



O F F I C E O F T H E
Auditor General
of British Columbia

Social Housing:

**The Governance of the
British Columbia Housing
Management Commission
and the Provincial Rental
Housing Corporation**

**The Management of
Social Housing Subsidies**

Canadian Cataloguing in Publication Data

British Columbia. Office of the Auditor General.

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(Report ; 1999/2000: 8

ISBN 0-7726-4007-6

1. British Columbia Housing Management Commission – Evaluation. 2. British Columbia. Provincial Rental Housing Corporation – Evaluation. 3. Public Housing – British Columbia.

I. Title. II. Series: British Columbia. Office of the Auditor General.
Report ; 1999/2000: 8.

HD7288.C32B74 1999

353'5

C99-960311-6



LOCATION:

**8 Bastion Square
Victoria, British Columbia
V8V 1X4**

OFFICE HOURS:

**Monday to Friday
8:30 a.m. – 4:30 p.m.**

TELEPHONE: (250) 387-6803

**Toll free through Enquiry BC at: 1-800-663-7867
In Vancouver dial 660-2421**

FAX: (250) 387-1230

E-MAIL:

bcauditor@oag.bc.ca

INTERNET HOMEPAGE:

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auditor general's comments



This is my eighth report to the Legislative Assembly for the 1999/2000 year. It contains the results of my office's two audits of key aspects of social housing in British Columbia.

Safe, secure and affordable housing is one reflection of the values we see as being important to our society. But, for many people, the ability to afford housing that is adequate to their needs is becoming more and more difficult. In recent years, the scarcity of land for housing development, increasing costs of construction, and the attractiveness of other types of building development have limited the construction of homes that are affordable to many buyers and renters. Moreover, during the past two decades, income trends have shown a decline in the median income of both renters and homeowners. Since 1987, for example, median incomes have declined among renters by 7.6% and among owners by 3%.

This situation poses a significant challenge to the provincial government. How can it best contribute to maintaining and increasing the stock of affordable housing, and how can it be sure it is getting the best value from the financial support that it provides for affordable housing programs?

The magnitude of this challenge may be further increased in the future. The Government of Canada has initiated a series of discussions with each of the provinces about transferring the administration of the federal portfolio of housing units from the federal agency, the Canada Mortgage and Housing Corporation, to the individual provincial agencies. This transfer has not yet occurred in British Columbia, but, if and when it does, the number of units to be administered by the provincial government will increase substantially.

In view of the importance of social housing to the economic and social health of the province, and given the growing significance of the provincial government's role in meeting the housing needs of its citizens, I felt that it was timely to review the way in which the

government delivers social housing services to its citizens. We therefore carried out two audits of areas that we felt are key to ensuring that taxpayers' resources are being well spent.

We believe that effective governance is a critical factor in securing good performance. Consequently, the first audit looked at the governance arrangements surrounding the two agencies that are involved in delivering the provincial government's housing programs: the British Columbia Housing Management Commission (BC Housing) and the Provincial Rental Housing Corporation (PRHC). In particular, we looked at the roles and responsibilities of those involved in the governance of the two agencies, the development and communication of direction for the agencies, and their accountability to internal and external stakeholders.

Overall, we found that the effectiveness of the governance of BC Housing and PRHC is at risk. This is due to a lack of clarity and definition of the roles and responsibilities of those involved in the governance and to weaknesses of some of the governance practices. In particular, BC Housing's board of commissioners needs to play a stronger role in overseeing the affairs of the organization. As well, the commission needs to provide more comprehensive accountability information to enable stakeholders both to evaluate its planned and actual performance and to understand the state of the social housing sector in British Columbia.

The second audit examined BC Housing's processes for paying subsidies to the organizations that sponsor and manage social housing developments. We concluded that, generally, BC Housing's processes are satisfactory. However, we felt that the commission could make better use of information technology to compile and manage the information that it needs to make sure that its resources are directed to where they are most needed.

On July 21, 1999, a cabinet reorganization took place that affected roles and responsibilities for social housing. Responsibility for housing, including social housing, that previously resided with the Minister of Employment and Investment was reassigned to the Minister of Social Development and Economic Security, who leads a newly-created ministry of that name. This reorganization occurred after we had substantially completed our evidence gathering and analysis, and so we have not described in this report

these events or their potential effect on the issues we have raised. However, I acknowledge that the way in which the changes are implemented has the potential to address some of the major issues described in the report.

I would like to acknowledge the cooperation and support that we received from the board and staff, both past and present, at BC Housing and from the representatives of the government of British Columbia, as well as the valued comments we received from representatives of not-for-profit organizations, cooperative associations and local governments with whom we spoke.

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
September 1999



introduction

introduction

The British Columbia Housing Management Commission (BC Housing) is the provincial government agency that is responsible for implementing the government's policy for social housing. It spends approximately \$195 million each year on housing programs from resources largely contributed by the Government of British Columbia and the Government of Canada. The Government of British Columbia also controls the Provincial Rental Housing Corporation (PRHC), the agency that holds the government's ownership interest in property for social and low-cost housing, and that leases land to non-profit organizations that manage social housing projects.

Our first audit examined the governance relationships surrounding BC Housing and PRHC. In particular, we looked at:

- how well the roles and responsibilities of those involved in the governance of these two agencies are defined and understood;
- how effectively direction is communicated to the agencies by those involved in their governance; and
- whether BC Housing and PRHC are being properly accountable for their performance to their stakeholders.

Our second audit looked at BC Housing's largest single expense, the housing subsidies amounting to approximately \$100 million annually paid to organizations that manage social rental housing developments. Our objective was to assess whether BC Housing's processes for approving and paying these subsidies offer reasonable assurance that they are used by the organizations that receive them:

- with due regard for economy and efficiency; and
- to deliver the level of service set out in the operating agreements.



governments and social housing



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governments and social housing

The Housing Challenge

Safe, secure and affordable housing is a key indicator of our quality of life. Its availability gives our communities stability, and provides social and economic benefits to all citizens. For these reasons, governments will usually strive to ensure that all citizens have reasonable access to housing that is adequate to their needs.

Nevertheless, enabling this level of access is not always easy. The demand for affordable housing constantly shifts as changes occur in the relationship between the economic resources of the residents of a community and the costs of housing within it. Neither governments nor the agencies they create to administer housing programs fully control the two sides of this relationship. Through taxation and employment policies, governments can influence the economic resources available to the residents of a community. And, through their relationship with local governments, they can also have some influence over the costs of housing in each community. Realistically, however, governments have only limited ability to mitigate many of the factors that create the need for affordable housing.

Governments have greater ability to influence the supply of housing, but—short of building, at great cost, enough public housing to ensure that everyone is adequately sheltered—they cannot assure that all these needs will be met. And, in times of economic uncertainty, the amount of money that governments make available to support new construction and assist current renters may be limited.

Given these circumstances, governments look for ways to maximize the number of units that can be built and supported from available funds. Using partnerships effectively and finding innovative options for financing the construction and operating costs of social housing are two of the ways. So is spending available funds with due regard for economy and efficiency.

Definitions of Key Terms

Affordable housing

Housing that is affordable to low and moderate income households. The commonly accepted standard of affordability is that housing costs do not exceed 30% of a household's gross income.

Co-op housing

Housing that is developed under a mix of government programs and is owned and managed by the members who live in the co-op. Members in a housing co-op are responsible for making all management decisions and working together to resolve issues as they arise. Members of housing co-ops often assist each other in ways beyond their housing needs.

Disability

The loss or reduction of physical or mental functional ability and activity that interferes with an individual's ability to participate fully in society.

Group homes

Residences where individuals are encouraged to be as independent, self-supporting and responsible as possible. Support services and care are determined by individual needs. Clients living in group homes include children, youth and persons with physical or mental disabilities or with mental illness.

Public housing

Housing that is owned, administered and managed by governments.

Short-term emergency shelters

Accommodation that is provided for up to one month and that is considered to be temporary. Generally, emergency shelters offer shared rooms or dormitory-style sleeping arrangements.

Social housing

Housing that is intended for low to moderate income households that, for a variety of reasons, are unable to find suitable accommodation in the private rental market. Social housing (also known as non-market housing) is funded under a mix of provincial, federal and federal/provincial housing programs and is operated by non-profit organizations or co-ops. Those households that receive rent assistance while living in social housing have their rents set according to their ability to pay.

Supportive housing

Housing that bridges the gap between fully independent living in the community and institutional care. It includes a variety of housing options to allow an individual to live independently in the community through the provision of a full range of support services.

Targeted rent subsidy programs

A number of rent assistance programs provided by BC Housing to low income tenants living in private rental housing. Targeted to meet specific needs, these programs include support for seniors, people diagnosed with a mental illness and people living with HIV/AIDS. The assistance that is provided reflects the difference between the market rent and the amount that the individual can afford to pay based on 30% of his or her gross household income.

Transition housing

Housing that is available to individuals in need of permanent housing. Transition housing is provided for one month or more until such time that permanent housing is found. Transition houses include "safe houses" operated in private family homes, and government-funded shelters. Women and children fleeing abusive situations are some of the clients who typically rely on transition houses.

Housing in British Columbia

The demand for affordable housing in British Columbia is increasing as the gap between average income and the cost and supply of housing widens. Research carried out by the Canada Mortgage and Housing Corporation (CMHC) indicated that, in 1997, more than 200,000 households in the province (14% of total households), including both renters and owners, were in need of affordable housing. Of those households in need, some 155,000 were renters, with the largest group being families, followed by singles and seniors.

In British Columbia, two key issues currently have a significant impact on the demand for affordable housing:

1. the increasing cost of housing, driven by rapid growth; and
2. the lack of affordable rental stock suitable for families, seniors, low income urban singles, and individuals with special needs. Although recent CMHC research indicates that vacancy rates across the province have been increasing, many parts of the province still have some of the lowest vacancy rates and the least affordable housing in the country.

The high costs of land and development and the more attractive returns from alternative types of construction have acted as disincentives for investment in new conventional rental supply units, especially in the growing population centres of the Lower Mainland, the Fraser Valley, the Okanagan and southern Vancouver Island. Although 36% of the households in British Columbia are renters, only 5% of new construction is for rental purposes. Land cost is a significant factor in housing costs: where demand for new housing is high and the supply of appropriately zoned and serviced land is scarce, land values tend to rise. Migration into British Columbia in recent years has fueled the increase of land prices in some housing markets.

If household income levels were able to support higher market rental rates, the costs of building and development would not be such a problem. However, the main barrier to private rental production is the gap that exists between the prevailing market rent levels and the higher rents it takes to pay for new construction. Renter incomes and market level rents have not been high enough to encourage the development of units built specifically for rent. In fact, the national average income of most renters has fallen during the last two decades.

A further factor placing pressure on available supply is the increase in the number of single person households, a trend that has caused the average household size to decline in recent decades. During the 30 years prior to 1992, the average household in British Columbia decreased in size from 3.4 members to 2.6 members. So, even if no population growth had occurred during this period, the number of units needed to meet demand would still have risen dramatically.

Much of the shortfall in conventional rental supply has been picked up by non-conventional supply. In particular, secondary suites and rented houses or condominiums have accounted for the greater part of rental units being added to the stock. The availability of these units is becoming critical in relieving some of the demand pressure and helping the existing housing stock adapt to the changing requirements of the population.

What Roles Do Governments Have Regarding Housing?

Governments at all levels have become involved in housing as a means of achieving a diverse range of objectives—for example, to increase the overall supply of new housing, rejuvenate neighbourhoods, stimulate the economy and create jobs, promote home ownership, establish basic market structures for financing housing, subsidize the housing cost for low income households, and help regulate the construction of housing through the Building Code.

In Canada, the National Building Code forms the basis of the building codes of provincial and municipal jurisdictions. In British Columbia, the Municipal Act empowers the Minister of Municipal Affairs to make regulations that establish a provincial code governing standards for the construction and demolition of buildings. Provincial governments are also called to action when specific issues concerning the safety or adequacy of housing arise, as was the case recently in British Columbia with leaky condominiums.

When a strong public involvement in housing first emerged in Canada in the period following the Second World War, it was part of the new federal role in actively managing the economy to maximize growth and employment. The main activity at that time was not the provision of low income housing, but the promotion of new housing supply to meet rapidly growing needs, stimulation of the economy through housing construction and promotion of home ownership. Such goals have remained important.

More recently, however, housing that responds to the needs of low income households has also become an important part of government housing programs. At one end of the spectrum is the public housing model, whereby governments build and manage rental housing developments. Amendments made to the National Housing Act in 1964 made CMHC mortgages and cost sharing of the rental subsidy costs available to BC Housing to build and manage approximately 8,000 units of housing.

At the other end of the spectrum is the “non-profit” housing approach, which was introduced in 1973. This differs from the public housing approach in several ways. Instead of having all low income tenants, non-profit developments and cooperatives have a mix of unsubsidized tenants (paying a “low end of market” rent) and low income rent-gear-to-income tenants. Developments are smaller and designed to blend into existing neighbourhoods. And, instead of being carried out on a large scale by a centralized provincial agency, projects are developed and run by a variety of local sponsor groups, including municipalities, cooperatives and community-based non-profit organizations such as churches, service clubs and social service agencies.

