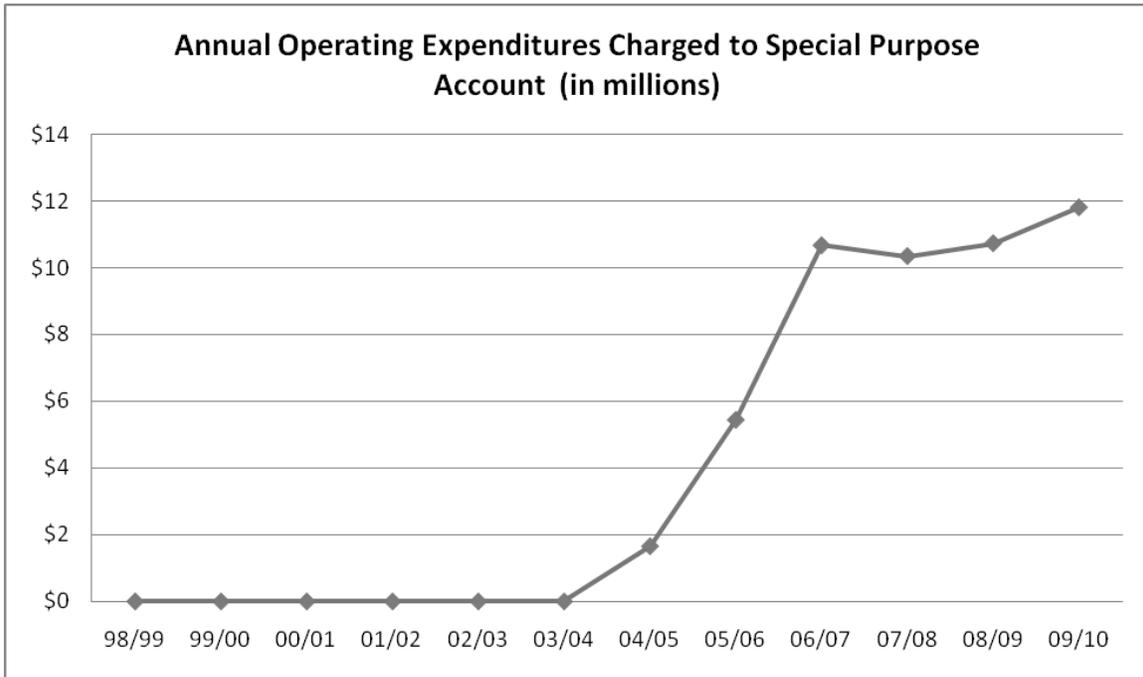
Source: Public Accounts 1998 to 2010

4.50 The amounts in the Special Purpose Account include:

- unexpended federal funds carried over;
- interest revenue;
- recoveries from clients; and
- expenditures.

4.51 As we mentioned earlier, the balance in the account began declining in 2009. The Department also started charging operating expenditures to the Special Purpose Account beginning in 2004/05. Exhibit 4.14 shows the level of operating expenditures that are being transferred to the Special Purpose Account. These amounts increased dramatically between 2003/04 and 2006/07, and have continued to slowly climb since that time.

