

March 2017



AN AUDIT OF BC HOUSING'S  
NON-PROFIT ASSET TRANSFER PROGRAM

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The Honourable Linda Reid  
Speaker of the Legislative Assembly  
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Dear Madame Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the report *An audit of BC Housing's Non-Profit Asset Transfer Program*.

We conducted this audit under the authority of section 11 (8) of the *Auditor General Act* and in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Handbook - Assurance and Value-for-Money Auditing in the Public Sector, Section PS 5400.



Carol Bellringer, FCPA, FCA  
Auditor General  
Victoria, B.C.  
March 2017

# AUDITOR GENERAL'S COMMENTS

**BRITISH COLUMBIA, LIKE** other jurisdictions across Canada, faces challenges when it comes to social housing. Demand continues to outpace supply, unfunded repairs on aging buildings total close to \$1 billion, and federal funding for current social housing agreements is set to end by 2036. Well-designed social housing programs can help address these challenges.

In 2013, the Ministry Responsible for Housing introduced the Non-Profit Asset Transfer (NPAT) program to generate cash for investment in social housing. The NPAT program will bring in \$500 million by selling provincially-owned social housing land and buildings to non-profit housing providers. The ministry has earmarked this money to expand rental assistance programs and fund almost 4,000 units of social housing.

However, the program comes with a long-term commitment to pay \$30 million a year (over 35 years) to cover the non-profit housing providers' mortgage payments.

The ministry has entered into this program without demonstrating that the sales will result in better outcomes for social housing, or those that depend on it. It has not fully considered how selling land and buildings could affect both affordability and availability. Will non-profit providers need to raise rents to cover the cost of aging buildings to remain viable? Will the non-profits be able to keep the buildings as social housing? Our audit found that the ministry had not fully addressed these questions. It also had not defined what its mandate to provide *safe, affordable and appropriate housing* means, how it will be achieved, or how the NPAT program supports it.

In other words, the ministry has not demonstrated that transferring ownership of its buildings and lands to non-profits will result in a more sustainable housing sector as intended.



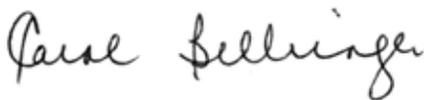
CAROL BELLRINGER, FCPA, FCA  
*Auditor General*

## AUDITOR GENERAL'S COMMENTS

Our recommendations focus on how the ministry and BC Housing can: more fully define the NPAT program's goals, and monitor and report on its results; better ensure non-profits meet the desired outcomes; and better understand the potential risks of the program. Government should always have complete information about the goals of a program, as well as its costs and risks, before moving forward with implementation. This is the cornerstone of evidence-based decision-making.

You will see in two places in the report that government has objected to the disclosure of our findings because, in their view, public interest immunity applies. Public interest immunity is a common law principle that protects information from being released to the public when keeping the information confidential outweighs the public interest in having it released. While government feels that these findings are protected on the grounds of public interest immunity, we believe that disclosure of ministry analyses, such as business cases, are in the public interest. Reaching a common understanding with government on public interest immunity and associated disclosures will be important for our work going forward.

Lastly, I'd like to thank the ministry and BC Housing for their co-operation during our audit work and acknowledge government officials' willingness to continue to work with us on resolving the very complex issue of public interest immunity.



Carol Bellringer, FCPA, FCA  
Auditor General  
Victoria, B.C.  
March 2017

# REPORT HIGHLIGHTS

## SOCIAL HOUSING

HELPS PEOPLE in B.C. who struggle TO FIND HOUSING on their own



## SIGNIFICANT CHALLENGES TO SOCIAL HOUSING:

Demand outpacing supply



Aging buildings = higher maintenance costs



Federal funding for housing agreements declining



# \$500M

FROM SALES TO FUND ~4,000

UNITS & EXPAND RENTAL ASSISTANCE

MINISTRY AND BC HOUSING ARE SELLING SOCIAL HOUSING TO NON-PROFITS TO OWN AND OPERATE



PROVINCE IS GIVING NON-PROFITS

\$30M /YR to cover mortgages



MINISTRY DOES NOT KNOW IF THE PROGRAM WILL IMPROVE THE SUSTAINABILITY OF THE SECTOR

MINISTRY has not defined mandate for "SAFE, AFFORDABLE, APPROPRIATE HOUSING", or how NPAT will help achieve it

## MORTGAGE PAYMENTS

# add up to \$1B

OVER 35 YEARS OF THE PROGRAM

# SUMMARY

**SAFE, AFFORDABLE AND** appropriate housing is vital to the well-being of individuals and communities across British Columbia. Housing influences many aspects of life, including personal health, educational achievement, social connections, employment opportunities and community identity.

## **Accessing affordable housing is a challenge for some households in B.C.**

Accessing adequate housing is a challenge for some people in B.C. In 2011, 15.4% of households in the province were unable to find housing that met their needs. Their housing needed major repair, cost more than 30% of their household income or did not have enough bedrooms to accommodate the household's size and composition.

Social housing – where the province provides a subsidy or rent assistance – supports people who struggle to find adequate housing on their own. In 2015/16, the province, through the BC Housing Management Commission (BC Housing), gave social housing support to just over 104,000 households.

The social housing sector in B.C. is facing significant challenges. Demand is outpacing supply, funding from the federal government for existing operating agreements is declining, and maintenance costs are rising as social housing buildings age.

## **The Non-Profit Asset Transfer (NPAT) program is a key initiative to support social housing**

The Ministry of Natural Gas Development and the Minister Responsible for Housing (the ministry) has a mandate to provide the people of B.C. with access to safe, affordable and appropriate housing. It is also responsible for giving direction to BC Housing, which develops, manages and implements social housing in the province. The ministry also works closely with non-profit housing societies who play a critical role in the provision of social housing.

In 2013, the ministry introduced the NPAT program to better support the non-profit housing sector and to generate funding for reinvestment in social housing.

Through this program, the province is transferring some of its social housing assets to the non-profit sector. These include public housing properties that are directly owned and operated by the province, and land that is owned by the province but leased to a non-profit provider.

## SUMMARY

### What we looked at

Our audit examined how the ministry and BC Housing planned and implemented the NPAT program. We assessed whether the ministry had demonstrated that the potential benefits of the program outweighed its costs and risks and whether BC Housing managed implementation of the program to achieve its objectives and outcomes.

### What we concluded

We concluded that while the NPAT program will provide immediate funding for the ministry to reinvest in housing, it will also incur substantial costs and introduce risks to the long-term provision of social housing in B.C. The ministry has not adequately assessed the benefits of the program against these costs and risks, or shown how the program will contribute to better outcomes for safe, affordable and appropriate housing.

We also concluded that BC Housing has transferred social housing assets to achieve short-term financial targets and enable investments in social housing, but has not demonstrated that it transferred assets based on the ability of non-profit recipients to renew and increase the social housing stock in the province.

### The ministry has not defined the challenges that the NPAT program is intended to address

The ministry did not clearly establish why the NPAT program was needed nor did it define the challenges that the program was intended to address. These steps

are essential to ensuring a program's success, guiding the objectives and outcomes in pursuit of positive change, and establishing a roadmap for future program decisions.

The lack of clarity around the NPAT program's purpose has made it difficult for the ministry to demonstrate that the transfer of social housing assets was warranted.

### The NPAT program has enabled immediate investments in social housing

The ministry identified eight intended outcomes for the program. These include short-term outcomes to be realized when the housing assets are sold and the proceeds reinvested, and long-term outcomes to improve the sustainability of the non-profit housing sector.

The ministry clearly described how the short-term outcomes of the program would be achieved, measured and monitored, and we found it was on track to meet them. As of October 2016, the program had generated \$238 million in cash proceeds, and was expected to bring in roughly \$500 million by 2017/18. This has allowed the province to begin funding more units of social housing, match federal funding contributions through the Investment in Affordable Housing (IAH) program, and increase rental assistance programs.

## SUMMARY

### The ministry did not establish how the NPAT program would enhance the long-term sustainability of the sector

The ministry did not establish how the long-term outcomes for the non-profit housing sector would be achieved, measured or monitored. These outcomes include: supporting the non-profit sector to increase housing options; ensuring the long-term viability of non-profit organizations' current stock; and providing opportunities for redevelopment, efficiencies, innovation and fundraising through non-profit ownership. The lack of targets, timelines, or other measures to demonstrate success increases the risk that these outcomes will not be achieved.

### The ministry and BC Housing have not assessed how the program will impact access to safe, affordable and appropriate housing

Through the NPAT program, the ministry has generated funding for reinvestment in social housing as a way to support more households in need. However, because the ministry has not clearly or consistently defined what it means to provide "safe, affordable and appropriate housing", it cannot demonstrate how the NPAT program, or any program, achieves those objectives and aligns with its mandate.

The NPAT program supports evolving changes the ministry has made to the type of social housing it funds and how BC Housing delivers it. These changes include increasing support for rental assistance programs and shifting the management of social housing from BC Housing to the non-profit sector.

Yet, the ministry has not evaluated the potential impact that these shifts have on the availability and affordability of social housing in B.C.

### The province will subsidize \$1 billion of mortgage payments through the program

The program will create a \$1 billion cost commitment for the province over the next 35 years - the total estimate of the province's subsidy to cover non-profit providers' mortgage payments on transferred assets.