As well as funding social housing and providing incentives to private rental developers, governments have also provided flexible subsidies to tenants in the private sector. These have taken two forms: rent supplements and shelter allowances for social assistance recipients. Rent supplements involve subsidies to private landlords for designated units under an agreement. The subsidy that is provided reflects the difference between the market rent and the amount that the individual can afford to pay based on 30% of his or her gross household income. Shelter allowance programs such as SAFER (Shelter Aid for Elderly Renters) are unilaterally funded by the provincial government, while the costs for other programs are shared between the federal and provincial governments.

At the provincial and federal levels, the public housing model has been viewed less favourably over time as a primary means of responding to the affordable housing challenge. Most governments have a range of programs in place, including the direct supply of housing through various government-sponsored programs delivered by non-profit and cooperative organizations in the community and the provision of rent supplements to eligible households in the private and non-profit rental market.

A Brief History of Social Housing in Canada and in British Columbia

Social housing programs have evolved over time in response to changing government priorities and fiscal pressures. In the period between 1974 and 1978, non-profit developments received 100% CMHC mortgages and, in some cases, a federal capital contribution of 10%. Up to 25% of the units could be subsidized under rent supplement programs; the rest were rented at a “low end of market” rent to ensure a mix of incomes.

In 1978, the federal government discontinued direct CMHC lending and placed the requirement on non-profit groups to obtain 100% CMHC-insured mortgages from private lenders. As well, CMHC ceased to provide up-front capital grants and instead offered an annual grant equivalent to a write-down of mortgage payments to as low as 2% to make the overall project budgets viable.

In 1986, the program again changed as interest rates increased and subsidy costs soared. This led to a new federal/provincial non-profit program where federal assistance was targeted toward households in core need. In addition, federal co-ops were moved to a separate program of index-linked mortgage financing.

In 1993, the Government of Canada announced its final decision to withdraw from financing new construction or subsidizing new social housing, preferring instead to focus on its long-standing roles in the mortgage market and in housing research. And, more recently, the federal government has proposed that it transfer the administration of social housing projects that until now have been administered by the Canada Mortgage and Housing Corporation to provincial housing agencies. In some provinces, this transition has already taken place. British Columbia, however, is still negotiating with the federal government over the federally administered units in this province.

During the 1990's, to respond to the federal government's withdrawal from new social housing, British Columbia has assumed an ever-increasing leadership role in meeting social housing needs in the province. In 1992 it established a Provincial Commission on Housing Options as a first step in developing its own strategy for meeting housing needs. In their report, issued in December 1992, the commissioners included a number of recommendations that they believed would provide a sound basis for action on housing issues. However, the commissioners also concluded that affordability problems could not be solved



Courtesy: BC Housing Management Commission

Ospika Heights, Prince George

through housing programs alone. They pointed to other public policy issues that affect the affordability of housing too, such as income security, health and social services, economic growth and job creation. One of the outcomes of this work, and a major plank of the provincial housing strategy, was the introduction of the HOMES BC program in 1993.

The HOMES BC program, fully financed by the Province of British Columbia, has funded construction at an annual rate of 600 housing units per year. This level of provincial commitment was consistent with that which existed under the agreements with the federal government for cost-shared programs. Recently, however, the government has announced that over the next two years, it plans to fund the construction of 2,400 units. The program’s aim is to create mixed-income communities providing safe, affordable housing. It covers not just housing for families and seniors, but also shelter for a number of special needs groups, including low income urban singles and those who are homeless or at risk of becoming homeless.

Projects under the HOMES BC program are administered by BC Housing, but managed by non-profit societies and cooperative associations (collectively referred to in this report as “sponsors”). The government’s position is that all future housing development will be carried out in this way, and that the government will not increase its own stock of public housing. An analysis of the housing units administered in British Columbia by the federal and provincial governments appears in Exhibit 2.1.

Exhibit 2.1

British Columbia Social Housing Programs at December 31, 1998 (Note 1)

	Units	Client Group	Cost Sharing
Provincial Programs: Post-1986 (Note 2)			
HOMES BC Non-Profit/Co-op	2,616	families, seniors	100% Provincial
HOMES BC Homeless/At Risk	890	urban singles, individuals at-risk	100% Provincial
Supported Independent Living	1,072	mental disabilities	100% Provincial
Other	94	mixed	100% Provincial
Total:	4,672		
Federal-Provincial Programs: Post-1986			
Non-Profit & Co-op Housing Sec.95	9,661	families & seniors	67% Fed./33% Prov.
Rent Supplement Co-op	1,019	families	67% Fed./33% Prov.
Rent Supplement Non-Profit	625	mixed	67% Fed./33% Prov.
Rent Supplement Private Landlord	158	families & seniors	67% Fed./33% Prov.
Total:	11,463		
Federal Programs: Post-1986			
Federal ILM Cooperative Program (Note 3)	1,813	families & seniors	100% Federal
Urban Native Housing Program Sec. 95	1,372	native families & seniors	100% Federal
Total:	3,185		
Federal/Provincial Programs: Pre-1986			
BC Housing Managed Public Housing Sec.79 (Note 4)	5,885	families & seniors	75% Fed./25% Prov.
BC Housing Managed Public Housing Sec.82	1,941	families & seniors	50% Fed./50% Prov.
Non-Profit Seniors, Sec. 82 (1)(b) (Note 5)	7,529	seniors	50% Fed./50% Prov.
Private Landlord, Sec. 82 (1)(a)	115	mixed	50% Fed./50% Prov.
City of Vancouver, Sec. 82 (1)(a)	161	disabled/seniors	50% Fed./50% Prov.
Non-Profit Disabled, Sec. 82 (1)(a)	276	disabled	50% Fed./50% Prov.
Sec. 95 Provincial Rental Assistance Program (PRAP)—Seniors	2,399	seniors	See Note 6
Sec. 95 PRAP—Disabled	373	disabled	See Note 6
Sec. 79 Rural & Native Housing	510	families & seniors	75% Fed./25% Prov.
Total:	19,189		
Federal Programs: Pre-1986			
Non-Profit Housing (public & private) Sec.95	5,272	families & mixed	100% Federal
Non-Profit Housing Sec 26/27 (Note 7)	4,667	mostly seniors	100% Federal
Cooperative Housing Sec.95	9,346	mostly families	100% Federal
Cooperative Housing Sec. 61	819	mostly families	100% Federal
Rural & Native Housing Sec. 79/95	1,143	families & seniors	100% Federal
Urban Native Housing Sec. 79	598	native families & seniors	100% Federal
Total:	21,845		

Notes:

- (1) Excludes: 677 units built under the BC Rental Supply Program: 12,505 units receiving assistance under SAFER: 2,505 beds in provincial or federal-provincial group homes, special purpose housing, or special facilities; 10,487 federally funded beds (pre-1986); and all native housing on reserves across the province.
- (2) Includes units which were committed as of Dec 31/98
- (3) Excludes 1,019 units which are cost shared under the Fed./Prov. Rent Supplement Co-op program.
- (4) Includes City of Vancouver managed projects.
- (5) Units financed prior to June 1973 are cost-shared; for all other units, a complex formula applies, based on any grants and/or interest assistance given by either party.
- (6) A CMHC mortgage write down to as low as 2% is 100% federally funded; all administrative & PRAP funding is 100% provincial; further expenses, if any, are shared 50:50. Note: PRAP programs are treated as wholly provincial in BC Housing's financial statements.
- (7) The majority of Sec 26 & 27 seniors units also received an ECHAA (Elderly Citizens Housing Aid Act—renamed HC(EC)A for Housing Construction (Elderly Citizens) Act 1979—grant from the province representing 25%-33% of a project's cost.

Source: BC Housing Management Commission

Local governments contribute to social housing too. They influence land supply through their regulatory responsibilities in planning, zoning and building and through their roles as providers of urban property services. In British Columbia, municipalities are now required to consider housing in their official community plans. This formalizes the need for local governments to anticipate, and plan for, the needs within their communities for affordable housing.

Local governments can also play a direct, active role in developing affordable housing. For example, the Greater Vancouver Regional District and the Capital Regional District have incorporated non-profit housing corporations. As well, local governments can donate municipal property to social housing projects, or lease land at less than freehold market value for this purpose. In this capacity, they are active partners in delivering housing to those in need. And, through zoning, density bonuses and other incentives, municipalities can encourage private developers to contribute units to the social housing portfolio.

The Provincial Government's Affordable Housing Strategy

The provincial government's strategy for meeting the need for affordable housing has focused on two general approaches: developing community capacity and providing housing financial assistance.

Developing community capacity involves helping communities identify and develop solutions for their particular housing issues. The provincial government assists local governments by providing them with new powers and tools, and with information and models for managing issues such as by-laws for standards of maintenance and secondary suites. As well, the provincial government works with the development industry and with local governments to address the cost implications of issues such as those brought about by regulation. The Province also provides grants to community housing groups for needs/options assessments, advocacy and housing services.

Providing housing assistance calls for direct government financial support for homeowners and for low and moderate income renters. Assistance to homeowners can be one-time assistance associated with a property transaction, such as the exemption from property transfer tax for first-time home buyers, or ongoing assistance for property owners. The best-known type of ongoing assistance is the Home Owner Grant program, which provides a reduction in property taxes otherwise payable by home owners to their local governments.

Assistance to low and moderate income renters and special need renters exists in various forms. Operating and rental assistance to social housing developments is provided for rental units where the rent has been capped at 30% of the household income. This is provided through directly managed properties, non-profit societies, cooperatives and rent supplements to private market units. The \$96.6 million provincial contribution in 1998/99 supported 50,396 households. This included rent supplements for qualifying elderly renters (SAFER—the \$21 million contribution assisted approximately 12,500 seniors). Also included are subsidies for 2,858 new HOMES BC units amounting to \$16.8 million.

Where Do BC Housing and PRHC Fit Into This Picture?

In British Columbia, responsibility for housing is assigned to a minister by the Ministry of Lands, Parks and Housing Act. The minister is responsible for providing direction to the agencies that implement government's social housing policy, and for obtaining accountability from those agencies for their performance in achieving government goals and acting as stewards of provincial assets. In February 1998, the powers provided to the minister under that Act were assigned by order-in-council to the Minister of Employment and Investment. Subsequent to the completion of our evidence gathering, responsibility for housing was reassigned to the Minister of

Social Development and Economic Security following a cabinet reorganization in July 1999.

The Ministry of Municipal Affairs provides policy support by collecting and analyzing data with respect to areas such as housing trends and demographics, developing policy options and evaluating the potential outcomes of these options. As well, the minister responsible has an advisory council. Its members are drawn from across the housing sector, and include representatives of the development industry and of the organizations that manage social housing projects. This provides a forum for bringing to the government's attention issues of concern, and for providing feedback about potential policy options.

The British Columbia Housing Management Commission (BC Housing) and the Provincial Rental Housing Corporation (PRHC) are the key operating agencies through which the government implements its social housing policy.

BC Housing was originally incorporated under the Housing Act (now repealed), and its corporate status was subsequently continued under the British Columbia Housing

What are Crown Corporations?

Crown corporations are set up by government to pursue public policy goals. In serving the public interest, they are expected to operate in a commercial manner and are provided with a higher degree of autonomy than government ministries. They are generally viewed as appropriate for programs that:

- focus on a business or commercial interest;
- generate revenue, varying in amounts up to self-sufficiency;
- involve large numbers of transactions with the general public;
- require greater flexibility than is available under the ministry model; or
- require decision-making that is more removed from government than is the case in ministries.

Crown corporations can own and sell property and initiate legal actions in their own names. They tend to be more independent of government than ministries and may not be subject to the same administrative policies. Like private sector companies, they have boards of directors.

In British Columbia, there is no single definition of a Crown corporation. One definition included in the Financial Administration Act is based on the issue of control. It defines a government corporation as a corporation that is an agent of the Crown under an Act and in which the government either holds, directly or indirectly, more than 50% of the voting shares or has control by virtue of appointing a majority of the board of directors.

Governance differs between government ministries and Crown corporations. Heads of ministries are accountable to their ministers. Heads of Crown corporations are accountable to both the minister responsible for the corporation and a board of directors, the latter having a responsibility to "supervise the management of the affairs of the corporation." This addition of a board of directors results in a greater sharing of governance responsibilities.

Management Commission Regulation. PRHC is incorporated under the Company Act of British Columbia. Each is an agency of the Crown and has a board of directors appointed, in the case of BC Housing by order-in-council, and, in the case of PRHC by the minister responsible for housing. Each board is accountable for the performance of the respective agency to the minister responsible for housing.

BC Housing and PRHC have a number of the key organizational and functional features that characterize Crown corporations. Each has legal corporate status. Each has a board of directors that reports to the minister responsible and that is empowered to manage the affairs of the respective entities. In delivering social housing programs, BC Housing interacts with members of the public as well as its partners in these programs. These features make it reasonable to consider both BC Housing and PRHC as Crown corporations.