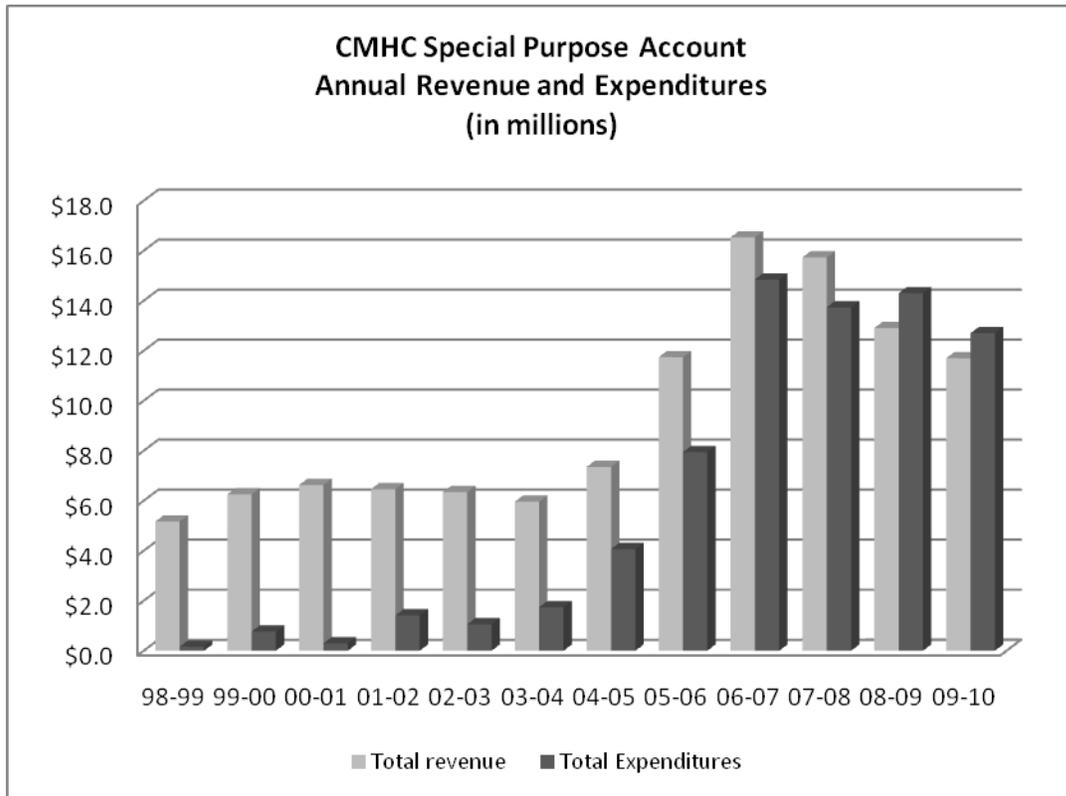
Exhibit 4.14 Operating Expenditures Charged to the Special Purpose Account



Source: Financial information provided by the Department (figures not audited).

4.52 Total annual revenues and expenditures in the Special Purpose Account can be found in Exhibit 4.15. Here we can see that from 1998/99 to 2007/08 revenue was greater than expenditures in the Special Purpose Account; significantly greater until 2005/06. However, beginning in 2008/09, expenditures have been greater than the revenue generated, which explains the decrease seen in 2008/09 in Exhibit 4.13.

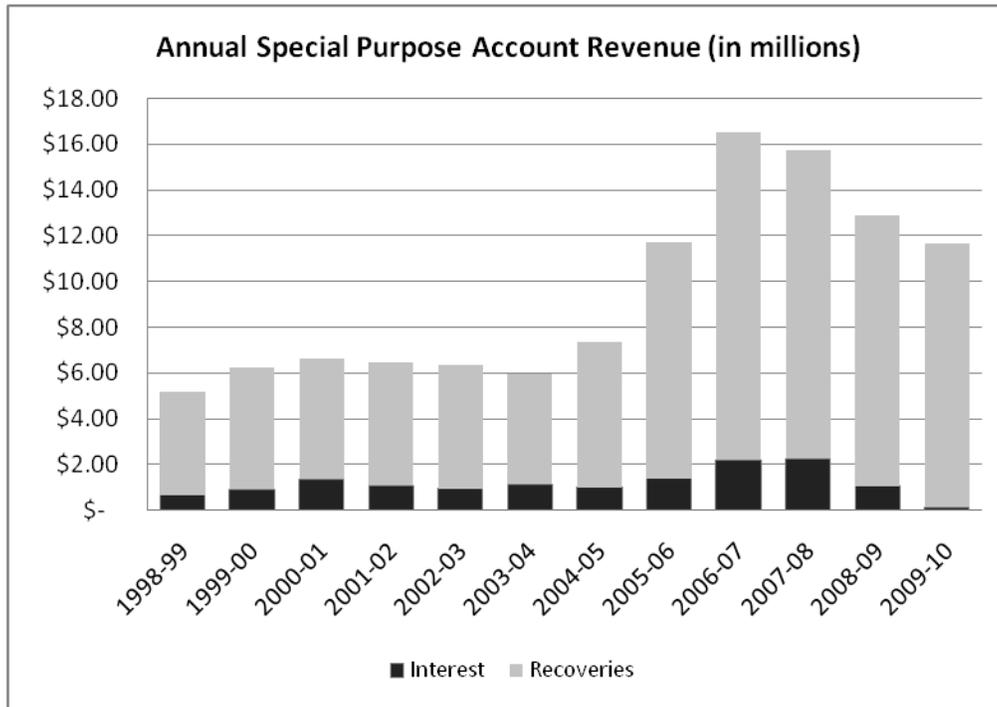
Exhibit 4.15 Annual Revenues and Expenditures in the Special Purpose Account