The ministry calculated that the present value of the long-term program costs was more than offset by the proceeds the program generates, including the \$150 million in federal cost-matching dollars. We found that when the \$30 million in implementation costs is included and the federal funding subtracted (it was not dependent on the NPAT program), the program could result in a financial cost rather than a financial benefit.

### The ministry has not shown that the NPAT program provides value for money

The ministry's decision to move forward with the NPAT program was not based on an adequate analysis of the benefits, costs and risks. While the program will provide immediate funding for reinvestment in housing, it will also introduce significant costs and risks without assurance that it will result in better outcomes for social housing.

# SUMMARY OF RECOMMENDATIONS

## WE RECOMMEND THAT:

- 1** the Ministry Responsible for Housing establish how the Non-Profit Asset Transfer (NPAT) program's intended outcomes for non-profit housing providers will be achieved, measured and monitored.
- 2** the BC Housing Management Commission transfer housing assets based on a documented assessment of a non-profit provider's ability to meet the desired program outcomes.
- 3** the BC Housing Management Commission monitor and report annually on progress made to achieve the NPAT program's intended outcomes for the non-profit sector.
- 4** the Ministry Responsible for Housing clearly define what providing the people of B.C. with "access to safe, affordable and appropriate housing" means, and how the NPAT program will contribute to achieving it. This should include performance measures and targets.
- 5** the Ministry Responsible for Housing assess and mitigate the risks that the NPAT program introduces to social housing. This process should include evaluating how the provision of safe, affordable and appropriate housing is affected by the move away from rent-geared-to-income units, the use of rental assistance and the change in delivery model.

# RESPONSE

FROM THE MINISTRY RESPONSIBLE FOR HOUSING  
AND THE BC HOUSING MANAGEMENT COMMISSION

**THE MINISTRY RESPONSIBLE** for Housing would like to thank the Auditor General and her audit team for the report on the Non-Profit Asset Transfer program. The Ministry and BC Housing accept the recommendations and remain committed to implementing programs and initiatives to achieve the Provincial Housing Strategy, *Housing Matters BC*, and the Ministry's mandate to provide British Columbians with access to safe, affordable and appropriate housing through policy and programs, technical codes and standards, and services for landlords and tenants.

The Ministry believes that the challenge the Non-Profit Asset Transfer program was intended to address is indeed quite clear. Launched in 2014, the program strengthens the non-profit housing sector by transferring provincially-owned properties to non-profit housing providers. This improves a non-profit housing provider's ability to support better long-term planning and self-sufficiency.

In addition, the net cash proceeds generated by the program allowed the Province to make significant investments into much needed new social housing during a challenging fiscal environment when maintaining a balanced budget meant managing government's debt and ongoing expenditures. The timing of the reinvestment of the net-proceeds into new social housing was balanced with the province's debt management strategy to return to a declining taxpayer-supported debt to GDP ratio. The declining taxpayer-supported debt to GDP ratio is a major goal in government's commitment to a financially sustainable fiscal plan. The transfer of some social housing properties to non-profit housing providers was a means of unlocking the value of those properties

to create funds for new affordable housing, all the while ensuring the stability and affordability of the transferred properties for tenants.

The Ministry is confident in the ability of the non-profit housing sector to increase and renew the transferred social housing properties over the long-term. A number of non-profit housing societies have already leveraged the equity gained through transferred assets to create more housing for low and moderate income households in communities such as Cranbrook, Victoria and in the Lower Mainland. The program is consistent with government's long-term policy to support a strong non-profit housing sector, recognizing that since the 1960s, non-profit societies have been key partners in the provision and delivery of affordable housing in B.C.

A balanced approach has been taken towards addressing housing challenges in BC. This means that new rent assistance programs have been implemented at the same time as new programs designed to create new affordable housing stock for low and moderate income families and individuals, including frail seniors, youth, Aboriginal households, people with

physical and mental disabilities, as well as homeless individuals. As of January 2017, more than 21,000 seniors and 10,200 families across the province receive cash assistance to help make their monthly rent payments more affordable. And over 28,200 new housing units have been created across the province since 2001 to address housing needs in communities.

The Non-Profit Asset Transfer program's contribution in creating new safe, affordable and appropriate housing is significant. Approximately \$505 million in net proceeds generated from the program is going back into affordable housing. The first \$150 million is cost-matching the Government of Canada's contributions under the 2014-2019 extension of the *Investment in Affordable Housing Agreement*, for a total combined investment of more than \$300 million to help more individuals and families in need access affordable housing. The joint funding has been committed to build new affordable rental housing across the province, and to expand rental assistance programs. This includes the creation of the new Homeless Prevention Program which provides rent supplements to British Columbians who are at risk of becoming homeless, and enhancements to benefits provided to low-income seniors and family households renting in the private market under the Shelter Aid for Elderly Renters (SAFER) and the Rental Assistance Program (RAP). Without the Non-Profit Asset Transfer program, these significant investments would not have been possible. The remaining proceeds of \$355 million generated from the Non-Profit Asset Transfer program have been allocated to fund the Provincial Investment in Affordable Housing program which was announced in 2016/17 to create more than 2,000 affordable rental

housing units in British Columbia over 5 years. Fifty million of this investment has been earmarked for Aboriginal housing.

In addition to the reinvestment of net proceeds from the Non-Profit Asset Transfer program back into affordable rental housing, the Province has also announced an additional \$565 million investment to create 3,280 new units. The new housing projects will serve a wide range of needs including low- to moderate-income renters, seniors, youth, adults with developmental disabilities, Aboriginal people, women and children, and individuals with mental health and substance use issues.

The Auditor General's report also references information that is subject to public interest immunity. Both government and the Office of the Auditor General have an obligation to protect such information as the harm from its disclosure may outweigh the benefits of that disclosure. As the Auditor General has acknowledged, the resolution of issues related to public interest immunity are complex and challenge governments and Auditors General across the country. In British Columbia, government and the Office of the Auditor General have worked together successfully for almost 20 years to resolve such issues. While we were unable to reach an agreement in two instances in this report, government will continue to work with the Office of the Auditor General to achieve resolution in the future.

In the coming year, the Ministry Responsible for Housing and BC Housing, in consultation with key stakeholders, will undertake the process of updating the provincial housing strategy. This refresh will

provide further clarity and address issues that were raised in the report. In addition, work will be carried out to better articulate and ensure achievement of the program's long-term outcomes, further mitigate risks, and monitor outcomes. Steps have already been taken to document the assessment of non-profit providers' ability to meet desired program outcomes.

Anticipating a new national housing strategy later this year, Canada and the provinces are currently rethinking how government housing programs are best delivered. B.C., over the past decade, has led

the country in developing new housing delivery mechanisms, such as targeted rent assistance, innovative partnerships and new approaches to funding and financing affordable housing. The Ministry Responsible for Housing and BC Housing will conduct research into the lasting impact of these and other changes to the housing delivery model in British Columbia.

Thank you for the opportunity to respond.

# BACKGROUND

## Housing is fundamental to our well-being

**ACCESS TO SAFE,** affordable and appropriate housing is vital to the well-being of individuals and communities across British Columbia. Housing influences many aspects of life, including personal health, educational achievement, social connections, employment opportunities and community identity.

Housing can also reduce poverty and lower the costs of health care, criminal justice assistance and social services.

## Accessing affordable housing is a challenge for some households

Despite the value that housing provides, accessing it is a challenge for some households. A 2011 study by the Canada Mortgage and Housing Corporation (CMHC) found that 1.6 million households, or 12.5% of all Canadian households, faced “core housing need.” That is, their housing was inadequate (requiring major repair), unaffordable (costing more than 30% of household income) or unsuitable (insufficient number of bedrooms for the household size or composition) (note that we have not audited the statistics used in the background of the report).

B.C. has one of the highest rates of core housing need in Canada, with 247,000 households (15.4%) unable to find proper housing. For these households,

affordability is the most significant challenge. About three-quarters pay more than 30% of their income on housing.

## COMMON SOCIAL HOUSING TERMS

**Social housing** includes all types of housing where government provides some form of subsidy or rent assistance (see Exhibit 2).

- ◆ **Public and non-profit housing** is social housing that is owned and operated by the province (public housing) or a non-profit provider (non-profit housing).
- ◆ **Rent assistance in the private market** applies to housing that is owned by a landlord in the private market, but where the tenant receives a rent supplement from the province.