BC Housing, currently directed by a 16-member board of commissioners, has a staff of about 360, located in eight offices throughout the province. BC Housing's mandate is to deliver housing for people in need who cannot find adequate, affordable shelter in the private market. It fulfills this mandate through a number of activities:

- It provides construction financing for non-profit and cooperative groups, and administers the construction of the projects by evaluating plans and overseeing inspections of projects under construction. It also develops group homes on behalf of provincial government ministries.
- In addition to directly managing about 8,000 units of public housing, BC Housing administers agreements with the non-profit societies that manage about 21,000 units of publicly funded housing. BC Housing works with these organizations, as well as with advocacy groups and external agencies, to promote the development of affordable housing.
- BC Housing maintains an applicant registry and allocates housing in its managed units according to the degree of applicant need and availability of suitable accommodation. It also administers the rent supplement programs and the BC Rental Supply program.

A summary of BC Housing's financial transactions for the years ended March 31, 1996, 1997 and 1998 appears in Exhibit 2.2.

For its part, PRHC is the holding corporation for the land and buildings that are owned by the provincial government as investments in social housing. The values of these investments

at March 31, 1996, 1997 and 1998 are shown in Exhibit 2.2. As a corporation, PRHC is essentially an agent for BC Housing, in that it buys, holds and disposes of property, and leases certain of its building sites to non-profit housing societies for development. From a practical point of view, however, as PRHC has no staff, BC Housing personnel carry out these functions for PRHC.

Exhibit 2.2

Key Financial Information for the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation for the Years Ended March 31, 1996, 1997 and 1998

(\$ Thousands)

	1996 \$	1997 \$	1998 \$
PRHC's investment in properties (net of depreciation)	270,000	286,000	300,000
BC Housing expenditures:			
Housing subsidies:	102,111	106,500	126,633
Expenses			
Salaries and labour	18,122	18,047	18,382
Building mortgage costs	13,174	13,174	13,174
Building modernization and improvement	8,068	10,403	9,053
Building maintenance	5,728	5,905	6,782
Utilities	5,322	5,202	5,533
Operating expenses	4,598	4,372	5,206
Grants in lieu of property taxes	4,029	4,144	4,552
Office and overhead	3,414	4,201	4,582
Interest expense	2,766	1,787	2,358
Total expenses	65,221	67,235	69,622
Total expenditures	167,332	173,735	196,255
BC Housing revenues:			
Provincial contribution	50,512	62,710	89,922
Federal contribution	74,243	72,933	72,450
Tenant rents	30,021	30,240	29,234
Sundry revenue	5,769	3,718	4,660
Total revenues	160,545	169,601	196,266
Excess (Deficiency) of revenues over expenditures	(6,787)	(4,134)	11

Source: BC Housing Management Commission

British Columbia favours the partnership approach to delivering social housing, recognizing that housing is primarily a community concern and that communities are best able to make decisions on such matters. Although BC Housing and PRHC are the principal players in implementing the government's social housing policy, there are some key groups that have important roles to play. One group is local governments who, through their zoning and density policies, can encourage more land to be made available for social housing and reduce some development costs.

Another group is the non-profit and cooperative sponsors that manage over 1,100 social housing projects. Of this number, 481 non-profit societies and 72 cooperatives work directly with BC Housing. These groups, which are incorporated under either the Society Act or the Cooperative Association Act, are largely volunteer organizations. They sponsor the construction of social housing developments and take care of their day-to-day operations under agreements with BC Housing. BC Housing assists them financially through the payment of subsidies and provides other support where needed.

Who Receives Support

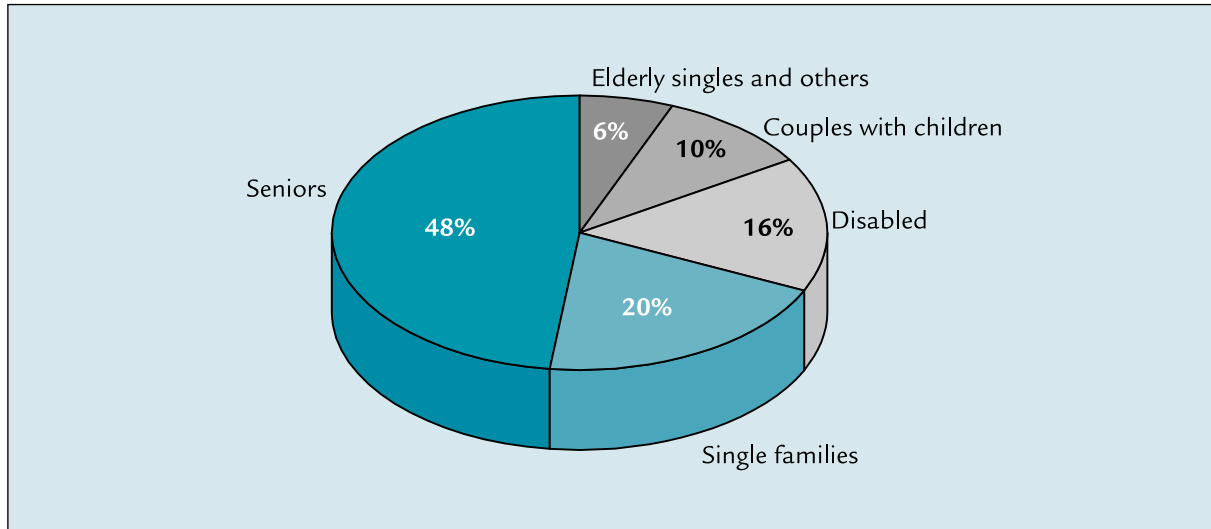
Housing programs are intended to benefit those who have difficulty affording adequate housing. By far the largest number of households that live in social housing developments are families and seniors, for whose benefit much of past social housing construction has been carried out.

This has changed in recent years, however, with the emergence of a number of other groups of people in need—people who are homeless, or at risk of homelessness, those requiring emergency shelter and those who make up the growing group of lower income urban singles.

The needs of all these groups are diverse. Some, such as seniors, need long-term accommodation for their retirement years. Others, such as some families, may want medium-term subsidized rental housing until they are able to afford to pay the market rate for accommodation. And there are yet others, such as those in emergency shelters, who urgently need short-term shelter until suitable longer-term accommodation is found. Exhibit 2.3 shows how rental subsidies are typically distributed among the various kinds of households, while Exhibit 2.4 shows the distribution of rental subsidies by size of household.

Exhibit 2.3

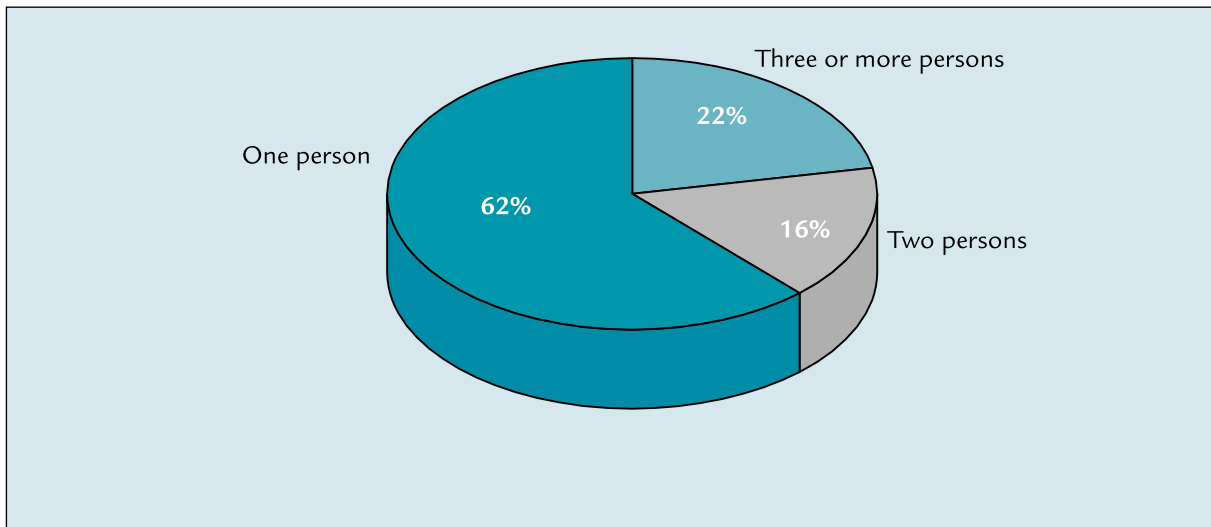
Distribution of Rental Subsidies by Household Type



Source: BC Housing Management Commission

Exhibit 2.4

Distribution of Rental Subsidies by Household Size



Source: BC Housing Management Commission

A household's need for affordable housing is decided by reference to household income. As a general rule, if a household finds itself paying more than 30% of its income to obtain adequate shelter, it is deemed to be in core need. The Canada Mortgage and Housing Corporation sets core need income thresholds annually for different areas of the province and for different unit sizes. Applicants are eligible to apply for a rent subsidy if their household income falls at or below the core need income threshold for the area in which they live. Although the 30% formula generally applies, BC Housing has set minimum rent amounts for family size and composition, based on the support rate a household would receive if it collected Guaranteed Income Assistance.

BC Housing maintains an applicant registry for those seeking affordable housing. At any one time, there are approximately 10,000 applicants on the list, 65% of which are families. The average waiting time before applicants are

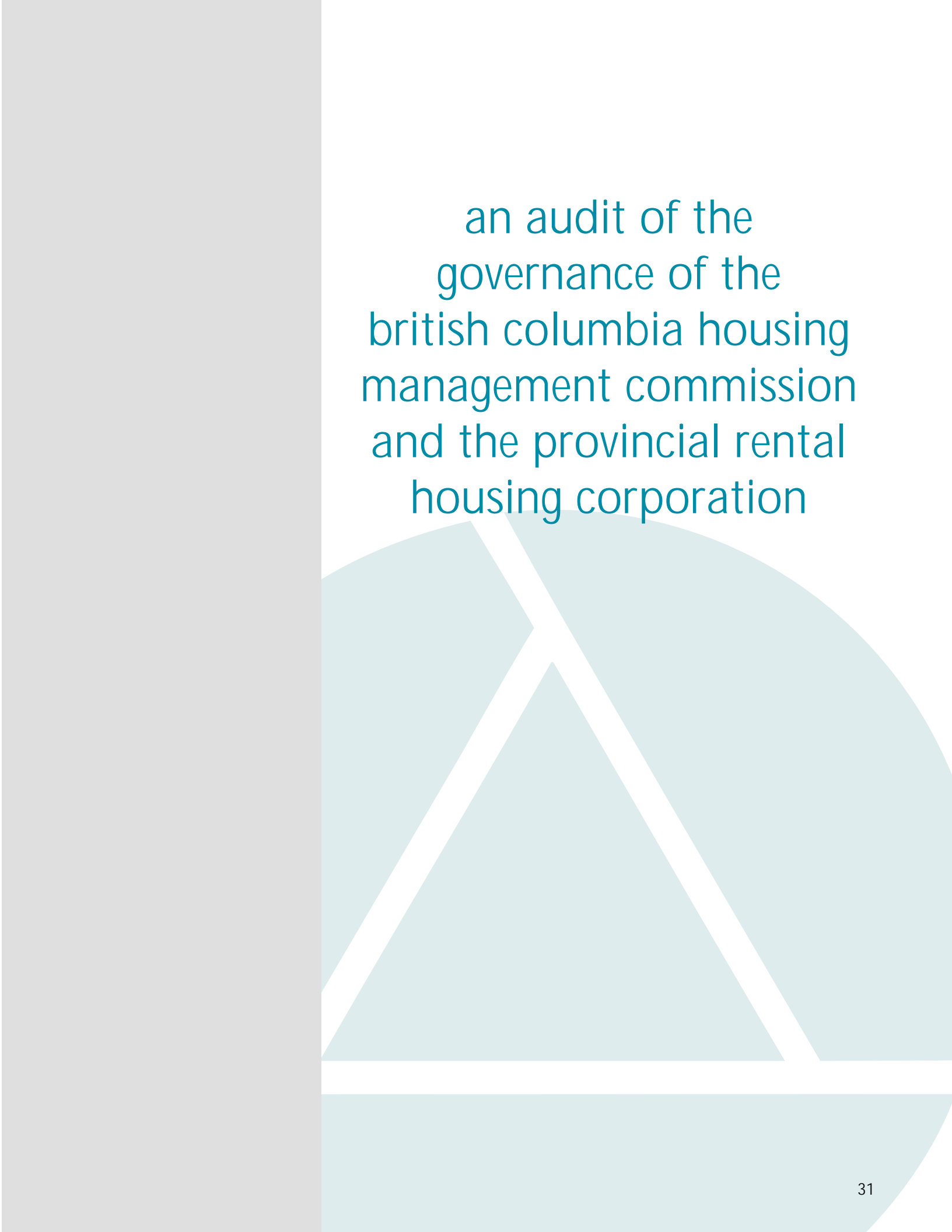
The Legal Framework for Social Housing Programs