Source: Public Accounts 1998 to 2010

4.53 According to the Department, the intention of the Special Purpose Account was to serve as a hedge to fluctuations in interest rate and inflation and their impact on mortgages. However, the Department is required to spend more as mortgages mature, and the cost of some operating expenditures is being covered by the Special Purpose Account. Though it was not what the Department intended, charging operating expenses to the Special Purpose Account does meet the rules of the funding agreement. As a result, the Department is using the funds in the Special Purpose Account much faster than anticipated, and revenues are not as high as anticipated. Special Purpose Account revenues can be seen in Exhibit 4.16; they include interest earned on the balance of the Special Purpose Account and various recoveries (from sale of properties in the portfolio, repayments on loans to non-profit groups and the balance of federal funding received). The exhibit shows that the majority of revenues have always been recoveries, with only a small amount attributed to interest revenue. The amount of revenue from recoveries has increased significantly since 2005/06.

Exhibit 4.16 CMHC Special Purpose Account Revenue from 1998 to 2010



Source: Financial information provided by the Department (figures not audited)

Financial Impact to the Province

4.54 Using the known funding levels from CMHC and projecting expenditures based on past levels, we have prepared a projection of the financial impact in the next ten years of declining CMHC funding. Using information we obtained from the Department, expenditures were projected based on the average trend since 1997/98. We also projected the level of funds in the Special Purpose Account by using more recent fluctuations, including amounts from *Main Estimates* for 2010/11 and 2011/12, since we determined they were representative of future fund levels. The results are shown in Exhibit 4.17.

4.55 The exhibit shows that over the next ten years, the gap between CMHC funding and social housing expenditures will continue to grow, while the reserve funds in the Special Purpose Account will be completely exhausted by 2018. This is much sooner than an earlier projection provided to us by the Department, where they estimated the funds would only be exhausted in 2028. They had also estimated that the decline in the account would only begin in 2014, while the decline actually began in 2009, as seen in Exhibit 4.17. All of the programs in the portfolio covered by the Social Housing Agreement are funded 50% or more by CMHC. In fact, over

half of the programs are funded 100% by CMHC. By 2019/20, we can see that expenditures will exceed revenues by almost \$50 million/year, at a time when the Special Purpose Account will be exhausted. This gap will require either additional funding from the Province, a commitment to further funding from the federal government, or the elimination of programs.

The Department's Strategy

4.56 We spoke with staff at the Department to determine what their strategy was to deal with this issue. They told us that their strategy was described in the New Brunswick Housing Corporation Policy Framework and Housing Strategy and NBHC's "*Hope is a Home – New Brunswick's Housing Strategy*". We examined both documents and found the following comments directly attributable to social housing:

- Over the next five years NBHC will invest in ensuring the sustainability of government assisted housing.
- New Brunswick will continue to petition the federal government to maintain their current level of investment in social housing so that "savings" generated as mortgages and debentures mature, can be re-invested in social housing.
- A dedicated source of revenue will provide a stable base of funds and give the province the ability to develop long term housing plans. It may be beneficial to develop legislation to address the creation of a housing trust fund that would result in funding for long term sustainable housing.
- The Housing Trust Fund would receive revenues from dedicated sources of funding such as taxes, levies, fees or loan repayments. Some examples provided are property tax assessments, property registration fees, and lottery revenues.
- Improve management practices and develop new information technology that includes an asset management system to ensure an effective, responsive and efficient New Brunswick Housing Corporation.

4.57 Some objectives included in the strategy are to:

- increase the stock of rental units;
- protect and improve the condition of existing units through repair and renovation;
- pursue a sustainable source of funding including federal government participation.

4.58 The issues around declining federal support are not unique to New Brunswick. We looked at what some other provinces are doing to address the issues. For example, Newfoundland and Labrador's (NL) provincial housing strategy has the following actions, some of which are similar to New Brunswick's:

- undertake research on social housing need, housing supply and market conditions;
- continue to seek a long-term social housing funding commitment from the federal government;
- enhance the Rent Supplement Program;
- develop new NL Housing homes in response to demand for smaller units;
- continue investment in repairs, interior retrofit and renewal of NL Housing homes; and
- improve energy efficiency in NL Housing homes during regular renovations and repairs.