**Affordable housing** is generally considered to be housing that costs no more than 30% of household income.

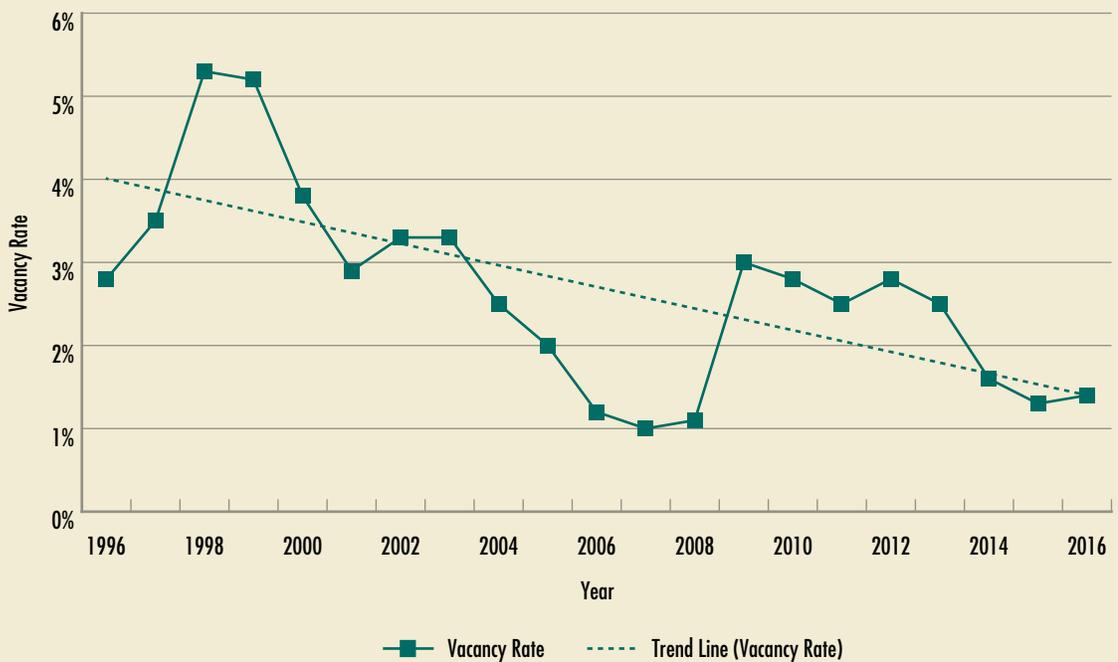
The province also uses the term *affordable housing* to describe any form of housing that receives support (i.e., makes the cost of housing more affordable than it would be without support).

## BACKGROUND

Households that rent face even greater challenges when it comes to accessing good quality, affordable housing in the province. These households make up about 60% of the total population in core housing need, and are experiencing year-over-year rent increases, as well as fewer available units (see Exhibit 1). In its fall 2016 report, the CMHC found that the average provincial vacancy rate for apartments and townhomes was only 1.4% (the ministry considers 2% to be a healthy vacancy rate). Rates in the province's four largest centres – Vancouver, Abbotsford-Mission, Victoria and Kelowna – were below 1%.

Anticipated growth in the province's population and increasing demand for rental units may put additional pressure on the housing system. BC Stats expects the province's population to grow by 31% between 2011 and 2036. Over that same period, demand for rental housing is projected to increase between 27% and 36%, according to the BC Non-Profit Housing Association (BCNPHA), an association that represents the non-profit housing sector in B.C. The highest demand is expected to come from seniors.

**Exhibit 1:** Vacancy rate in B.C.'s private market apartments and townhomes, 1996–2016



Source: Office of the Auditor General of British Columbia, from the Canada Mortgage and Housing Corporation British Columbia Highlights - Fall 1996 - Fall 2016.

Notes: These figures have not been audited. Figures do not include data on the secondary rental market.

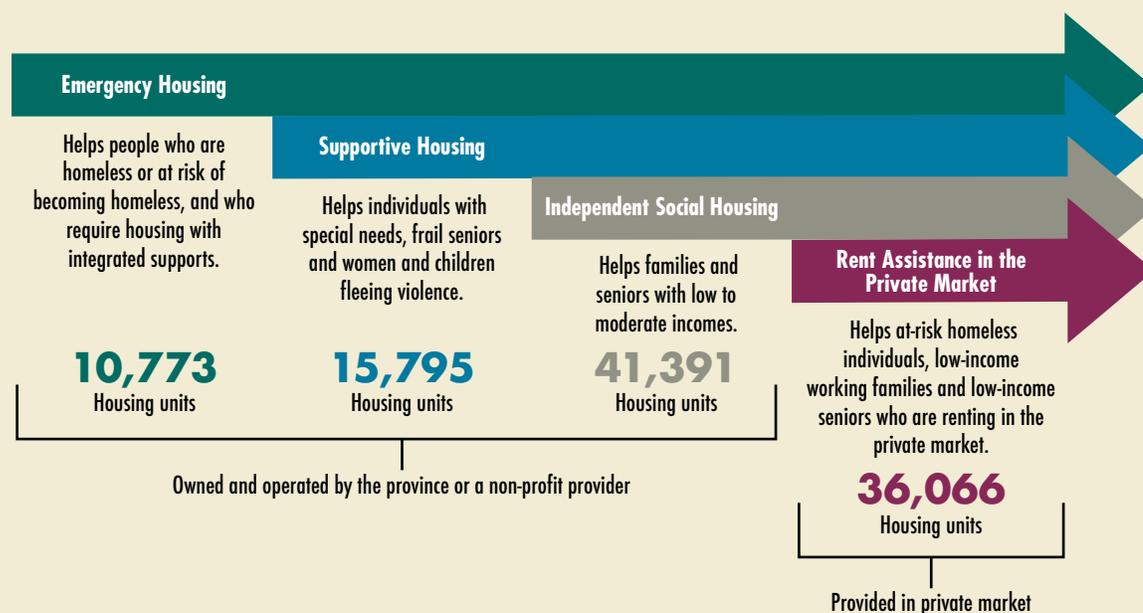
# BACKGROUND

## Social housing helps people in need

Social housing supports individuals who struggle to find housing on their own. It is administered by governments at all levels (federal, provincial and municipal) as well as by a variety of non-profit organizations, co-operatives, local housing authorities and charities.

In B.C., assistance is offered through a range of programs that address specific housing needs (see Exhibit 2), from emergency housing – the highest level of support – to rental assistance in the private market. In 2015/16, the province, through BC Housing, provided social housing support to just over 104,000 households.

**Exhibit 2:** Social housing in B.C., 2015/16



Source: Office of the Auditor General of British Columbia, based on BC Housing data - March 31, 2016.

Notes: These figures have not been audited. We have included all rent supplement programs in the Rent Assistance in the Private Market category to illustrate the total number of rental assistance programs. By contrast, BC Housing includes specialized rent supplement programs elsewhere along the continuum to reflect the clientele it supports (e.g., it includes Independent Living BC rent supplement programs in Supportive Housing).

## BACKGROUND

### Several parties share responsibility for social housing in B.C.

#### Minister Responsible for Housing (ministry)

In B.C., responsibility for housing is assigned to the Ministry of Natural Gas Development and the Minister Responsible for Housing. The ministry's purpose, as it pertains to housing, is to ensure that "British Columbians have access to safe, affordable and appropriate housing."

#### HISTORY OF SOCIAL HOUSING IN CANADA

Before the 1990s, the federal government, through the Canada Mortgage and Housing Corporation (CMHC), maintained administrative and funding responsibility for social housing in Canada. The CMHC provided funding to the provinces and territories through various cost-sharing agreements.

In the 1990s, however, the federal government began devolving its responsibility to the provinces and territories. In 2006, B.C. signed the Social Housing Agreement (SHA) with the federal government, assuming responsibility for 16,700 units of social housing previously owned and administered by the CMHC.

The ministry is also responsible for providing direction to the agencies that implement government's housing policy – primarily BC Housing and the Provincial Rental Housing Corporation – and for ensuring that they are accountable in achieving government's goals.

#### BC Housing Management Commission (BC Housing)

BC Housing leads the development, management and implementation of social housing in the province. The organization partners with public and private housing providers, local government and community agencies in an effort to create a strong system of housing, and to support those in greatest need. It also operates roughly 7,100 units of public housing (see Exhibit 3).

#### Provincial Rental Housing Corporation (PRHC)

The Provincial Rental Housing Corporation holds the land and buildings that are owned by the provincial government as investments in social housing. The corporation acts as an agent for BC Housing – buying, holding and disposing of property and leasing some of its sites to non-profit housing societies. The corporation does not have any staff. Instead, BC Housing personnel carry out the corporation's functions.

#### Non-profit societies

BC Housing partners with about 800 non-profit housing societies, co-operatives and other housing partners to provide roughly 61,000 units of social

## BACKGROUND

housing in the province. This represents close to 90% of all public and non-profit housing in B.C.

Non-profit housing differs from public housing that is owned and operated by the province. Public housing is offered to tenants on a rent-geared-to-income (RGI) basis, where rent is set at 30% of household income. In contrast, non-profit housing developments often have a mix of subsidized and unsubsidized units – some units are RGI, while others are offered at low-end-of-market or market rents (see sidebar). In addition, non-profit housing developments are often smaller and designed to blend into the existing neighbourhood.