A number of federal and provincial acts affect the delivery of social housing. The acts fall into three categories:

- First, there are acts that authorize and, in some cases, define the housing programs that are delivered by government. The main federal statute is the National Housing Act. Individual sections of the Act both authorize and define the specific programs that are offered, including those that are cost-shared with provincial governments. Also under this Act, CMHC provides mortgages and mortgage insurance to not-for-profit housing groups. At the provincial level, there is no statute as detailed as the National Housing Act in specifically defining programs. However, the Ministry of Lands, Parks and Housing Act provides the authority for the provincial minister responsible for housing to deliver housing programs in British Columbia.
- Second, there are provincial statutes that define the corporate powers and responsibilities of the organizations that manage social housing developments. Incorporation under these statutes is a prerequisite of sponsorship. The Society Act applies to the not-for-profit sponsors, while cooperative groups must incorporate under the Cooperative Association Act. Sponsors are required to remain in good standing with their respective acts in order to receive subsidies, and must obtain approval for their constitutions from, and meet annual reporting requirements of, the Registrar of Societies.
- Third, there are provincial statutes that define processes and set standards for sponsors to follow in managing their developments. Among the more significant of these statutes are the Residential Tenancy Act, the Condominium Act and the Housing Construction (Elderly Citizens) Act.

housed is about three years. BC Housing is able to place about 1,100 households a year in its directly managed stock, but the rate of placement is slightly lower than the rate at which households are added to the list. These statistics do not capture all of those people who are waiting to be placed in social housing. Sponsors maintain waiting lists for their own developments and, while many of those on the waiting lists will also be registered at BC Housing, there will be a number who are not.





an audit of the
governance of the
british columbia housing
management commission
and the provincial rental
housing corporation

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an audit of the governance of the british columbia housing management commission and the provincial rental housing corporation

Audit Purpose and Scope

The audit purpose was to assess whether the governance relationships and practices with respect to the British Columbia Housing Management Commission (BC Housing) and the Provincial Rental Housing Corporation (PRHC) are sound. Specifically, we examined:

- how well the roles and responsibilities of those involved in the governance of these two agencies are defined and understood;
- how effectively direction is communicated to the agencies by those involved in their governance; and
- whether the two agencies are being properly accountable for their performance to their stakeholders.

We focused primarily on the relationships and practices in place during March to December, 1998. We also considered the relationships with other stakeholders. For example, BC Housing administers projects that are funded jointly with the federal Canada Mortgage and Housing Corporation (CMHC). As well, it administers group homes for which operations are funded by various British Columbia government ministries, such as the Ministry of Health. These organizations therefore have an interest in the operations of BC Housing. In preparing

Subsequent Event

On July 21, 1999, a cabinet reorganization took place that affected roles and responsibilities for social housing. Responsibility for housing, including social housing, that previously resided with the Minister of Employment and Investment has been reassigned to the Minister of Social Development and Economic Security, who leads a newly-created ministry of that name. The boards of BC Housing and PRHC will report to this minister as of July 21, 1999. The new ministry will also be responsible for housing policy development that was previously carried out at the Ministry of Municipal Affairs.

Since this reorganization occurred after we had substantially completed our evidence gathering and analysis, we have not described in this report these events or their potential effect on the issues we have raised.

our report, we discussed our findings and conclusions with BC Housing and with the Ministry of Social Development and Economic Security.

Overall Conclusion

The effectiveness of the governance of BC Housing and PRHC is at risk, due to a lack of clarity and definition of the roles and responsibilities of those involved in the governance and to weaknesses of some of the governance practices.

There are three main issues.

First, the roles and responsibilities of key parties to the governance process need to be more clearly defined and understood. This is particularly so for the respective roles of the chair, board and general manager of BC Housing itself. And in the case of PRHC, the governance structure is inappropriate, in that it gives the board of BC Housing only a limited voice in protecting its interest in PRHC decisions concerning developments that BC Housing manages or subsidizes on behalf of the taxpayers.

Second, while the government has prepared good written plans setting out its broad objectives for social housing, the board of BC Housing has generally played up to now a limited role in providing the commission with direction for interpreting and implementing these plans. This has made it difficult for the board to play an effective role in overseeing the commission's affairs and monitoring its performance.

Third, while the accountability of PRHC is adequate in the light of its limited operating functions, that of BC Housing requires improvement, both in regard to the timeliness of its statutory reporting and the nature and extent of the information it provides about its planned and actual performance. Further, neither BC Housing nor any other government agency is reporting information that would assist legislators and others understand the current state of the social housing sector in British Columbia.

These deficiencies in reporting have occurred primarily because the prerequisites to good accountability have not been in place. Roles and responsibilities of those involved in governance need to be more clearly defined; measurable objectives and performance targets have still to be established, and an adequate performance measurement framework for monitoring results has to be completed. A contributing factor to this situation has been the limited role played by past boards in developing strategic and business plans for the

commission, identifying information needs, and finalizing a performance measurement system that is integrated with its strategic plan.

The board and management of both agencies recognize that improvements in governance are needed. The board of BC Housing has created a governance committee that is in the process of identifying board priorities for strengthening the governance arrangements surrounding the agencies.

Key Findings

There is no clear oversight role for the Legislative Assembly

The Legislative Assembly exercises rights on behalf of the people of British Columbia, including the rights attached to the ownership interest in Crown corporations. These rights include creating an appropriate corporate structure to deliver government programs and overseeing the way in which those programs are delivered.

To allow the Legislative Assembly to exercise these rights, legislated provisions need to be in place, among other things, to establish an oversight role for the Legislative Assembly with respect to Crown corporations. To date, however, this role has not been fully realized. For example, there is no provision for the Assembly to receive or review the plans of Crown corporations. And although for each session since 1992 the government has established a Select Standing Committee with Crown corporations in its mandate, the committee for the current session has no terms of reference and, at the time of our audit, had not met other than for an organizational meeting. As a result, we believe that the Legislative Assembly has only limited ability to oversee effectively and consistently the operations of BC Housing, PRHC and other Crown corporations. This matter was considered by the Legislative Assembly's Select Standing Committee on Public Accounts during a 1995 review of accountability issues. Recommendations for changes in Legislative Assembly practice were included in the committee's 1996 report to the Assembly.

The roles of the ministers responsible for housing and the roles of the supporting ministries need to be clearer

The roles of the ministers responsible for housing issues (the Minister of Employment and Investment and the Minister of Municipal Affairs) and the two supporting ministries with respect to BC Housing and PRHC are in a state of transition and need to be more clearly understood by all those involved in the organizations' governance. Improving this understanding

would reduce the risk of duplicated effort in areas such as policy formulation, and of key governance functions not being carried out.

While the ministers concerned may have an understanding as to the division of policy formulation and accountability to the Legislative Assembly, we believe that this understanding is not shared by all those involved in the governance of BC Housing and PRHC. The supporting ministry roles are also going through a period of transition involving the redistribution of some governance functions (such as policy formulation and monitoring) between them. This has contributed to the uncertainty that exists among some of the players in the governance of BC Housing and PRHC as to where these functions currently reside and how all the parties—such as the Housing Advisory Council—now fit in.

Responsibilities of the board, the chair and the general manager of BC Housing need to be more fully defined and set out

The respective responsibilities of the board, the chair, and the general manager of BC Housing need to be defined more clearly. A lack of clarity in these areas has weakened the board's ability to exercise appropriate governance over the organization.

In the latter part of 1997, the government appointed a full-time chair to the board of BC Housing. The respective roles of the chair and the general manager of BC Housing need to be set out more clearly than they have to date, however, because the chair is involved in the detailed operations of the organization. This situation not only creates difficulties for the board in assigning accountability for the commission's performance but also makes it difficult for management to discern the appropriate source of direction. Another dimension of the problem is the complexity of the general manager's role. There are some functions attached to this position, namely the role of president of PRHC and membership of the executive group in the ministry responsible for housing, for which the general manager is not accountable to the board of BC Housing. These additional roles can involve decisions about social housing issues that affect BC Housing activities and costs for which the board of the commission is ultimately accountable. This complicates the exercise of governance over the commission.

The governance structure surrounding PRHC results in responsibilities and accountabilities that are inappropriate

BC Housing and PRHC have many common interests regarding the acquisition and maintenance of land, buildings and housing stock. For example, not only does PRHC own over a quarter of a billion dollars in land and buildings that BC Housing either manages or subsidizes but it is also responsible for acquiring the accommodation occupied by BC Housing's operational and administrative staff. This gives the board of BC Housing a legitimate interest in decisions taken by the PRHC board about the locations and costs of property acquired and developed by the corporation.

However, the governance structure for PRHC is inappropriate. The board of PRHC is comprised of the senior management group of BC Housing, and the general manager of the commission is the president of the corporation. In this capacity, the general manager reports directly to the minister (rather than the board of BC Housing) for the operations of the board of PRHC. This arrangement gives only a limited role to the board of BC Housing to represent and protect the commission's interest in property decisions taken by the corporation.

Strategic and business planning is underway but needs to be completed

BC Housing has recently developed a strategic plan, but the plan is not yet fully supported by detailed business plans.

The strategic plan provides good qualitative information about the commission's objectives, goals and strategies. It addresses those aspects of the government's plan "Strategy for Affordable Housing" that are to be implemented by the commission, such as maintaining the housing stock and managing the relationships with partners in social housing. What is not clear from the plan, however, is how success in achieving some individual strategies is to be measured. For example, the plan does not indicate how BC Housing will measure its success in increasing public support for affordable housing or in building alliances and partnerships with tenants and housing providers. And although BC Housing has completed its strategic plan, it still needs to develop annual business plans that set out results to be achieved in the short term. Thus, BC Housing is not able currently to demonstrate to its stakeholders how it plans to achieve its objectives and how it intends to measure its progress in doing so.

Government approval of BC Housing's mandate and strategic plan needs to be obtained

The board of BC Housing has not yet obtained formal approval from government of the board's interpretation of the commission's mandate or of the strategic plan, although the documents have recently been forwarded to the Minister of Employment and Investment. It is important that this be done because BC Housing's legislated mandate is very general. Consequently, the board of the commission needs assurance that the specific ways in which it plans to implement the general direction will meet with the government's approval. For example, the board would want to know that the commission's operational objectives fit in with government's overall social policy and housing goals, and that its guiding principles in its dealings with clients and partners are consistent with the government's expectations.

Public reporting is not timely and its content needs to deal with all aspects of performance

BC Housing has not fully complied with those aspects of legislation governing reporting to the Legislative Assembly and the public. For example, BC Housing's recent annual reports have not been delivered to the minister responsible for tabling them in the Legislative Assembly within the prescribed time (the 1998 annual report that was due to be tabled by July 29, 1998 had not been delivered to the minister by March 31, 1999). Moreover, the commission has not yet developed the business plans that, under Section 3 of the Financial Information Act, must be provided on request to ministers and committees of government.

Information that is currently reported to the Legislative Assembly and the public concerning BC Housing's planned and actual performance is inadequate to allow a meaningful assessment of the organization's performance. The last available BC Housing annual report, that for 1997, contains useful and relevant information about the commission's programs and activities but it does not cover all aspects of performance. Because the commission does not have annual business plans and has not completed its performance measurement framework, its annual report is not able to clearly compare actual performance with plans and targets. Moreover, the report does not show how well the commission has complied with the laws, regulations and other codes of corporate behaviour that govern how it does business. For its part, PRHC is in compliance with legislated reporting

requirements, and information reported about PRHC's activities is adequate.

BC Housing's role in sectoral reporting needs to be more clearly set out

Legislators recognize the importance of sectoral information in helping them consider the benefits and costs of ministry and Crown corporation programs. Sectoral information provides data about broad areas of economic or social activity and their high level components. For example, housing might be considered a sector, with affordable housing one of its main components. Within each sector, a number of government programs, often sponsored by different ministries, may have an effect on how the sector reacts over time.

Government organizations such as BC STATS and CMHC gather information about the current demographics of those in need of affordable housing. Through its partner relationship with sponsors and its own directly managed portfolio, BC Housing is well placed to collect and report information about how well the social housing sector as a whole is responding to these needs. However, its formal role in doing this has not been clearly defined by either the government or the commission. As a result, legislators and other policy makers may not have the information necessary to fully evaluate how well the sector is meeting the challenges of affordability, diversity and sustainability in social housing.

BC Housing has lacked an adequate framework for measuring performance, but it is currently developing one

BC Housing has not had an adequate performance measurement framework for setting targets and then measuring and monitoring results in relation to the targets. As a result, the commission has been unable to satisfy the performance information needs of all its stakeholders.

Management has recognized that improvements are needed, however, and is in the early stages of introducing a framework for measuring performance. The proposed framework is comprehensive and logically developed. If fully implemented, it would provide a much improved basis for the internal management and external accountability reporting of BC Housing's performance.