4.59 The strategies identified in NBHC's "*Hope is a Home – New Brunswick's Housing Strategy*" are a beginning, but they only address a short-term, five-year horizon. Though the recent stimulus funding bought the Department some extra time in terms of the condition of the social housing stock, there remains a need for long term planning with policies and strategies to ensure the Province can provide and maintain social housing in New Brunswick once the CMHC Social Housing Agreement expires. The Department indicated that it, along with other provinces, will continue to lobby the federal government to maintain the current level of funding for social housing, yet the federal government has made no such commitment beyond the term of the Social Housing Agreement. Based on our analysis, the impact of the declining funding will be more and more evident in the coming years, making it vital for the Department and the Province to find solutions now to address the impending challenges they will face.

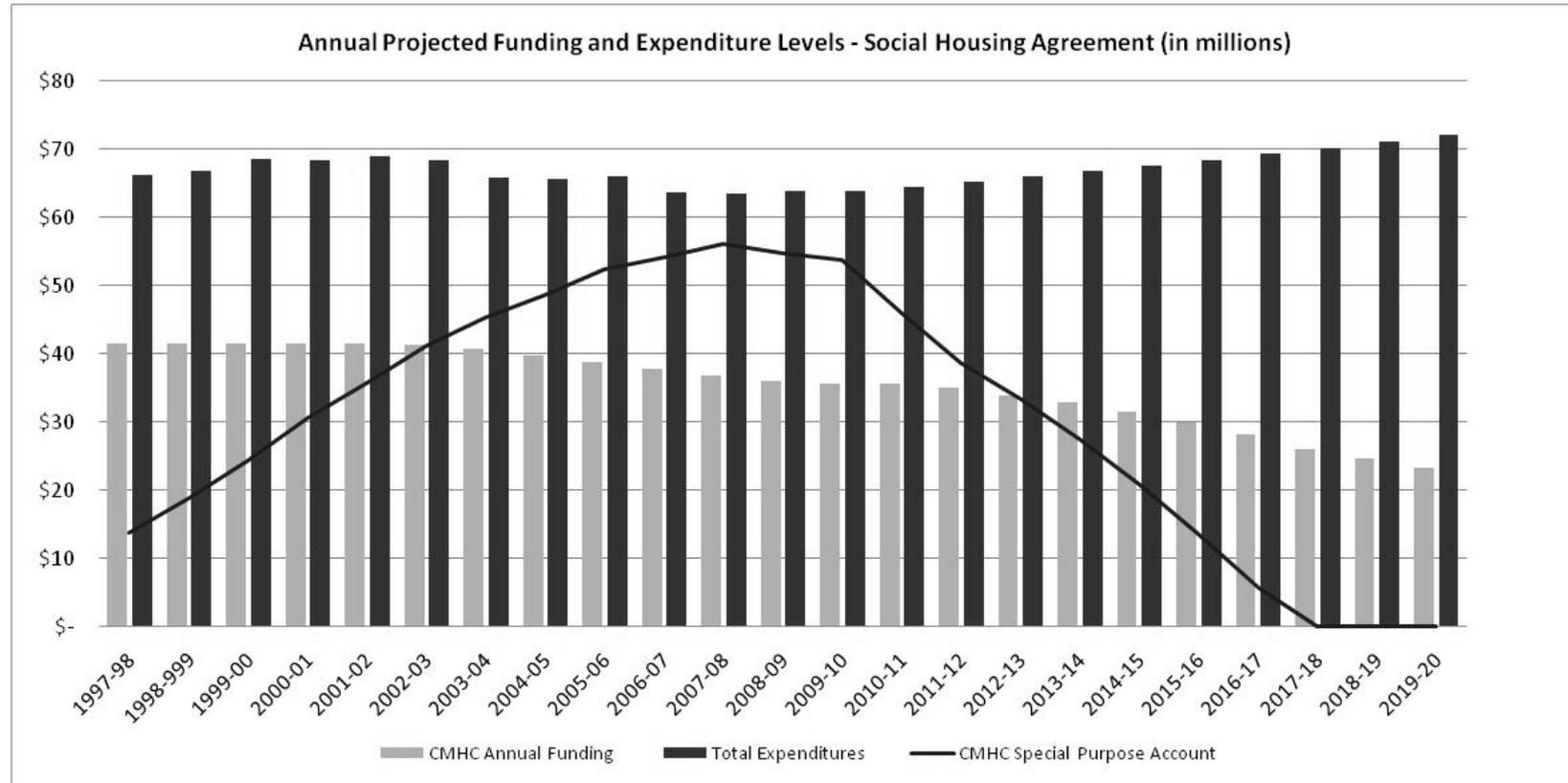
Recommendation

4.60 We recommended the Department develop a comprehensive long-term plan to ensure the Province can continue to provide and maintain social housing. The plan should include an effective funding and financing strategy to address the declining condition of housing stock.