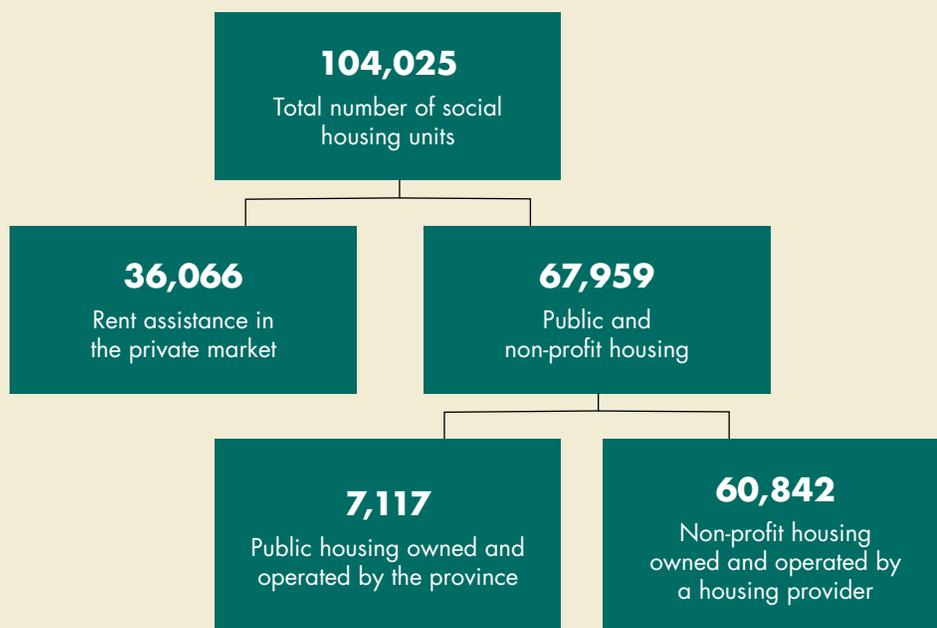
The partnership model has been in place in B.C. since the early 1970s. It reflects the province's philosophy that non-profit housing providers better understand their communities and have developed an expertise in dealing with households in need.

### MARKET AND LOW-END OF MARKET RENT

**Market units** set rent according to the average rent for similar units in the private market.

**Low-end-of-market units** set rent at roughly 80–90% of the average market rent.

**Exhibit 3:** Model of social housing delivery by unit count in B.C., 2015/16



Source: Office of the Auditor General of British Columbia, based on information from BC Housing.

Notes: Figures are approximate and have not been audited. "Non-profit housing" refers to housing where BC Housing has a financial relationship, but the project is owned and/or operated by a non-profit society, health authority or other housing provider.

## BACKGROUND

### Demand for social housing in B.C. continues to outpace supply

The demand for social housing in B.C. is high. Through the Housing Registry, BC Housing tracks applications for roughly 26,000 units of public and non-profit housing (just over a third of all units that are owned/operated by the province or a non-profit housing provider). On March 31, 2016, there were 14,616 applicants awaiting housing on the Registry – 900 more than in 2015.

Of those awaiting housing, seniors and families account for two-thirds of applicants. The other third are people with disabilities, single individuals and households requesting wheelchair-modified units.

Waitlist information for the other units is unknown. These are administered by the individual non-profit societies who operate them, and BC Housing does not collect the data. However, most of the providers we spoke to confirmed that they also had long waitlists.

### Funding for social housing is declining as agreements expire

Non-profit housing in B.C. has, to date, been funded mainly through long-term operating agreements between the province and social housing providers. Through these agreements, providers receive funding to pay out their mortgage, fund building maintenance, cover operating expenses and help keep rents affordable. An agreement's term is often tied to the mortgage, which means that when the mortgage is paid off, the society no longer receives funding from the province and is solely responsible for the project's ongoing success.

Operating agreements have already begun to expire and will continue to do so over the next 15 years. Agreements covering an estimated 26,200 of 61,000 non-profit housing units will expire by 2030. That accounts for close to half of all non-profit housing units in the province (see [Exhibit 3](#)).

### CHANGE IN FEDERAL GOVERNMENT FUNDING FOR SOCIAL HOUSING IN B.C.

In 2015/16, BC Housing received \$132.9 million from the federal government to fund social housing agreements in the province. This is roughly \$7.6 million less than in 2006 when the Social Housing Agreement (SHA) was first struck.

Funding under the SHA will continue to decline over the next 20 years until it drops off entirely in 2035/36.

## BACKGROUND

According to BC Housing, the ministry, and the BC Non-Profit Housing Association, the loss of funding that will result from these expired agreements is one of the most significant issues facing non-profit housing providers.

When government and non-profit housing providers first entered into operating agreements, they assumed that once the mortgages were paid off, the various projects would be able to generate enough revenue (through tenant rent) to remain viable while continuing to provide social housing. Although this will be true for some providers, for others, the lack of a government subsidy means they will not be able to provide the same level of affordable housing.

Data from BC Housing shows that 35% of units coming off agreement in the next 15 years would have an operating shortfall if they expired today (i.e., if the mortgage on the unit was paid off and it no longer received a subsidy). Most of these units are rented at RGI levels which, as noted above, charge lower rent. They also provide less rental income for providers when compared with low-end-of-market and market units.

Those providers that experience a shortfall will need to find new funding sources to cover their costs.

The most common options include increasing rents (i.e., converting RGI units to low-end-of-market or market rents), fundraising, bringing in new capital, finding efficiencies or selling a portion of assets. Over time, some of these changes may result in the loss of affordable housing.

BC Housing has undertaken several initiatives to date to better understand the issue and assist non-profit housing providers *before* their agreements expire. Examples of these initiatives include developing a planning guide with the BCNPHA to help providers prepare for agreement expiry, and carrying out research to better address housing providers' needs. Tracking how providers have adapted after their agreements have ended has not taken place.

### Maintenance costs are rising with aging buildings

Deferred maintenance on the social housing portfolio has the potential to further impact the financial viability of housing providers after their agreements expire. Many of the existing social housing buildings that will be coming off agreement were built before 1980 and are in need of repair.

Of the 104,000 units of social housing in B.C., BC Housing is responsible for the maintenance needs of 51,650 public or non-profit housing units. This is in keeping with the provisions in many operating agreements. The remaining units are largely owned, managed and maintained by private landlords, with the province providing rent subsidies.

As of March 31, 2016, BC Housing had assessed the condition of about 75% of the 51,650 units it is responsible for maintaining, using the Facility Condition Index (FCI) methodology. These assessments found the portfolio to be in “poor

## BACKGROUND

condition,” with an FCI rating of close to 20% (see sidebar) and \$1.13 billion in needed repairs over the next five years.

BC Housing’s budget for maintenance and rehabilitation over the three-year period, 2016/17 - 2018/19, is an estimated \$155 million. This suggests that there is about \$975 million in unfunded maintenance needs. If repairs are not addressed, BC Housing estimates that the FCI will deteriorate to 46% by 2031 – critical condition – facing the potential for frequent equipment failure, health and safety risks, and structural and system issues.

### FACILITY CONDITION INDEX (FCI)

FCI is an asset management tool that measures the condition of a building at a specific point in time. The rating, calculated as a percentage, measures the total cost of needed repairs against the amount that would be required to replace the building.

The lower the FCI value, the better condition the building is in. According to BC Housing, industry benchmarks range from:

- ◆ Good condition: 0–5%
- ◆ Fair condition: 6–10%
- ◆ Poor condition: 11–30%
- ◆ Critical: over 30%

BC Housing uses the forecast FCI rating of the portfolio five years out when reporting present-day results. This approach, which accounts for needs that are coming due in the immediate future, aligns with industry standards.

Societies with aging buildings may need to look for additional funding sources (see discussion on [expiring agreements](#)) to cover repairs, if redevelopment is not an option and they do not have enough money elsewhere in their budget.

### The ministry has a strategy to respond to housing challenges

The ministry’s housing strategy is documented in *Housing Matters BC*, first released in 2006 and updated in 2014.

The first iteration in 2006 presented a markedly new direction for social housing in B.C. At the time, the province’s homelessness population was growing, the number of seniors requiring supports was increasing and the gap between the cost of renting and what working families could afford was widening.

The strategy sought to match the level of assistance to the degree of need, optimize the use of existing housing supports, increase partnerships and promote self-sufficiency among tenants. To achieve these objectives, the ministry prioritized access for long-term housing to households that not only had low income but **also** had a special need. Households whose housing problems stemmed solely from low income would be primarily assisted with rent subsidies in the private market. This marked the birth of what is now known as the Rental Assistance Program (RAP).

## BACKGROUND

During the eight years the housing strategy was in effect, the province significantly increased support for rent assistance programs and emergency housing services for the homeless (see Exhibit 4). Supportive housing and independent social housing remained relatively unchanged.

In updating the strategy in 2014, the province recommitted support for those in greatest housing need while introducing changes to how social housing would be delivered. This involved shifting BC Housing’s role from owning and operating social housing to facilitating the development of housing through partnerships. Efforts were also directed at building the capacity of the non-profit housing sector to ensure its long-term sustainability.