The board of BC Housing is currently determining what its information needs are (something that it hasn't done to date) and, when this is done, will review the proposed framework to ensure that it covers all the information that the board requires.



summary of recommendations

Roles and Responsibilities

- 1. We recommend that the government take appropriate action to enable Members of the Legislative Assembly to consider the recommendations in the “Second Report of the Select Standing Committee on Public Accounts” (January 1996) regarding the information and oversight needs of the Legislative Assembly (page 51).**
- 2. We recommend that BC Housing liaise with the Crown Corporation Secretariat to keep up-to-date on the latest governance developments in the Crown corporation sector (page 52).**
- 3. We recommend that the government review and finalize ministry roles and responsibilities as soon as is practicable to ensure that the minister responsible for housing has sufficient and timely support for developing policy. The government should communicate the roles and responsibilities to all affected parties in ministries, BC Housing and PRHC and to those who serve on such supporting groups as the Housing Advisory Council. At the same time, the government should review housing legislation to make it as coherent and current as possible (page 55).**
- 4. We recommend that the board of BC Housing clearly define its role, seek approval for that role from the minister responsible, and then work to remove the impediments that have affected its ability to play an effective role in governance (page 57).**
- 5. We recommend that the minister responsible assess whether the general manager of BC Housing should continue to hold positions in government ministries and in the Provincial Rental Housing Corporation and, if not, remove these positions from the general manager’s responsibilities (page 60).**
- 6. We recommend that the board of BC Housing clarify the roles and responsibilities of the chair and the general manager, and that it communicate this clarification to management (page 60).**

7. ***We recommend that the government identify the governance and operational structure that will enable PRHC's activities to be carried out most cost-efficiently and effectively, while recognizing BC Housing's interest in PRHC's operations (page 62).***
8. ***We recommend that BC Housing strongly encourage its ministry, local government and non-profit partners to consult the commission in assessing the impact of any proposed reassignment of responsibility for special needs groups that involves a shelter component (page 65).***

Direction

9. ***We recommend that BC Housing expand the content of its strategic plan to identify how progress in pursuing the stated strategies will be measured. We also recommend that BC Housing continue to develop its business plans to give focus to establishing performance expectations and measuring results (page 69).***
10. ***We recommend that the board of BC Housing formally obtain the government's approval for the board's interpretation of the commission's mandate and strategic plan (page 70).***

Accountability

11. ***We recommend that the board of BC Housing ensure that the commission's annual report is presented to the minister responsible within the time limit imposed by legislation (page 76).***
12. ***We recommend that BC Housing improve its public reporting by providing in its annual report information about:***
 - ***all key aspects of its performance (financial, organizational and program performance, legal compliance and fairness, equity and probity);***
 - ***measurable objectives and targets (when the commission has completed its process for developing business plans); and***
 - ***historical performance (page 81).***

- 13. We recommend that the minister responsible and the board of BC Housing decide what information should be reported with respect to the performance of the social housing sector and how best to collect that information. If BC Housing is considered to be the most appropriate agency to collect the information, then reporting expectations should be made clear to it (page 83).**
- 14. We recommend that the board of BC Housing identify its information needs as soon as possible to enable it to monitor the organization's performance effectively (page 85).**
- 15. We recommend that the commission proceed as quickly as is practicable with the finalization and implementation of its performance measurement framework. In this regard, the board of BC Housing should satisfy itself that the framework provides an appropriate basis for the commission to demonstrate its performance in the context of government's overall social housing objectives (page 90).**



What Is Governance and Why Is It Important?

What Is Governance?

Governance is the authoritative direction or control over an organization. In a corporate setting, it encompasses the roles, relationships, powers, direction and accountability of shareholders or their equivalents—the board and management. It refers to who is in charge, who sets direction, who makes decisions, who monitors progress and who is accountable for the performance of the entity.

The Province's Crown corporations provide a wide range of services that are important to British Columbians. They are established as corporations rather than ministries because, in providing these services, they pursue business-like objectives that require them to operate using sound commercial business practices and to be separate from some of the constraints that apply to ministries of government. At the same time, they are part of the public sector because they also pursue public policy goals. This simultaneous pursuit of both commercially oriented and public policy goals creates significant challenges for Crown corporations and the governance of them.

Why Is Governance Important?

Governance has a significant impact on the performance of organizations in both the private and public sector.

In the public sector, governance of Crown corporations is made complex, both by the many-faceted nature of government activity and by the sharing of many of the governance attributes and functions among the many parties to the governance relationship. In an environment where the governance roles are split between the Legislative Assembly, government and a board, it is paramount that the respective roles, decision-making authorities and accountabilities be clear and transparent. If the governance process is obscure and poorly understood, not only could there be costly inefficiencies in the government's use of resources, but the public may never learn of them or have confidence that the government is pursuing or achieving what is needed.

Components of Good Governance in the Public Sector

Good governance in the public sector has three main attributes: clear assignment of responsibilities, clear direction, and effective accountability responsibilities and processes.

- The clear definition of roles and responsibilities is key to effective governance. Clearly assigning responsibility for acting in the public interest enables the parties to the governance relationship to carry out the government's objectives effectively. Ensuring that the roles and responsibilities are clearly delineated among the parties involved is essential if unnecessary duplication or lapses in governance are to be avoided. This assignment starts at the top with the Legislative Assembly, and proceeds downwards through cabinet, ministers and the boards, passing ultimately to the management of the individual agencies that deliver the government's programs to the public.
- It is important that all parties to an organization's governance function agree on the direction—the mandate—of the organization. The broad public goals of Crown corporations, as specified in legislation, are in place until and unless the Act that created them is revised. However, government objectives and priorities must also constantly evolve to keep up with changing situations.

Legislative mandates must be broad enough that they do not need to be amended frequently and so that they can accommodate changes in government priorities. As a result, Crown corporations are usually left to interpret their own mandates from broad legislation. It is therefore a board's responsibility to articulate a clear statement of purpose for its Crown corporation, showing how it has interpreted the broad public policy goals the Crown corporation was designed to serve. Government's role is to ensure that it and the corporation agree on this interpretation.

- It is not enough that roles and responsibilities are clearly set out, or that all key players agree on what is to be achieved. The third leg of good governance is accountability.

Accountability to the Legislative Assembly and the public—the obligation to account for responsibilities conferred and for resources provided—is a fundamental part of our democratic system. But beyond that, accountability information is the fuel that drives the governance process. It is vital that those responsible for setting the direction of an organization take an active role in ensuring that they are kept adequately informed as to how well the organization is performing, so that corrective action can be taken when necessary.

Roles and Responsibilities

Introduction

A clear definition of roles and responsibilities provides a framework for communicating direction and demonstrating accountability. If all parties to the governance relationship have a clear and consistent understanding of their respective roles and responsibilities, the framework should hold together. If they do not, however, the risk of lapses in effective governance is increased.

There is no legislation in British Columbia that covers Crown corporation governance issues completely—hence, there is no one source for defining the roles and responsibilities involved in the governance of Crown corporations in the province. Since the governance relationships involving BC Housing and PRHC are more complex than for many Crown corporations, clarifying the roles and responsibilities for the two agencies is particularly important.

We therefore examined the clarity of the respective roles and responsibilities by dividing the key players into three groups:

- the shareholder representatives (Legislative Assembly, central agencies of government and government ministries);
- the boards and management of BC Housing and PRHC; and
- partners in social housing.

Conclusion

The role of the Legislative Assembly in overseeing Crown corporations is not clearly defined, and the roles of the responsible ministers and their supporting ministries are not clear in their entirety to all those involved in the governance of BC Housing and PRHC.

Also unclear are the respective responsibilities of the chair, board and management of BC Housing. All of this has impaired the exercise of effective governance over BC Housing, in particular the role played by the board. Moreover, the governance structure surrounding PRHC has resulted in responsibilities and accountabilities that we believe are inappropriate. The board and management recognize that improvements in governance are needed, and are in the process of identifying priorities for actions.

For their part, BC Housing, PRHC and their partners in social housing seem to understand each other's roles and responsibilities reasonably well.

Findings

Governance Overview

Exhibit 3.1 presents an overview of the governance relationships that existed at the time of our audit.

At the audit's inception in early 1998, the Minister of Municipal Affairs and Housing was the minister responsible for housing, including the operations of BC Housing and PRHC. The governance relationships at that time are shown in Exhibit 3.1. The minister was supported by ministry housing policy staff and by the Housing Advisory Council with a membership drawn from groups with an interest in housing, such as property developers, advocates for the homeless and managers of social housing.

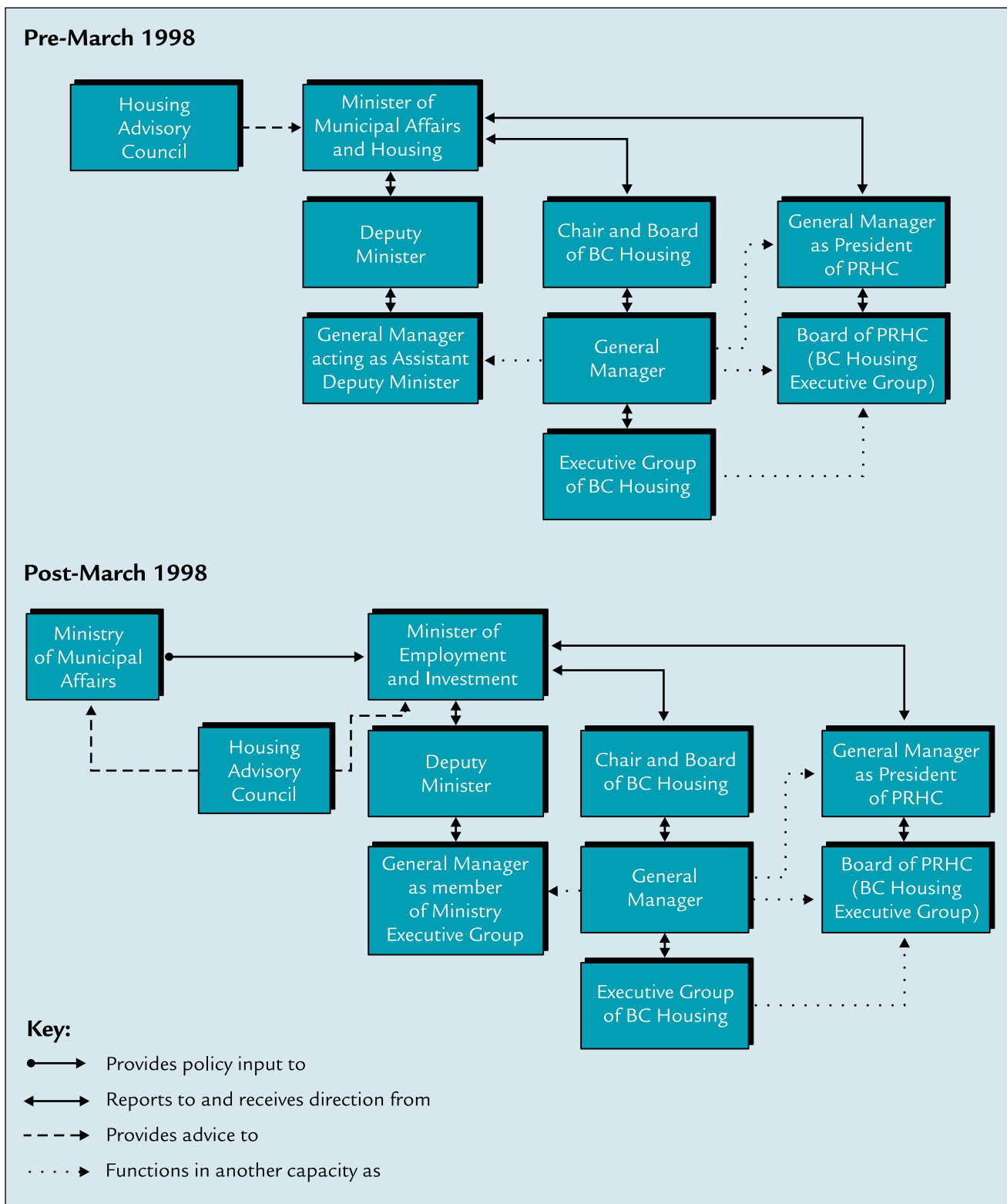
The board of BC Housing reported to the minister. As well, the general manager of the commission was an assistant deputy minister in the Ministry of Municipal Affairs and Housing, reporting as such to the deputy minister. The general manager was also the president and a board member of PRHC, and reported directly to the Minister of Municipal Affairs and Housing for the operations of the corporation. The rest of the board of the corporation comprised the executive group of BC Housing, who in their BC Housing positions reported to the general manager.

In the spring of 1998, responsibility for housing was transferred from the Minister of Municipal Affairs to the Minister of Employment and Investment, and Exhibit 3.1 also shows the governance arrangements after this event. The reorganization resulted in the latter minister becoming responsible for social housing (including the responsibility for BC Housing and PRHC) while the former minister continued to deal with other areas of housing, such as the building code and housing provisions of the Municipal Act. As well, the Ministry of Municipal Affairs continued to be the lead ministry for developing policy on housing generally.