**Conclusion on
our First
Objective**

4.61 There is a need for long term planning with policies and strategies to ensure the Province can provide and maintain social housing needed in New Brunswick once the Social Housing Agreement expires in 2034. Though the Department has been proactive with its purchase of predictive software to assess and plan the maintenance work needed on their social housing properties, they must now have a strategy to follow through with the required maintenance in order to maintain it beyond the expiry of the CMHC Social Housing Agreement. While the system will allow them to monitor the condition of housing stock, if maintenance and repair needs are not adequately funded, the condition of the buildings will continue to decline, affecting the long-term sustainability of the housing stock. Based on our analysis, the impact of the declining funding will be more and more evident in coming years, making it vital for the Department and the Province to find solutions now to address impending challenges. It is important that the social housing stock be maintained in good condition for the benefit of those who live there and also for the benefit of protecting the Province's investment.

Exhibit 4.17 Projected Funding and Expenditures for the Social Housing Agreement



Source: Chart created by the Office of the Auditor General

Management and Administration of the Program in Accordance with the Agreement

4.62 Our second objective was:
to assess whether the Department of Social Development (the Department) manages and administers the programs in accordance with four key requirements (in clause 6 (b)) of the Agreement related to managing and administering the portfolio.

4.63 The four key requirements we focused on were:

- maintain and enforce the principles and the key elements for each program in the portfolio;
- ensure that only targeted households are eligible to receive the benefit of CMHC funding;
- set standards of housing affordability, suitability and adequacy; and
- comply with all reporting requirements in this Agreement.

4.64 Our sample focused on the years ended 31 March 2008, 2009 and 2010.

Principles, Key Elements and Targeted Households

4.65 As required in the Social Housing Agreement, the Office of the Comptroller carries out an audit each year of NBHC's Statement of Funding and Expenditures. As part of this audit, the Office of the Comptroller also carries out work to determine whether NBHC complied with the principles, terms and conditions of the Social Housing Agreement. We reviewed the work of the Office of the Comptroller to determine whether we could rely on their work for the years ended 31 March 2008, 2009 and 2010 for the purpose of this chapter. Based on our review, we found that the work of the staff at the Office of the Comptroller was adequately planned and properly executed using sufficient knowledge of the NB Housing programs and the related Agreement. Sufficient appropriate evidence was obtained to support the content of their report. Though the Office of the Comptroller is not an independent auditor, CMHC accepted the arrangement. We determined that we could rely on this audit.

4.66 Based on the work of the Office of the Comptroller, we found that NBHC maintained and enforced the principles and key elements for each program in the portfolio, and ensured that only targeted households were eligible to receive the benefit of CMHC funding (except as allowed in the Agreement) in the years ended 31 March 2008, 2009 and 2010.

Standards for Housing Affordability, Suitability and Adequacy

4.67 We found that standards for housing affordability, suitability and adequacy have been set. From our discussions with staff at the Department, standards for housing affordability are set every five years based on income thresholds established by CMHC (the housing income limits). On the other hand, the standards for housing suitability and adequacy do not change. These standards have to do with overcrowding in the household and whether the housing is substandard or not. Affordability, suitability and adequacy are defined in Exhibit 4.18.

Exhibit 4.18 Definition of Housing Affordability, Suitability and Adequacy

Affordability	Affordability is measured on the basis of gross household income and basic shelter costs, which include rent/mortgage payments, costs of heat, electricity, water, sewage disposal, repairs and maintenance. A household is considered to have an affordability problem if it pays more than 30 % of its gross income for shelter costs.
Suitability	Suitability is a measure of overcrowding and is based on the National Occupancy Standards. These standards are based on the number of bedrooms in a dwelling and the age, gender and relationship of household members. Other suitability factors relate to whether the dwelling is suitable to a specific need, such as accessibility for persons with disabilities.
Adequacy	The standard for Adequacy is based of the need for major repair and/or the existence of basic facilities. A dwelling is deemed inadequate if it does not have such things as an indoor toilet, a bath or shower and/or if it requires major repair.