### The Non-Profit Asset Transfer program is a key initiative of the housing strategy

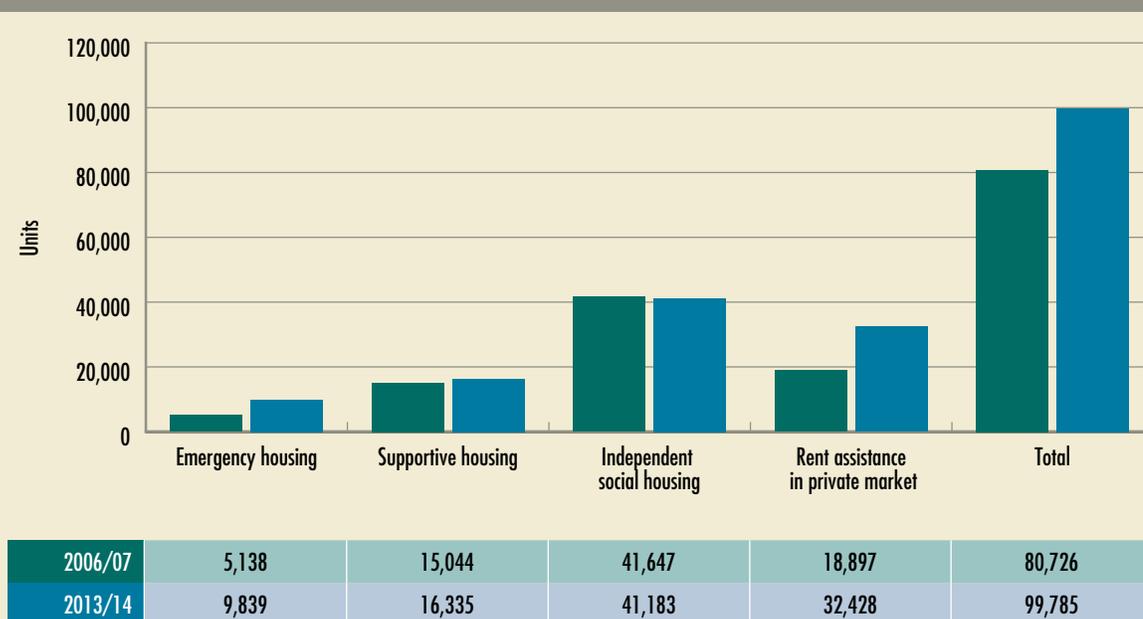
Through the Non-Profit Asset Transfer (NPAT) program, the province is transferring some of its social housing properties to the non-profit sector.

These include:

- ♦ **public housing** properties that the province currently owns and operates
- ♦ **leased lands** that are owned by the province, but leased to a non-profit housing provider who owns and/or operates a building on the site

The program is designed to “rationalize the real estate holdings of the PRHC [Provincial Rental Housing

**Exhibit 4:** Number of units in each type of social housing in B.C., 2006-2014



Source: Office of the Auditor General of British Columbia, based on BC Housing data.

Notes: These figures have not been audited. We have included all rent supplement programs in the Rent Assistance in the Private Market category to illustrate the total number of rental assistance programs. By contrast, BC Housing includes specialized rent supplement programs elsewhere along the continuum to reflect the clientele it supports (e.g., it includes Independent Living BC rent supplement programs in Supportive Housing).

## BACKGROUND

Corporation] to better support the non-profit sector to increase housing options for low and moderate income households in need and to use the net cash proceeds from the sales to cost-match the IAH [Investment in Affordable Housing Program, a federal housing program] and to reinvest in social housing.”

The sale of these assets will generate approximately \$500 million in proceeds that the province can reinvest in social housing. This is based on the value that properties have been appraised at, given their use as social housing.

The program also comes with costs. Although the non-profit provider takes out a mortgage to buy the asset, the province provides them with a monthly subsidy to cover the principal and interest payments. BC Housing

expects these payments to cost \$30.1 million a year, until 2052/2053.

As of October 2016, BC Housing had transferred 134 leased lands and two public housing properties – Stamps Place and Nicholson Towers – two large-scale public housing complexes in downtown Vancouver. These transfers had generated approximately \$238 million in net proceeds.

Based on its October 2016 forecast, BC Housing expects to transfer a total of 290 leased lands and five public housing properties through the NPAT program. This includes Ted Kuhn in Surrey and Sunset Towers in Vancouver – two more public housing properties – that BC Housing will transfer to the successful candidates it announced in October 2016.



Source: Office of the Auditor General of British Columbia, based on BC Housing data from December 2015.

### Stamps Place

- ◆ 375 units
- ◆ 9.3 acres
- ◆ Built: 1968
- ◆ Transfer price: \$66.7 million

# AUDIT OBJECTIVE AND APPROACH

## AUDIT OBJECTIVE

**OUR AUDIT EXAMINED** how the Ministry Responsible for Housing (the ministry) and the BC Housing Management Commission (BC Housing) planned and implemented the Non-Profit Asset Transfer (NPAT) program. We established separate objectives for the ministry and BC Housing to recognize their distinct roles and responsibilities in providing social housing.

**Objective 1:** To determine whether the Ministry Responsible for Housing has demonstrated that the potential benefits of the NPAT program outweigh its costs and risks.

**Objective 2:** To determine whether the BC Housing Management Commission has managed implementation of the NPAT program to achieve the program objectives and outcomes.

For objective 1, we looked to see whether the ministry had:

- ◆ clearly defined the program's overall objective (its approach to achieve the program purpose) and its intended outcomes (its benefits)
- ◆ adequately assessed the benefits, costs and risks of viable options to achieve the program's purpose
- ◆ recommended an option based on an assessment that its benefits would outweigh its costs and risks

For objective 2, we examined whether BC Housing had transferred assets based on an assessment of recipients' ability to meet the intended objective and outcomes of the program.

## Criteria and sources

We developed our objectives and criteria from several good practice sources on evidence-based policy and decision-making. These include the Ministry of Finance's *Capital Asset Management Framework, Risk Management Guidelines*, and *Core Policy and Procedures Manual*, as well as Shared Services BC's *Ministry Guide to the Request for Proposals Process*. We also considered the *Business Case Guide* published by the Treasury Board of Canada Secretariat.

# KEY FINDINGS AND RECOMMENDATIONS

## AUDIT APPROACH

The audit covered the planning, development and implementation of the NPAT program between 2012 and 2016. We also considered information from as far back as 2002, when the first iteration of government's core services review (which examined the structures and methods used by government to deliver its mandates and budgets) was underway. We completed our audit on October 24, 2016.

Our assessment of the ministry's planning for and development of the NPAT program focused on the documents that formed the business case for the program. In examining BC Housing's implementation work, we focussed on how staff had assessed, selected and transferred public housing properties and leased lands as of October 2015. This includes:

- ◆ **public housing:** two public housing properties that the province owns and operates – Stamps Place and Nicholson Towers
- ◆ **leased land:** 114 land sites that the province has leased to non-profit housing providers

Our work involved:

- ◆ reviewing documents from the ministry and BC Housing on the planning, development and implementation of the program
- ◆ conducting interviews with ministry and BC Housing staff, as well as with staff from non-profit housing providers involved in the transfers

- ◆ consulting with a subject matter expert at the University of New South Wales, Australia, to compare the NPAT program with similar initiatives in other jurisdictions (Australia and the UK)
- ◆ visiting close to 20 non-profit housing providers and social housing developments in the Lower Mainland, in Northern B.C. and on Vancouver Island

We conducted our audit under the authority of section 11 (8) of the *Auditor General Act* and in accordance with the standards for assurance engagements set out by the Chartered Professional Accountants of Canada (CPA) in the CPA Handbook – Assurance and Value-for-Money Auditing in the Public Sector, Section PS 5400.

# AUDIT CONCLUSION

## OBJECTIVE 1

We concluded that while the program will provide immediate funding for the ministry to reinvest in housing, it will also incur substantial costs and introduce risks to the long-term provision of social housing in B.C. The ministry has not adequately assessed the benefits of the program against these costs and risks, or shown how the program will contribute to better outcomes for safe, affordable and appropriate housing.

## OBJECTIVE 2

We concluded that BC Housing has transferred social housing assets to achieve the gains on sale and enable short-term investments in social housing, but has not demonstrated that it transferred assets based on the non-profit recipients' ability to renew and increase the social housing stock in the province.

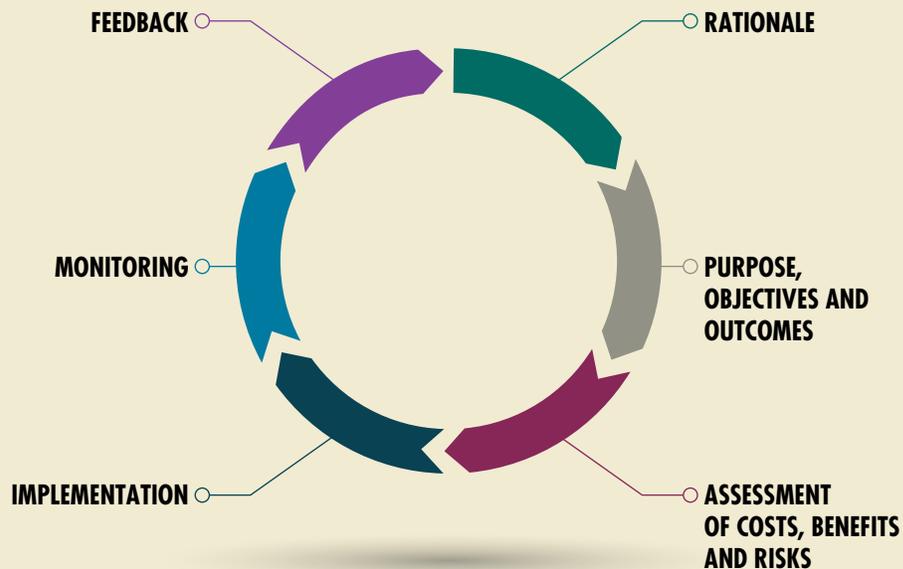
# KEY FINDINGS AND RECOMMENDATIONS

**GOVERNMENT, ADMINISTRATORS AND** taxpayers expect government programs to provide value for money – meaning programs should represent the best combination of costs and benefits to achieve a specific purpose.