After the reorganization, the role of the Housing Advisory Council was to provide advice to both the Minister of Municipal Affairs and the Minister of Employment and Investment, instead of just to one minister as before. The responsibilities of the general manager of BC Housing were also affected—he ceased to act as an assistant deputy minister in the Ministry of Municipal Affairs and became part of the executive group of the Ministry of Employment and Investment, although with no formal position in that ministry. The responsibilities of the general manager with respect to PRHC remained unchanged, as did the composition of the corporation's board of directors.

Exhibit 3.1

Governance Overview





Coal Harbour Cooperative in Vancouver

Courtesy: BC Housing Management Commission

*The Role of Shareholder Representatives
(Legislative Assembly, Central Agencies of
Government and Government Ministries)*

The Legislative Assembly

The Legislative Assembly exercises rights on behalf of the people of British Columbia, including the rights attached to the ownership interest in Crown corporations. These rights include creating an appropriate structure to deliver government programs and overseeing the way in which those programs are delivered.

There is no legislated provision establishing an oversight role for the Legislative Assembly with respect to Crown corporations. For example, there is no provision for the Assembly to receive or review the plans of Crown corporations. Only the annual subsidies that Crown corporations receive from ministries of government—the amounts of which are included in the ministry Estimates for the year—are subject to review during the Estimates debate. (For example, the 1998/99 Estimates for the Ministry of Employment and Investment included a contribution to housing programs of \$87.6 million.)

Under the British Columbia Housing Management Commission Regulation, the minister responsible for housing is required to table in the Legislative Assembly the annual report of BC Housing (which includes the financial and operational performance of PRHC). However, while the content of the annual report may be raised during debates of the Assembly, there is no vehicle to allow legislators to use the report to formally review the performance of BC Housing or PRHC.

The Legislative Assembly has made some effort to remedy this situation. In the past, it established a Crown Corporation Committee, but the Act creating this committee was repealed in 1985. Since 1992, select standing committees with Crown corporations in their mandate have been appointed for each session. However, although the Select Standing Committee on Crown Corporations appointed for the current session exists and has members, it has no terms of reference and, at the time of our audit, had not yet met other than for an organizational meeting.

The issue of Legislative Assembly oversight of government performance was considered in 1995 by the Legislative Assembly's Select Standing Committee on Public Accounts. In a January 1996 report to the Legislative Assembly "Second Report of the Select Standing Committee on Public Accounts," the committee recommended that:

- the government provide, on a timely basis:
 - information about the short- and long-term plans and goals of ministries and Crown corporations, including their respective programs and past performance; and
 - information about the results achieved, allowing comparison between actual and planned performance of government ministries and Crown corporations;
- such select standing committees be provided for that are deemed appropriate to consider ministry and Crown corporation programs by sector; and
- the short- and long-term plans and annual reports of ministries and Crown corporations, once tabled, stand referred to the committees above.

Later in 1996, the Public Accounts Committee repeated its recommendations in another report to the Assembly. To date, no further action has been taken by the government or the Legislative Assembly in response to these recommendations.

Recommendation 1:

We recommend that the government take appropriate action to enable Members of the Legislative Assembly to consider the recommendations in the "Second Report of the Select Standing Committee on Public Accounts" (January 1996) regarding the information and oversight needs of the Legislative Assembly.

Central Agencies

Treasury Board is the agency that reviews ministry capital and operating budgets when the Estimates are prepared for approval by the Legislative Assembly. To the extent that Crown corporations are funded by ministries, Treasury Board has a role in reviewing the levels of funding sought for such organizations, and in obtaining capital and operating plans to support the funding requests. We found that Treasury Board's roles and responsibilities in this area are well understood by all the parties concerned.

The Crown Corporation Secretariat is an agency that oversees some, but not all, Crown corporations. The secretariat's mandate is to ensure that Crown corporations generate sufficient wealth and economic development in British Columbia and operate efficiently and effectively. In doing this, it has concentrated on larger Crown corporations. The secretariat has developed accountability guidelines for Crown corporations to use in preparing strategic plans, and has been involved in monitoring the progress of corporate plans. Under these guidelines, each Crown corporation is expected to incorporate performance targets into its planning processes and to provide regular reports to government that will include current, or most recent, information about actual performance.

Neither BC Housing nor PRHC has been assigned to the Crown Corporation Secretariat for inclusion in its portfolio of Crown corporations. Accordingly, the secretariat has not exercised any governance oversight for either agency. While the secretariat's role (or lack of it) with respect to BC Housing and PRHC seems clear to all involved, we think that the guidance the secretariat is developing for strategic and business planning and performance measuring and reporting would be of value to the board and management of BC Housing.

Recommendation 2:

We recommend that BC Housing liaise with the Crown Corporation Secretariat to keep up-to-date on the latest governance developments in the Crown corporation sector.

Ministers Responsible and Supporting Ministries

The roles of the ministers responsible for housing matters and the supporting ministries are in a state of transition and are not clear in their entirety to all those involved in the governance of BC Housing and PRHC. This could lead to inefficiencies through duplicated effort, or to ineffectiveness through key governance functions not being carried out.

The minister responsible for a Crown corporation is a key player in establishing and conveying government direction to the corporation's board. Planning guidelines issued by the Crown Corporation Secretariat identify the role of a minister as:

- ensuring that directions are communicated;
- advising the board about government plans; and
- making recommendations to cabinet.

In addition to these, we believe that the minister should be responsible for monitoring the performance of the agency to

ensure government's objectives are being achieved, and for seeing that resources are being appropriately used.

On February 18, 1998, by order-in-council, the government designated the Minister of Employment and Investment to be the minister responsible for administering section 5(c) of the Ministry of Lands, Parks and Housing Act. This section provides the government with the authority to develop and deliver housing programs. The minister is officially titled the Minister of Employment and Investment and the Minister Responsible for Housing and, by the same order-in-council, is charged with responsibility for BC Housing and PRHC.

This suggests that the Minister of Employment and Investment is responsible for all government policy issues that relate to housing. However, that is not the case. He or she is responsible for social housing only. Responsibility for other housing issues (for example, housing safety and the Building Code) remains with the Minister of Municipal Affairs. This raises the issue of accountability to the Legislative Assembly for housing matters. While the ministers concerned may have an understanding as to the division of policy formulation and accountability to the Legislative Assembly, we do not believe that this understanding is wholly shared at this time by all those involved in the governance of BC Housing and PRHC.

The roles of supporting ministries (the Ministry of Employment and Investment and the Ministry of Municipal Affairs) are also going through a period of transition. The Ministry of Employment and Investment currently has no capability to support its minister in developing housing policy or monitoring the delivery of housing programs. The Ministry of Municipal Affairs has continued to provide limited support for social housing, even though specific references to housing have been deleted from its functions. This continued involvement, albeit limited, makes some sense, because the powers granted to municipalities under the Municipal Act, for which the Minister of Municipal Affairs is responsible, can significantly influence the extent to which the municipalities can contribute to the social housing partnership. However, because of the overall policy vacuum, BC Housing has been called on to carry out some policy research on specific issues.

Given the importance of housing to the success of many programs, the government's current view is that one ministry should provide the lead in housing policy research and development, including that for social housing. And the Ministry of Municipal Affairs, the government believes, fills this role.



Courtesy: BC Housing Management Commission

Home interiors at J.S. Woodworth Court, Burnaby

It is not just policy development and support that has been complicated by the reassignment of ministry responsibilities. Before housing was removed from the ministry's legislated functions, the then Ministry of Municipal Affairs and Housing (now the Ministry of Municipal Affairs) monitored the activities of BC Housing. No ministry now provides this monitoring. It is therefore more important than ever for BC Housing's board to move swiftly to accept and discharge this oversight responsibility. That way, the ministry responsible need not involve itself in the ongoing monitoring of BC Housing's performance.

These shifts in roles and responsibilities are being refined at a number of levels. As a result, there is some uncertainty among players in the governance of BC Housing and PRHC as to where key functions (particularly policy development) reside and where related parties (such as the Housing Advisory Council) now fit in. If unresolved, this uncertainty could jeopardize the government's ability to carry out the research it needs.

As we have described earlier in this report, a cabinet reorganization that affected responsibilities for social housing took place on July 21, 1999, after we had completed our fieldwork. We believe that the way in which the reorganization may be implemented has the potential to address many of the issues associated with the clarity of roles and responsibilities of ministers and ministries that we have described in this section. As well, we believe that it may also provide government with a good opportunity to rewrite the housing legislation so that it

is less complex than at present. For example, the Ministry of Lands, Parks and Housing has long ceased to exist in that form, even though its Act, which includes the definition of the minister's role in housing, remains in force. The same is true of the Ministry of Social Services and Housing Act, which relates to what is now another defunct ministry that once had housing responsibilities.

Recommendation 3:

We recommend that the government review and finalize ministry roles and responsibilities as soon as is practicable to ensure that the minister responsible for housing has sufficient and timely support for developing policy. The government should communicate the roles and responsibilities to all affected parties in ministries, BC Housing and PRHC and to those who serve on such supporting groups as the Housing Advisory Council. At the same time, the government should review housing legislation to make it as coherent and current as possible.

The Role of the Boards and Management

The Board

The role of the board of BC Housing is not clearly defined and this has weakened the board's ability to exercise appropriate governance over the organization.

Legislation governing BC Housing describes an active role for the board of the commission. The British Columbia Housing Management Regulation charges the board of commissioners with managing, or supervising the management of, the affairs of the commission, and exercising the powers of the commission.

We would therefore expect the board to be involved in:

- setting strategic direction and goals;
- providing direction for developing strategic and business plans, and reviewing and approving them;
- presenting the strategic plans to the responsible minister;
- appointing, dismissing and, on a regular basis, evaluating the performance of the chief executive officer;
- setting significant operating policies;
- ensuring the commission has adequate resources;
- safeguarding the assets of the commission;
- monitoring and achieving goals and objectives; and
- ensuring that accountability obligations are discharged.

We found that the board has only addressed these responsibilities in a limited way.

The board has played a part in past decisions regarding general manager appointments, but it has not developed a process for routinely evaluating the general manager's performance. It has had little involvement in setting strategic direction and goals, or in monitoring the activities of BC Housing to ensure that direction is being followed and goals are being achieved. As well, until recently, the board had not reviewed and approved budgets of BC Housing before their submission to the minister responsible. This means that it had not been acting as an advocate for, and protector of, the resources of the organization.

The board has also not formally assumed all of the responsibilities of ensuring that BC Housing diligently meets its accountability obligations. Although it has an audit committee that oversees how BC Housing meets its statutory financial reporting responsibilities, the board has not involved itself in how well BC Housing is being accountable for operational and compliance matters.

Past board members themselves have differing views about the role the board has played in recent years. Some members we interviewed felt that the board had been purely advisory. Others felt that the board existed to deal with specific issues only, such as the hiring of the CEO. This lack of consistency indicates that past boards of BC Housing have not been clear as to their mandate and the expectations of government for performance.

Part of this uncertainty may have arisen from the close relationship that existed between the ministry that was responsible for housing until recently (the then Ministry of Municipal Affairs and Housing) and BC Housing. In giving direction to BC Housing management and undertaking initiatives to measure BC Housing's performance, the ministry used to carry out some governance functions that would conventionally have been exercised by the board. This may have been effective at the time, but in the long run it weakened the capacity of BC Housing's board to provide effective governance on an ongoing basis. And when disruptions occur in the continuity of the major players—as has been the case with the frequent changes in ministers, ministries and board members related to BC Housing—key governance functions suffer.

Also unclear has been the current role of the board in providing the minister with advice on policy issues. A number of groups provide the minister with policy advice and

feedback: the Ministry of Municipal Affairs, the minister's Housing Advisory Council and BC Housing itself. This creates the potential for duplication and overlap in the policy advice provided to the minister. Some clarity is therefore needed around the policy role of each group so the responsibilities can be clearly understood and discharged effectively.

The current board has recognized that the role that it should play in the governance of BC Housing needs to be more clearly defined and articulated. It has appointed a governance committee, comprising the chair of the board of BC Housing and two other board members, to identify the governance issues and recommend the actions needed to strengthen the board's ability to oversee the commission's affairs.

The work of the committee is still in its initial stages, but it has some projects underway. For example, it is developing board policies and procedures to clarify what the board's role and responsibilities should be and to ensure that all board members have a consistent understanding of them. However, the success of the committee's efforts will depend on continued leadership and on commitment and support from the entire board and those to whom the board is accountable.

Recommendation 4:

We recommend that the board of BC Housing clearly define its role, seek approval for that role from the minister responsible, and then work to remove the impediments that have affected its ability to play an effective role in governance.

Timing of Board Appointments

The timing of BC Housing board appointments has hampered the board's ability to function effectively on an ongoing basis.

Until recently, individual board member appointments all lapsed bi-annually on the same date. Where re-appointments had not been made on a timely basis, BC Housing operated without a board for periods of time that in one instance was almost one year. The lack of a board for such a long time undermined the profile and credibility of the function at BC Housing in the eyes of others, as well as preventing the board from overseeing the operations of the organization effectively. Such a situation can be seen as encouraging and legitimizing alternative practices that may not in the long run be conducive to good governance.