Source: Hope is a Home – New Brunswick’s Housing Strategy, Department of Social Development, 2010

Reporting Requirements

4.68 The reporting requirements set out in the Agreement consist of audit reports, performance reports and program evaluations. We investigated to determine whether the reporting requirements were met for the years ended 31 March 2008, 2009 and 2010.

Audit Report

4.69 The Agreement requires NBHC deliver to CMHC an audited Annual Statement of Funding and Expenditures no later than six months after the end of each year. We found that this requirement was met for the period tested.

Performance Report

4.70 The Agreement requires NBHC provide to CMHC an annual performance report no later than six months after each year end. We found that this requirement was met for the period tested.

Program Evaluation

4.71 The Agreement requires NBHC conduct and provide to CMHC evaluations of the programs in the portfolio commencing within five years from the effective date and proceeding so that every program is evaluated at least once every five years or as otherwise agreed to by the parties. We

found that this requirement has not been met, though it has had no effect on funding. The Department told us that this was not a priority for their team since the programs in the portfolio haven't changed in the years since the Agreement came into effect; they offer housing to low income households, and continue to do so. Because the programs have not changed, they do not feel a program evaluation is needed.

Conclusion on our Second Objective

4.72 Based on our work, we found that the Department has met three of the four key requirements we examined with regards to managing and administering the programs. The requirement to do a program evaluation every five years is not being met.

4.73 Though the programs have not changed, evaluation of these programs may be increasingly relevant given the hardships the programs could face in the future as the funding continues to decline and the Social Housing Agreement expires, as we discussed earlier in the chapter. An evaluation of the continued relevance and cost-effectiveness of the programs will assist the Department in planning for the future. Program evaluations will allow the Department to assess the program structure, design or delivery against changes in demand, demographics, and funding. Program evaluations will also force the Department to ask critical questions, using the information collected, to improve programs and be accountable for the results and the resources invested. As we reported in Chapter 5 of Volume II of the 2007 Report of the Auditor General, there are significant risks associated with a lack of evaluative information on programs. These include:

- the risk that a program that is no longer needed continues to be funded and delivered;
- the risk that a program is poorly designed, and therefore completion of prescribed activities has a low probability of achieving desired objectives;
- the risk that a program is not adequately funded to achieve stated objectives;
- the risk that activities are not carried out efficiently, or that alternative activities exist that would result in more efficient achievement of planned objectives; and
- the risk that observed outcomes would have occurred with or without the program being in place.

Recommendation

4.74 **Given the hardship the programs could face in the future due to declining funding, the expiration of the CMHC Social Housing Agreement in 2034, the declining**

condition of housing stock and the remaining need for social housing, we recommended program evaluations be carried out in order to develop a strategy to address these issues and to comply with the Agreement.

***Departmental
Response***

- 4.75** The Department of Social Development provided the following comments on our report and recommendations:
- 4.76** *Thank you for providing us with your observations and recommendations regarding your review of the CMHC Social Housing Agreement. Social Development agrees with the findings stated in your report.*
- 4.77** *The gap between CMHC funding and social housing expenditures will certainly continue to grow over the next 10 years. The Department also agrees that a comprehensive long-term plan is needed to ensure the province can continue to provide and maintain social housing units once the reserve funds in the CMHC Special Purpose account are exhausted.*
- 4.78** *Although discussions have taken place regarding the future of the social housing portfolio, a long-term plan has yet to be developed. The majority of provincial/territorial jurisdictions across the country have similar agreements with the Federal Government. This situation is difficult to address in an environment where the Government of Canada has yet to agree to a national housing strategy that will provide long-term sustainable funding to the provinces/territories. Although the Government of Canada has not made any commitment to extend Federal funding beyond the term of the Social Housing Agreement, the provinces/territories will continue to engage the Federal Government.*
- 4.79** *In response to your recommendation regarding the need to conduct program evaluations, work has begun on the development of an evaluation framework for the programs governed under the Social Housing Agreement. This work will indeed assist us in developing a strategy to deal with the future of our housing portfolio.*
- 4.80** *Social Development certainly values your findings. They emphasize the importance that needs to be placed on developing a comprehensive long-term plan to ensure the viability of our housing programs.*