Evidence-based evaluation can help organizations achieve value for money by considering the need for a new program (or change in direction), as well as the costs, benefits and risks of different options

(see Exhibit 5). These considerations are then presented in a business case. We used this approach to evaluate how the ministry and BC Housing planned and implemented the NPAT program.

**Exhibit 5:** Process for developing evidence-based policies and programs



Source: Office of the Auditor General of British Columbia, adapted from the United Kingdom's Treasury Appraisal and Evaluation Cycle.

## KEY FINDINGS AND RECOMMENDATIONS

### The ministry has not defined the challenge that the NPAT program is intended to address

Good practice holds that a business case should start by identifying the challenge or problem that a program is intended to address. This justifies the need for a program by establishing the scope of the issue and the reasons for the intervention.

We expected the ministry to have developed a business case for the NPAT program that clearly described the challenge the program was intended to address. As part of that, we expected the ministry to have identified the gap between where it was and where it wanted to be with respect to social housing, and to have established how the NPAT program would help bridge this gap.

We found that the ministry did not clearly establish why the program was needed. **We were unable to agree with government about the disclosure of further information on this. In their view, this information is protected under public interest immunity.**

#### PUBLIC INTEREST IMMUNITY

Public interest immunity is a common law principle whereby government has an obligation to protect information from being released to the public when keeping the information confidential outweighs the public interest in having it released.

A complete description of the challenge a program is meant to address can both guide development of the objectives and outcomes and serve as a roadmap for other key decisions. The lack of clarity about what the NPAT program was intended to fix makes it difficult for the ministry to demonstrate that the transfer of social housing assets was warranted. It may have also contributed to the challenges we found in the province's planning and implementation of the program, as we discuss later in the report.

### The NPAT program enabled immediate investments in social housing

Clearly defined objectives and outcomes are critical to building a strong business case. In clear and measurable terms, they establish what the initiative aims to accomplish, and how, and they set a timeframe for implementation. By articulating the expected results, agencies can demonstrate value for money and set the program up for success.

We expected to find that the ministry had established an overall objective and outcomes that addressed the challenge the NPAT program was intended to fix. We also expected the ministry to have completed an analysis that demonstrated how the outcomes would be achieved and to have established clear measures (such as targets or performance indicators) to monitor success.

We found that the ministry did establish an overall objective for the program, namely to “transfer stock [housing units] to the non-profit housing sector.”

## KEY FINDINGS AND RECOMMENDATIONS

The ministry also identified eight intended outcomes of the program (see Exhibit 6). We have grouped these into two general categories:

- ◆ short-term outcomes to be realized when the assets are sold and the proceeds are reinvested
- ◆ long-term outcomes for improving the sustainability of the non-profit housing sector

We found that the ministry’s planning for the **short-term outcomes** met good practice. The ministry clearly described how the short-term outcomes would be achieved, measured and monitored. And it developed targets and timelines to monitor during implementation.

We also found that the ministry and BC Housing were on track to meet the funding target for the program. As of October 2016, the program had generated approximately \$238 million in cash proceeds and was expected to bring in roughly \$500 million by 2017/18.

The ministry and BC Housing achieved the funding target by transferring fewer units than planned because property values had increased since the program was developed (see [Exhibit 7](#)). In keeping with the business case, government authorized BC Housing to subsidize no more than \$30.1 million in annual mortgage payments, but rising property valuations meant that BC Housing had to reduce the number of properties it transferred in order to remain within their budget.

**Exhibit 6:** Intended outcomes of the NPAT program

### Short-term outcomes

1. Generate funding that can be reinvested into strengthening the social housing sector.
2. Fulfill the province’s cost-matching obligation of \$150 million for the federal government’s Extension of the Investment in Affordable Housing (IAH) program.
3. Assist more people through rental assistance programs.
4. Impact government’s fiscal plan positively and contribute to a balanced budget.
5. Allow BC Housing to move away from owning and operating social housing.

### Long-term outcomes

6. Support the non-profit sector to increase housing options.
7. Ensure the long-term viability of non-profit organizations’ current stock by allowing them the ability to leverage assets.
8. Provide opportunities for redevelopment, efficiencies, innovation and charitable fundraising through non-profit ownership.

Source: Office of the Auditor General of British Columbia, based on BC Housing data.

# KEY FINDINGS AND RECOMMENDATIONS

## INVESTMENT IN AFFORDABLE HOUSING (IAH) PROGRAM

Through the IAH program, the federal government works with the provinces and territories to improve access to social housing. The IAH agreement between B.C. and the federal government was signed in 2011 and extended in 2014. The 2014 extension committed each government to provide matching contributions of \$150 million for a total investment of more than \$300 million over five years.

Between 2011 and 2019, the program will allocate up to \$1.9 billion in funding across Canada, \$240 million of which is earmarked for B.C.

Funding provided under the program is cost-matched by the province and can be used to:

- ◆ increase the supply of social housing across Canada
- ◆ improve and preserve the quality of social housing
- ◆ improve housing affordability for vulnerable Canadians
- ◆ foster safe, independent living

**Exhibit 7:** Progress in transferring assets as of October 2016

	Original target Oct. 2013	Actual transferred Oct. 2016	Remaining forecast for transfer Oct. 2016	Difference
Public housing	18 (2,841 of 7,100 public housing units)	2	3	- 13
Leased lands	345 (11,661 of 61,000 non-profit housing units)	134	156	- 55

Source: Office of the Auditor General of British Columbia, based on data from BC Housing.

Note: Figures have not been audited and are approximate as of October 2016.

## KEY FINDINGS AND RECOMMENDATIONS

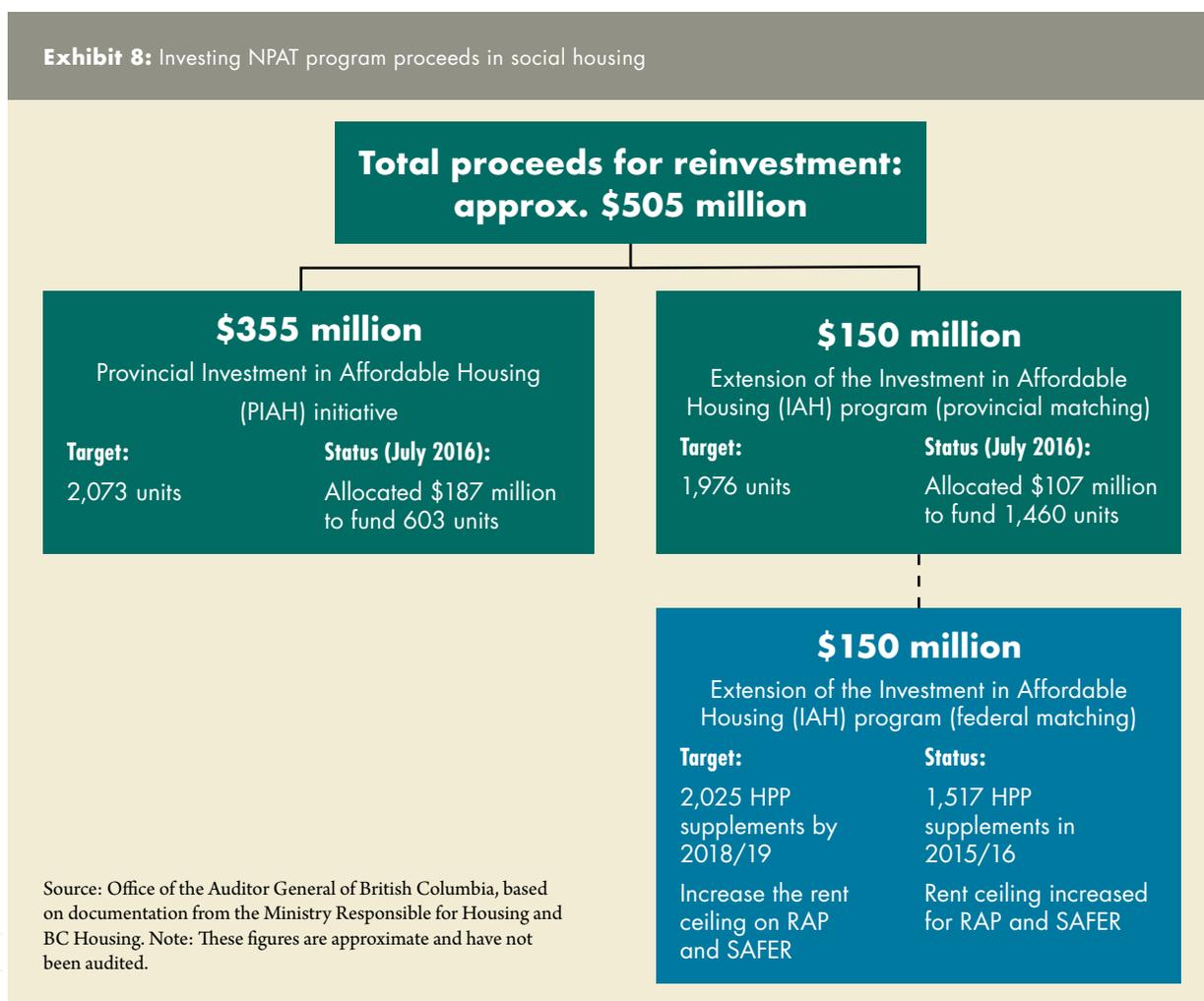
The ministry's success in meeting the funding target allowed it to, in turn, begin realizing the program's short-term outcomes. The ministry earmarked all of the proceeds for purposes consistent with its business case, including: reinvesting in the social housing sector; matching the province's obligation under the IAH program; increasing rental assistance programs; and balancing the budget.