There recently has been an attempt to provide a more rational regime for the timing and term of board appointments.

The appointments to BC Housing's board made in November 1998 covered periods from one to three years. This trend, if continued, will go a long way to maintaining the ongoing capacity of the board.

The Chair and the General Manager

The roles of the chair and the general manager within BC Housing are not clear, nor in all respects is the relationship of the general manager with external stakeholders. The roles of the chair and the general manager potentially overlap in some areas, and their respective responsibilities have not yet been clarified.

Under the British Columbia Housing Management Commission Regulation, the board of BC Housing may delegate its powers and duties to anyone the commission employs. Traditionally, the board has delegated the management of the commission to a general manager, who has acted as the chief executive officer of the commission.

In the latter part of 1997, the government also appointed a full-time chair to the board of BC Housing. Previous chair appointments had been for only part-time involvement. The move to a full-time chair recognized, in part, the government's wish to strengthen the board's role, and also its desire to add effort to promoting innovative solutions to current housing problems, particularly through the use of partnerships. However, fulfilling these expectations has resulted in the chair becoming more involved in the detailed operations of the commission—for example on issues related to maintenance of the housing developments.

In situations like this, clarity around the respective roles of the chair and the general manager is imperative. Without it, the board may have difficulty in establishing appropriate expectations for accountability from the general manager; the ability of the general manager to provide overall leadership may be compromised; and management may be uncertain as to the source of direction on operational matters.

The appointment of a full-time chair is not unprecedented in the Crown corporation sector of government in British Columbia. In some cases, the role of the chair is to provide the CEO with advice and feedback on the implications of different courses of action, notably where the chair is experienced in the Crown corporation's line of business. Such arrangements can work well, especially when all parties have a clear understanding of the respective roles of chair and CEO.

The governance committee of the board is aware of the implications of the current situation. It is currently considering what recommendations to make about how the responsibilities of the chair and general manager should be defined for the future, including which of these positions should be designated as the CEO of BC Housing.

Under a normal governance structure, the role of the general manager would be to receive direction from the board and to be accountable to the board for the operational, financial and compliance performance of the organization. In practice, however, the general manager's role has had some complexities because of two additional functions attached to the position.

The first function is that of President of PRHC, the Crown corporation that owns the provincial assets invested in social housing. In this capacity, the general manager is not accountable to the board of BC Housing, but reports directly to the minister responsible for housing. This creates a line of direction and accountability that circumvents the board of BC Housing, even though the activities of PRHC are closely related to the interests of the BC Housing board.

The second function is the position of general manager in the ministry responsible for housing. We understand that some past ministers and deputy ministers felt that a close working relationship between the ministry and BC Housing was needed if government housing policy was to be implemented effectively. When the Minister of Municipal Affairs and Housing was responsible for BC Housing, the general manager held the position of assistant deputy minister in that ministry, receiving direction from and being accountable to the deputy minister. When the Minister of Employment and Investment assumed responsibility for BC Housing, the general manager did not have a formal ministry position but served as a member of the ministry executive group, providing information to and receiving policy input from the deputy minister. However, as with the role of PRHC president, these situations created a line of direction and accountability that excluded the board of BC Housing from active participation in setting direction and demanding accountability.

Rather than adding clarity to the governance regime, the effect of the general manager's multiple functions is to make it more obscure. Board members and management were concerned about this clouding of governance at BC Housing and how it has impeded the board from playing a more effective role. We believe that, if the government's intention is to establish a governance regime for BC Housing that is

appropriate for Crown corporations, the general manager should report solely to the board of BC Housing.

Fortunately, a number of current initiatives are aimed at improving the effectiveness of the board. We understand that the government wishes the board to be an active vehicle through which the minister can communicate direction to BC Housing and it would also like the board to be held accountable for BC Housing's performance. If the board demonstrates its ability to respond fully to this expectation, there will be no further need for the general manager to hold a ministry position.

Recommendation 5:

We recommend that the minister responsible assess whether the general manager of BC Housing should continue to hold positions in government ministries and in the Provincial Rental Housing Corporation and, if not, remove these positions from the general manager's responsibilities.

Recommendation 6:

We recommend that the board of BC Housing clarify the roles and responsibilities of the chair and the general manager, and that it communicate this clarification to management.

The Governance Structure Surrounding PRHC

The governance structure for PRHC is, we believe, inappropriate, in that it gives only a limited role to the board of BC Housing to represent and protect the commission's interest in property decisions taken by the corporation. BC Housing and PRHC have many common interests regarding the acquisition and maintenance of housing stock. For example, not only does PRHC own over a quarter of a billion dollars in land and buildings that BC Housing either manages or subsidizes, but it is also responsible for acquiring the accommodation occupied by BC Housing operational and administrative staff. This gives the board of BC Housing a legitimate interest in decisions taken by the PRHC board about the locations and costs of property acquired and developed by the corporation. However, the board of BC Housing does not have any formal influence over PRHC decisions to protect this interest.

Incorporated under the Company Act of British Columbia, PRHC was acquired by the provincial government in 1973. In 1990, provincial Crown lands were transferred to PRHC to provide priority access for the development of social housing.



Courtesy: BC Housing Management Commission

J.S. Woodworth Court, Burnaby

The corporation was designed to act as a holding company for land owned by the government and invested in social housing and to hold public housing stock. To this end, PRHC may acquire or dispose of land, construct or acquire public housing, and borrow money in its own right. It also qualifies as a public housing corporation, which enables it to sponsor and manage social housing projects directly.

The corporation holds titles and administers leases for all family and seniors' housing projects built on provincial land over the past 30 years. Its portfolio includes provincially owned group homes, homeless/at risk housing, non-profit housing, and directly managed housing. Transactions for adding properties to, and removing properties from, its portfolio are carried out by BC Housing staff for PRHC, as the corporation has no staff of its own.

As already noted, the President of PRHC, who is the chair of its board, is also the general manager of BC Housing. In these capacities, he or she reports directly to the minister responsible for housing. The board of PRHC comprises members of the senior executive group of BC Housing. This composition is unusual in that the board members of PRHC are not independent of the chair of the board: in their BC Housing roles, they report to the general manager.

Conceptually, this is not a desirable situation if the purpose of the board is to provide a diverse range of views, ideas and opinions. However, a greater issue is that the distance between the governance structure of BC Housing and that of PRHC does not mirror the linkage of the activities of

the two organizations. Historically, BC Housing has had only limited involvement in the governance of PRHC, in that the audit committee of PRHC was made up entirely of members of the board of BC Housing. However, the audit committee's function was to ensure that PRHC adequately discharged its accountability for legislated financial reporting. It did not provide board members of BC Housing the opportunity to provide input into operational matters of PRHC, even though many decisions that PRHC makes affect BC Housing's operations. One way of resolving this issue would be for the members of the board of BC Housing to be appointed also to the board of PRHC.

Given the extent to which PRHC's operations are related to BC Housing's operations, a logical question is whether PRHC needs to exist at all. In past years, when the federal government provided funding for the construction of new social housing developments, PRHC, as a housing corporation, was able to borrow money for this purpose from the Canada Mortgage and Housing Corporation. Now that the federal government no longer participates in the construction or funding of new social housing developments in British Columbia, there is no longer a need to use a separate entity such as PRHC for obtaining federal loans or for holding BC Housing's legal interest in land. As well, there is an incremental administrative cost to maintaining PRHC as a separate entity that could be saved if the functions of PRHC were assumed by BC Housing and the corporation ceased to exist. And legislation allows the minister responsible for housing to transfer PRHC's debt to the Province if he or she so decides. Accordingly, there seems to be no legal impediment to reassigning the corporation's assets and liabilities to other provincial government agencies.

Recommendation 7:

We recommend that the government identify the governance and operational structure that will enable PRHC's activities to be carried out most cost-efficiently and effectively, while recognizing BC Housing's interest in PRHC's operations.

Management

A governance regime is unlikely to be effective if management does not have a good sense of what its roles and responsibilities are. If the expectations of government are to be met, management needs a clear understanding of direction and how and by whom it is to be implemented, and who is

responsible for results. More than this, however, is the need for an awareness of who the organization's clients are, and a commitment to serving them.

We found that management of BC Housing was clear about the roles and responsibilities of BC Housing and PRHC, and about staff's own roles within the organizations. Because BC Housing had recently completed the development of a three-year strategic plan for 1997-99, management was able to examine its own roles and responsibilities in the context of BC Housing's strategic focus.

Partners in Social Housing

The respective roles and responsibilities of BC Housing, PRHC and their partners in social housing are reasonably well understood.

Both BC Housing and PRHC have a number of partners in the delivery of social housing. These partners do not have direct input into how BC Housing and PRHC are governed, but BC Housing and PRHC are accountable under agreements with them for providing shelter to certain client groups. The two principal partners in this regard are the federal government and provincial ministries that provide the lead in funding special needs clients.

The Federal Government

The responsibilities of BC Housing to its federal partners are set out clearly and are well understood within BC Housing.

BC Housing administers programs that are jointly funded by the Governments of Canada and British Columbia. The respective roles and responsibilities of the Canada Mortgage and Housing Corporation (CMHC)—the lead federal agency—and BC Housing are clearly set out in legislation and in supporting agreements between the parties, and are well understood by them. Various sections of the National Housing Act identify the programs, the basis on which the costs are to be allocated, the program beneficiaries and the responsibilities of the parties.

The Government of Canada, through CMHC, administers social housing units in British Columbia that are wholly funded by the federal government. BC Housing and PRHC have no current responsibilities associated with these units although, as noted earlier in the report, discussions are currently taking place concerning the possible devolution of administrative responsibilities from the federal government to the provincial government.

There are also some 31,000 units of housing that are cost-shared by the federal and the provincial government. BC Housing is responsible for the administration of these units, and provides CMHC with an annual statement of the operating costs and occupancy statistics for each development.

Special Needs Housing Partners

BC Housing's roles and responsibilities for special needs housing have not always been well understood by its partners, but progress is being made.

Special needs housing is a type of housing that provides individuals with an affordable and suitable environment in which to live and, when this is combined with needed social service or health support, permits a degree of independence in a supportive setting. Coordination of services is a challenge—usually one or more ministries fund and deliver the care component while BC Housing may have a role in providing the shelter component. As well, government policy shifts, such as the regionalization of health care, can change the numbers, roles and identities of the players involved in special needs. As these shifts are implemented, there is a risk of key issues such as shelter being overlooked.

There is a continuum in the forms of special needs housing assistance. It ranges from the most supportive, such as group homes for those with mental disabilities, to rent supplements in the private market for people with HIV/AIDS. Units of housing provided to meet these needs may be self-contained suites, apartments, or bedrooms in houses.

In recent years, government saw a need for a corporate strategy to deal with special needs housing issues. This strategy was to deal with numerous perceived gaps and inequities in the approach to planning, funding and delivering special needs housing. As well, there appeared to be a lack of clarity in the eyes of the public and the non-profit sector over the responsibilities of the various ministries involved in providing special needs housing. A committee of assistant deputy ministers was struck to examine these issues. The work of the committee has, we feel, generated a much greater understanding and perspective of the concerns and issues of the other parties, resulting in better communication overall at the ministry and field levels.

The committee continues to meet regularly to discuss planning and coordination issues. It has started two regional inter-ministry committees as pilots, which act primarily in an

information-sharing advisory role. It also steers several cross-ministry projects, such as the inventory database of special needs housing and research on special needs demand.

Although much progress is being made, there is still some perceived lack of a common understanding as to the roles and responsibilities of the various partners. For example, when the recent regionalization of health care took place, not all local health authorities understood BC Housing's role and its responsibility for continuing the shelter component. This required an extensive dialogue after the event between BC Housing and many authorities to explain BC Housing's role and to make appropriate arrangements for the continuity of the shelter component for the housing transferred.

Recommendation 8:

We recommend that BC Housing strongly encourage its ministry, local government and non-profit partners to consult the commission in assessing the impact of any proposed reassignment of responsibility for special needs groups that involves a shelter component.

Direction

Introduction

Providing direction is an iterative process carried out within the broad framework of a legislated mandate. It involves taking broad government direction and converting it into specific, quantifiable direction for implementation to proceed. Making this conversion successfully calls for an ongoing dialogue among those providing the direction and those implementing it so that, ultimately, the direction not only represents government's expectations, but also can be accomplished with the resources available.

In recent years, the government in British Columbia has developed a strategic planning process within the Crown corporation sector to ensure that the activities of Crown corporations reflect the government's direction.

The Crown Corporation Secretariat has developed guidelines for the development of strategic plans and has monitored the progress of corporate planning. Following the guidelines allows the government and Crown corporations to come to an agreement on the corporations' mandates and their public policy objectives. Although BC Housing and PRHC are

not included in the secretariat's portfolio of Crown corporations, the need for strategic plans as part of the process for setting direction is still critical.

Conclusion

The objectives for social housing programs are described well in the government's plan for affordable housing and in BC Housing's strategic plan. However, the plans do not quantify the intended results of pursuing these objectives, and rarely do they describe how the success of strategies for pursuing the intended results is to be measured. As a result, it is difficult both to determine the progress that the government expects BC Housing and PRHC to make over time in addressing affordable housing needs and to evaluate the success of the strategies developed by BC Housing to meet these goals.