BC Housing deposited the funds with the Provincial Treasury for fiscal and debt management purposes and invested the proceeds into two initiatives: the new Provincial Investment in Affordable Housing (PIAH) initiative and the extension to the IAH program –

provincial matching of federal funds (see Exhibit 8). BC Housing anticipates that these programs will fund roughly 4,000 units of all types of social housing, from emergency shelters to rentals for low- and moderate-income families.

The ministry also expanded rental assistance programs through the federal portion of the IAH funding by increasing the rent ceiling (the maximum rent eligible for subsidy) for the Rental Assistance Program (RAP) and Shelter Aid for Elderly Renters (SAFER) program and by expanding the number of supplements for individuals at-risk of homelessness under the Homeless Prevention Program (HPP).

**Exhibit 8:** Investing NPAT program proceeds in social housing



## KEY FINDINGS AND RECOMMENDATIONS

### The ministry did not establish how the NPAT program would enhance the long-term sustainability of the sector

Of the program's eight potential outcomes, three are intended to improve the long-term sustainability of the non-profit housing sector:

- ◆ support the non-profit sector to increase housing options
- ◆ ensure the long-term viability of non-profit organizations' current stock by allowing them the ability to leverage assets
- ◆ provide opportunities for redevelopment, efficiencies, innovation and charitable fundraising through non-profit ownership

However, unlike for the short-term outcomes, we found that the ministry did not describe how the outcomes for the non-profit sector would be achieved, measured or monitored. The ministry did not:

- ◆ conduct supporting analysis or obtain evidence demonstrating that the outcomes could be achieved
- ◆ establish targets, timelines, or other measures to monitor and demonstrate success

This falls short of meeting good practice and also contrasts with the approach taken by other jurisdictions that have transferred government-owned social housing assets to a third-party provider (see sidebar).

The fact that ministry analysis and targets were limited to the short-term financial outcomes of the program supports that generating cash for reinvestment was a higher priority for the ministry than improving the sustainability of the non-profit sector. This is reinforced by the ministry's decision to stop transferring properties after the financial targets were achieved.

### TARGETS ESTABLISHED THROUGH HOUSING TRANSFERS IN OTHER JURISDICTIONS

*United Kingdom* – New landlords were required to implement a variety of improvements through the transfer of housing stock. These included repairing and modernizing buildings to a specific standard, guaranteeing rents, improving management services, empowering and protecting tenants, and developing new housing.

*Victoria State, Australia* – Government required housing associations to expand their portfolios by a minimum of 15% of the value of the transferred properties.

*New South Wales, Australia* – Contracts with non-profit recipients established specific targets for new builds. Government expected that these would be funded by leveraging the transferred assets and generating new rental income.

## KEY FINDINGS AND RECOMMENDATIONS

We concluded that the ministry's approach increases the risk of the program failing to enhance the long-term sustainability of the social housing stock at a time when the sector is facing challenges (such as growing [maintenance needs](#) on aging buildings and the loss of funding from [expiring agreements](#)).

**RECOMMENDATION 1:** *We recommend that the Ministry Responsible for Housing establish how the Non-Profit Asset Transfer (NPAT) program's intended outcomes for non-profit housing providers will be achieved, measured and monitored.*

### BC Housing cannot show that it has transferred assets based on the ability of non-profit providers to increase and renew housing stock

Despite the ministry's shortcomings in planning for long-term outcomes, we still expected to find that BC Housing had transferred assets based on an evaluation of each recipient's ability to increase and renew the housing stock. We expected that process to include establishing a list of criteria to evaluate recipients, ensuring that the criteria aligned with the program outcomes, and then selecting non-profit organizations based on an evaluation against the criteria.

We looked at BC Housing's implementation of the two types of transfers separately: public housing properties owned and operated by the province; and land sites leased to non-profit housing providers but owned by the province.

### Sale of public housing properties

As of October 2016, BC Housing had transferred ownership of two public housing properties – Stamps Place and Nicholson Towers – to non-profit housing providers (see sidebar).

#### PROCESS FOR SELECTING NON-PROFIT HOUSING PROVIDERS TO PURCHASE STAMPS PLACE AND NICHOLSON TOWERS

In October 2014, BC Housing invited expressions of interest from non-profit housing providers to purchase Stamps Place and Nicholson Towers in Vancouver. Six non-profit providers made submissions, two of which submitted expressions of interest on both properties.

In January 2015, the BC Housing Board of Commissioners appointed an advisory committee to oversee the selection process after the staff-led process (which followed a structured procurement process) was seen to disqualify strong candidates on the basis of administrative oversights.

The advisory committee consisted of three BC Housing board members, a BC Housing senior executive, and two external advisors. The committee concluded its assessment and made its recommendation to the board in April 2015.

Stamps Place and Nicholson Towers were transferred to New Chelsea Society and The Bloom Group respectively who began operating the properties in April 2016.

## KEY FINDINGS AND RECOMMENDATIONS

We found that BC Housing could not show that it transferred Stamps Place and Nicholson Towers based on an assessment of proponents' ability to meet the long-term outcomes of the program. The committee held all of its meetings *in camera* (in private) and kept no record of its assessment or decision.

Advisory committee members told us that they made their decisions *in camera* to protect the sensitive information that was collected. We accept that protecting information is good practice, but we still expected that the committee would document its criteria and evaluation while keeping the material confidential.

Committee members told us that they put a lot of thought and effort into the evaluation. Several meetings were held, interviews were conducted with interested non-profits, and external experts in social housing were included as members of the advisory committee. Committee members also stressed that an evaluation was conducted, but that the assessment and selection process was done verbally. However, in the absence of documentation, we could not confirm the extent or consistency of the evaluation.

As a result, BC Housing could not demonstrate how the successful proponents were selected over the others and whether the program's long-term outcomes were a factor in the decision.

### Transfer of leased lands

BC Housing has also transferred several parcels of provincially owned land to non-profit housing providers who were previously leasing the sites. As of October 2016, BC Housing had transferred 134

potential sites. We examined the process BC Housing used to transfer the first 114.

Unlike the transfer of Stamps Place and Nicholson Towers, BC Housing did not seek external expressions of interest for the transfer of leased lands. This is because non-profit providers were already operating social housing on the lands in question.

Despite the difference in process, our expectations remained the same: that BC Housing had transferred leased lands based on an evaluation of the non-profit provider's ability to meet the long-term outcomes of the program.

We found that BC Housing did not do this. It did establish a list of criteria against which to evaluate providers, but these criteria were not – with one exception – aligned with the long-term outcomes in the business case (see Exhibit 6). Instead, the criteria focused on the technical aspects of the land title, property status and a provider's interest in acquiring title.

The one exception was a criterion that examined the financial and operational performance of the provider. While this could have shed some insight on a provider's ability to leverage the property, we found that BC Housing did not apply this criterion consistently in its evaluation.

BC Housing narrowly interpreted its role to be that of only creating opportunity (as per the wording of the program outcomes), rather than of ensuring that the outcomes could be realized. BC Housing stated that it did not need to evaluate recipients (for either type of transfer) against the program outcomes because

## KEY FINDINGS AND RECOMMENDATIONS

the benefit for the provider was achieved at the point of transfer – transferring the asset strengthened a provider’s balance sheet, enabling the provider to borrow funds for maintenance, repairs or new housing.

While we recognize that transferring assets could indeed create opportunities for non-profit providers, realizing these may not be as simple as BC Housing suggests. According to research by the BC Non-Profit Housing Association, refinancing, adding more units to an existing site and redeveloping the property are among the most difficult options for societies to implement.

We found that BC Housing did not demonstrate whether the transfer of public housing properties and leased lands would result in new stock or renewal of the existing stock. This approach has increased the risk that the program will not achieve its intended outcomes and enhance the long-term sustainability of social housing in B.C.

**RECOMMENDATION 2:** *We recommend that the BC Housing Management Commission transfer housing assets based on a documented assessment of a non-profit provider’s ability to meet the desired program outcomes.*

**RECOMMENDATION 3:** *We recommend that the BC Housing Management Commission monitor and report annually on progress made to achieve the NPAT program’s intended outcomes for the non-profit sector.*

**The ministry has not assessed how the program will impact access to safe, affordable and appropriate housing in B.C.**

The ministry cannot demonstrate how the program aligns with its mandate

Aligning expected outcomes with an organization’s purpose ensures that new or updated programs support the mandate of the organization. We expected to find that the ministry had aligned the NPAT program outcomes with its mandate for housing – that “British Columbians have access to safe, affordable and appropriate housing...”

While we agree that expanding rental assistance programs and reinvesting in social housing enable the ministry to support households in need, the

### THE CMHC’S DEFINITIONS OF SAFE, AFFORDABLE AND APPROPRIATE

- ◆ **Safe** (what the CMHC defines as adequate): Housing that does not require major repairs.
- ◆ **Affordable:** Housing that costs less than 30% of a household’s pre-tax income.
- ◆ **Appropriate** (what the CMHC defines as suitable): Housing that has a sufficient number of bedrooms for the household’s size and composition.

## KEY FINDINGS AND RECOMMENDATIONS

ministry has not demonstrated how this assistance, or the program in general, will result in housing that is safe, affordable and appropriate. This is because the ministry has not clearly or consistently defined what “safe, affordable and appropriate housing” means, nor has it established what level of access it intends to provide. The ministry told us that while the CMHC’s definitions of safe, affordable and appropriate (see text box) are generally used in the housing sector, its policies and programs include housing options that fall outside these standards (although the ministry could not provide a standard target). This inconsistency makes it impossible to determine how the NPAT program, or any program, aligns with the ministry’s mandate.

**RECOMMENDATION 4:** *We recommend that the Ministry Responsible for Housing clearly define what providing the people of B.C. with “access to safe, affordable and appropriate housing” means, and how the NPAT program will contribute to achieving it. This should include performance measures and targets.*

### The ministry has not mitigated the risks that the program poses to social housing

The NPAT program supports evolving changes the ministry has made to the type of social housing it funds and how BC Housing delivers it. However, we found that the ministry has not evaluated how these shifts impact the provision of social housing. We identified three main areas of risk:

### 1. The move away from rent-geared-to-income (RGI) units

Currently, about two-thirds of the province’s supportive and independent housing units are RGI units. The rest are a mix of low-end-of-market rent or market rent, fixed rent and Independent Living BC units (subsidized housing for seniors).

RGI units are the only form of social housing that meets the CMHC’s affordability standard of ensuring that households pay no more than 30% of income towards rent. They are also an expensive form of social housing for providers and governments to run, requiring a large subsidy to bridge the gap between what the unit costs to maintain and operate and what tenants pay at 30% of their income.

Most of the new units funded through the NPAT program will not be RGI. Although the proposals for these units are still under review, early indications

### TYPES OF RENT

- ◆ Market units set rent according to the average rent for similar units in the private market.
- ◆ Low-end-of-market units set rent at roughly 80–90% of the average market rent.
- ◆ Fixed-rent units set rent at a flat amount regardless of income.
- ◆ Independent Living BC units require tenants to pay about 70% of their after-tax income on rent.

## KEY FINDINGS AND RECOMMENDATIONS

suggest that most units will charge low-end-of-market and market rent, with only the potential for some RGI.

BC Housing also anticipates that providers who receive transferred assets with RGI units may need to convert these to low-end-of-market or market rentals over time if they are to remain viable. These shifts move the province away from RGI units towards market-based rentals.

Despite this, the ministry has not examined how its changing mix of units (including investments from the NPAT program) addresses the affordability challenges that households face and whether it is effective in providing the people of British Columbia with access to safe, affordable and appropriate housing.

### 2. *Increased reliance on rental assistance programs*

The NPAT program aligns with the ministry's growing use of rental assistance programs as a means for supporting households in need. While these programs (in place since 2005) enable the province to provide immediate benefit to households in need and allow tenants to choose where they want to live, the ministry has not evaluated whether they provide adequate housing.

Research by the ministry (when the RAP program was designed in 2006) found that tenants in rental assistance programs consistently pay more than 30% of their income towards rent. In addition, because rental assistance programs subsidize renters in the private market, the province has no direct oversight for the safety and appropriateness of units (in contrast to the oversight it has for public and non-profit housing).

The low vacancy rate and high rent in major B.C. municipalities also make accessing rental units a challenge.

### 3. *Effects of change in the delivery model*

In addition to generating money for reinvestment in social housing, the NPAT program allows BC Housing to move away from owning and operating social housing. This will result in the non-profit housing sector assuming more responsibility for the provision of social housing.

As reflected in the background of the report, the non-profit housing sector has provided, and continues to provide, significant contributions to social housing. Its involvement in social housing has continued to grow since the early 1970s when partnerships with the sector were first struck. Despite this evolution, the ministry has not evaluated how the different ownership models (government and non-profit) impact social housing outcomes. This applies to existing properties, as well as those transitioning from public to non-profit ownership under the NPAT program.

The ministry knew that transferring ownership involved giving up some control of social housing stock and ownership of government assets, which could lead to properties falling out of use as social housing. The ministry and BC Housing told us that operating agreements, covenants on title, and the *Societies Act* protect against these risks. However, we found that these controls do not provide absolute protection of the stock.

## KEY FINDINGS AND RECOMMENDATIONS

- ◆ **Operating agreements can be terminated** – Non-profit providers that receive funding from BC Housing are subject to the limitations and controls within their operating agreement, including regular financial and operational reviews and restrictions on how they can use their funding. Despite these controls, a non-profit provider could choose to end its operating agreement early by paying off the remainder of its mortgage. Once that happens and the operating agreement ends, the non-profit society has full ownership and can decide how it uses the property.
- ◆ **Covenants on title are not in perpetuity** – As part of the terms of transfer, recipient non-profit housing providers must agree to a covenant on title under section 219 of the *Land Title Act*. These covenants restrict the use of the land to the provision of social housing while the operating agreement is in effect and they *may* continue once the agreement ends. However, once the mortgage has been repaid and the operating agreement ended, the non-profit provider can require the province to remove the covenant. As a result, covenants on title do not guarantee that the assets transferred under the NPAT program will continue to be used for social housing.
- ◆ **The Societies Act does not guarantee that assets will remain as social housing** - The ministry also cited the *Societies Act* as a protection against the loss of affordable housing stock transferred through the NPAT program. Under the Act, societies must adhere to a variety of restrictions, including how they

distribute their property. If a society decides to sell its property, it must do so to further its purpose.

Societies that receive funding from BC Housing must have a purpose to provide affordable housing. This, however, may not be a society's only purpose: some have multiple objectives, such as providing outreach services or delivering health and social services. As a result, societies that receive transferred assets under the NPAT program could use these properties as investments in other charitable pursuits after their agreement has ended.

In summary, we found that under the NPAT program, the ministry is divesting itself of social housing without having assessed and mitigated the risks this might have on the amount and type of available social housing.

**RECOMMENDATION 5:** *We recommend that the Ministry Responsible for Housing assess and mitigate the risks that the NPAT program introduces to social housing. This process should include evaluating how the provision of safe, affordable and appropriate housing is affected by the move away from rent-geared-to-income units, the use of rental assistance programs and the change in delivery model.*

## KEY FINDINGS AND RECOMMENDATIONS

### The province will subsidize \$1 billion of mortgage payments over the 35 years of the program

Another key component of planning involves assessing the financial impact a program will have. This involves determining the costs a program will incur over its lifecycle.

We expected to find that the ministry had completed a detailed assessment of the NPAT program's costs, including the initial investment and any ongoing costs.

#### NET PRESENT VALUE (NPV) CALCULATION

NPV calculations estimate the future value of a project's cash flows. This approach recognizes that money is always worth more now than it is in the future because it can be invested, and earn interest, and the value of future funding is eroded by inflation.

The NPV of a project is calculated by monetizing its costs and benefits over time and discounting them into present dollars.

If the project's proceeds outweigh its costs, it is considered to be a positive NPV and a good financial decision.

Financial analysis is an important part of decision-making. It helps organizations better understand the financial risks, costs and sensitivities of a decision. However, it can rarely provide a conclusive answer on whether to proceed with a program. Models are based on assumptions that can be subjective and change over time.

We found that the ministry did do this. Consistent with good practice, it assessed the initial investment required for the program as well as the long-term costs.

Over time, the program will create a \$1 billion long-term cost commitment for the province. These costs will result from BC Housing paying the mortgage for the properties that it transfers to non-profit housing providers (which it does by giving societies a subsidy to cover the principal and interest payments).

The ministry calculated that the long-term program costs were offset by the proceeds it generates, resulting in a net present value (NPV) (see sidebar) of plus \$95 million. However, we found that the ministry's NPV did not account for implementation costs of about \$30 million. The NPV also included the federal IAH funding of \$150 million as a proceed of the program – yet receiving the IAH funding did not depend on the NPAT program and the province could have accessed cost-matching dollars from an alternative source.

We calculated that removing the federal IAH funding and including the implementation costs would result in a more conservative NPV of minus \$73 million. Therefore, the transfer of assets could result in a financial cost rather than a financial benefit.

### The program's value for money has not been demonstrated

Once an organization has identified and assessed the costs, benefits and risks of a program, good practice recommends that it examine whether the benefits outweigh the costs and risks, and whether the program provides value for money.

## KEY FINDINGS AND RECOMMENDATIONS

We expected to find that the ministry had recommended moving forward with the NPAT program based on an analysis that showed the program would provide value for money. Instead, we found that the ministry had not recommended the NPAT program based on an adequate analysis of its benefits, costs and risks. **We were unable to agree with government about the disclosure of further information on this. In their view, this information is protected under public interest immunity.**

While the program will provide immediate funding for reinvestment in housing, it will also introduce significant costs and risks without the ministry demonstrating that it will result in better outcomes for social housing.



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