Although the board of commissioners of BC Housing is charged by legislation with managing the affairs of the commission, the government has not always used the board as the vehicle by which to communicate direction to the commission. Although the direction has been communicated effectively by alternative means, the comparative lack of involvement of the board has, we believe, weakened its ability to play a fully effective role in the governance of the organization.

Findings

Strategic and Business Plans

BC Housing has recently developed a strategic plan, but the plan is not yet fully supported by detailed business plans.

The Crown Corporation Secretariat has developed guidelines to help Crown corporations plan. The following definitions of strategic and operating plans are based on this guidance.

A strategic plan is a long-term plan that can range from three to 20 years, depending on the organization. Its purpose is to establish a vision for an organization that encompasses the organization's mission and philosophy. As well, a strategic plan sets out measurable strategic objectives that take into account the external factors that will impact the organization and its operations, and provides the preferred strategy for achieving those objectives.

A business plan is a short-term plan usually covering one to three years. It should describe the specific initiatives and actions that an organization plans to undertake during

the period covered by the plan and relate them to the strategic plan. A business plan should also provide performance measures for monitoring individual initiatives as well as progress made by an organization as a whole in moving towards its strategic objectives.

A corporate board should play a key role in the development of plans. It should provide direction to management concerning the development of strategic and business plans, review and approve business plans, present such plans to the minister responsible, and monitor performance against approved plans.

Historically, BC Housing lacked a process for developing strategic and business plans. However, in 1996, the commission finalized a strategic plan for the period from 1997 to 1999. It was developed after extensive consultation with key stakeholders inside and outside the organization, including representatives of the ministry responsible, the board, non-profit societies that manage many social housing projects, and BC Housing employees. Its development followed a three-part process that involved establishing a plan for BC Housing, identifying and adjusting the active strategies annually, and creating branch plans to help provide a sense of direction in qualitative terms. We found that management and staff of BC Housing are familiar with the strategic plan and have a good understanding of the direction that the organization is committed to follow. Key elements of the plan as it existed at March 31, 1999 are shown in Exhibit 3.2.

In our opinion, this strategic plan provides a clear picture of the objectives, goals and strategies that are important to the commission fulfilling its mandate, and it contains good qualitative information. What is not clear from the plan itself, however, is how BC Housing intends to measure its success in achieving some individual strategies, such as increasing public support for affordable housing or building alliances and partnerships with tenants and housing providers.

Although BC Housing has completed its strategic plan, it has not yet developed an annual business plan that sets out expected results to be achieved in the short term. Most of BC Housing's short-term direction is contained in annual work plans. The work plans are linked to the qualitative objectives set out in the strategic plan, and describe planned initiatives and activities. While the work plans frequently provide milestones for achievements, they do not include performance measures for monitoring progress and the achievement of objectives. As a result, the plans are of limited use to those

Exhibit 3.2

BC Housing's Strategic Directions at March 31, 1999

Vision Statement

BC Housing will be a leader in meeting the need for affordable housing in communities throughout the province.

Mission Statement

BC Housing provides and facilitates access to secure, well-managed affordable housing through the efficient use of public resources and innovative, effective partnerships.

Guiding Principles

BC Housing, as an agency of the provincial government, is committed to implementing the government's policies regarding affordable housing.

BC Housing cannot fulfill its mission alone. We are committed to building alliances and partnerships in support of the mission and vision of BC Housing.

BC Housing respects community leadership and community expertise. We strive to enhance community capacity to promote, preserve, develop and manage affordable housing.

BC Housing strives to protect the public investment in social housing by setting high standards of development, maintenance and service delivery.

BC Housing is committed to meeting client needs with leadership, innovation and integrity.

BC Housing believes in teamwork and excellence. We strive to be a competent, caring and trusting organization. BC Housing encourages staff to make effective decisions within their authority.

BC Housing respects and honours the diversity of our staff, tenants and partners and all those with whom we work in fulfilling our mission.

Strategic Priorities

Areas of strategic priority in which BC Housing must achieve results by 1999, and their related goals, are:

Housing Programs

- to simplify housing programs, reduce costs, and improve access with fair consistent housing policies

Organizational Effectiveness and Efficiency

- to increase client and employee satisfaction through effective and efficient use of staff, partnerships, technology and financial resources

Housing Stock

- to increase affordable housing stock while maintaining the quality of existing housing developments throughout the province

Public Support for Affordable Housing

- to increase public support for affordable housing

Partnership

- to build alliances and partnerships with tenants, the private, non-profit and co-op sectors, other provincial government ministries and other stakeholders in support of the vision and mission of BC Housing

Source: BC Housing Management Commission

within and outside BC Housing who are charged with monitoring the organization's performance.

BC Housing is currently developing a framework of performance measures so that it can measure and report its results. We describe and comment on this initiative later in this report. The proposed regime of performance measures is, we found, effectively linked to BC Housing's strategic plan. Approving the measures should provide the commission with an opportunity to revisit the strategic plan and relate the strategies in the plan to the means by which progress in pursuing them will be measured. Furthermore, the adopted performance measures will enable BC Housing to more fully describe its performance expectations in its business plans. This will achieve a better linkage between setting expectations and reporting on results.

Recommendation 9:

We recommend that BC Housing expand the content of its strategic plan to identify how progress in pursuing the stated strategies will be measured. We also recommend that BC Housing continue to develop its business plans to give focus to establishing performance expectations and measuring results.

Government Approval of Mandate and Strategic Plan

The board of BC Housing has not yet obtained the government's formal approval of the board's interpretation of BC Housing's mandate and the strategic plan, although the documents have recently been forwarded to the Minister of Employment and Investment. Until approval is obtained, there is no assurance that the organization's proposed initiatives will be fully consistent with the expectations of government.

There is no uniform way of developing a mandate and getting it approved. Of necessity, legislative authorities tend to be very broad, and most frequently do not provide specific mandates or detailed direction. In some cases, the minister responsible may provide an organization with a mandate, which the board will then use to develop a statement of purpose. More frequently, however, government, through the minister responsible, will look to an organization itself to develop a mandate from broad direction, and will expect the opportunity to approve the mandate when it has been completed. In such cases, the responsibility falls upon a board to ensure that a mandate is developed and to obtain the approval of the minister responsible for it.

The Ministry of Lands, Parks and Housing Act enables the minister “to undertake programs relating to the provision of housing in British Columbia.” However, it does not provide direction as to what such programs should be and to what extent they should be implemented, nor does it define who should be eligible for assistance. The BC Housing Management Commission Regulation enables BC Housing to, among other things, “administer rent supplement and other housing assistance programs under the direction and with approval of the minister” and to “manage housing made available to it.” The regulation does not provide direction, but it does identify that the direction can be provided by, or should be approved by, the minister.

Ministers responsible for housing have not, to our knowledge, provided a written mandate to BC Housing. However, the regulation lists a number of activities that BC Housing is empowered to carry out in pursuit of its objectives. We would therefore expect the current board to ensure that it develops its interpretation of BC Housing’s mandate from existing guidance, and to obtain the minister’s approval for it.

While the board has provided input and approved of management’s work in this area, we found little historical evidence of it having taken an active role in providing leadership and ongoing support for the process. Rather, it has been the management of BC Housing that has in past years taken much of the initiative in developing the mandate and strategic direction for the organization.

However, the current board recognizes the need for it to be more involved in developing and communicating direction. As well, the minister responsible has been consulted as a stakeholder in the development of BC Housing’s strategic plan, and we have no reason to believe that significant differences exist over these issues between the minister’s views and those of the board.

Recommendation 10:

We recommend that the board of BC Housing formally obtain the government’s approval for the board’s interpretation of the commission’s mandate and strategic plan.

Linkage Between BC Housing’s Strategic Plan and the Government’s Plan for Social Housing

BC Housing’s strategic plan is appropriately linked to the government’s plan for affordable housing.

In April 1996, the then Ministry of Municipal Affairs and Housing published the “Strategy for Affordable Housing.”

This document sets out the government’s strategy for ensuring that there is a supply of housing that citizens of British Columbia can afford to rent or own. The challenges and strategic goals set out in the strategy document are shown in Exhibit 3.3.

The strategy evolved from the work carried out by the Provincial Commission on Housing Options. That commission, established by the government in 1992, was charged with examining ways of meeting the province’s housing needs at a time when the respective roles of the federal and provincial governments were undergoing change. The commissioners interviewed individuals and groups across the province to identify the concerns that British Columbians had about affordable housing and the importance of housing issues in their communities. The government has used the report of the commission, made in December 1992, as a basis for developing its housing strategy.

Exhibit 3.3

Government’s Plan for Affordable Housing

The Challenges:

Affordability:

- All British Columbians should have access to housing that meets their needs, at a cost they can afford and with a reasonable degree of choice in tenure, building type and location.

Diversity:

- BC communities should be inclusive and diverse, contain a variety of affordable housing options, and provide the services and amenities required for the health, security and stability of their citizens.

Sustainability:

- Housing development must respect and protect the environment, creating communities that are both socially and economically sustainable. Housing in BC should be planned and developed in keeping with careful stewardship of the province’s air, water and land.

The Strategic Goals:

- Build partnerships to broaden participation base in creating housing opportunities
- Reduce impact of land costs on housing development
- Increase affordability of home ownership for first-time buyers
- Preserve and expand stock and variety of moderately priced rental housing
- Promote a range of housing options for individuals with special needs

Source: “Strategy for Affordable Housing”

That strategy develops a comprehensive approach to addressing housing needs, one that involves all levels of government as well as the private, non-profit and community housing sectors. As such, it does not just cover social housing, but indicates other types of initiatives the government can pursue in addressing housing needs. For example, it offers ideas about ways in which government can increase the affordability of home ownership for first-time buyers.

The “Strategy for Affordable Housing” describes the importance that housing has at both the provincial and community levels, and contains some excellent contextual material about housing. For example, it describes how new housing starts contribute to job creation, and it gives statistical information about the numbers and composition of households in British Columbia, and the numbers of people who are in core need of affordable housing.

As well, the “Strategy for Affordable Housing” sets out what are described as three challenges for housing and, from these, five strategic goals are developed (see Exhibit 3.3). These are essentially the government’s direction for housing. In our opinion, the strategy provides a good qualitative description of what the government is hoping to achieve with its housing programs—that is, it gives some sense of the intended results of the programs. This is particularly so with the three challenges of affordability, diversity and sustainability, which characterize the effects that housing programs are intended to have on the citizens, communities and environment of the province.

Not all of the strategic goals set out in the strategy document apply to the primary activities of BC Housing and PRHC. For example, provincial and local governments are best able to contribute to the goal of reducing the impact of land costs on housing development through, for example, zoning and density allocations. As well, the goal of making home ownership affordable for first-time home buyers is not one of BC Housing’s responsibilities. The goal of promoting a range of housing options for individuals with special needs is one in which BC Housing and PRHC have a supporting role for the shelter component. However, initiating such projects is the role of the ministries (for instance the Ministry for Children and Families) that provide funding for the care of such clients.

Two strategic goals clearly relate to the role of BC Housing and PRHC, however: 1) preserving and expanding the stock and variety of moderately priced rental housing; and 2) building partnerships to broaden the participation base in housing opportunities. Although BC Housing’s strategic plan is not explicitly linked to the government’s strategic plan for

affordable housing, it is easy to see the correlation between the two documents in the goals that BC Housing has set for itself. BC Housing's strategic priorities include maintaining and expanding the supply of affordable housing, and promoting the use of partnerships in delivering social housing. For each of these priorities, BC Housing has identified a goal and the individual strategies that relate to the goal.

Accountability

Introduction

Accountability has many different levels, within an organization and externally. Our primary interest in this audit was to examine the appropriateness of BC Housing's and PRHC's accountability to the Legislative Assembly and the public (via the minister responsible). However, because we recognize that external accountability can only be as complete, accurate and reliable as the information available internally, we also examined how the organizations themselves measure their performance for internal management purposes.

Conclusion

BC Housing has not complied with all aspects of legislation regarding its reporting to the Legislative Assembly and to the public. Further, information that is currently reported to the Legislative Assembly and the public with respect to the commission's planned and actual performance is inadequate to allow a full assessment of the organization's performance. Neither BC Housing nor any other government agency is reporting information that would assist legislators and others in understanding the current state of the social housing sector in British Columbia. Moreover, BC Housing has not been able to meet all of the information needs of the Ministry of Municipal Affairs and Treasury Board Staff.

For its part, PRHC is in compliance with the legislation governing its reporting, and the information it provides about its activities is adequate in light of the organization's limited operating functions.

The deficiencies in BC Housing's reporting have occurred primarily because the prerequisites to good accountability have not been in place: roles and responsibilities of those involved in governance have not been clearly defined; measurable objectives and performance targets have not been established; and BC Housing has not had an adequate performance measurement framework for measuring and monitoring results in relation to the targets. We believe a

contributing factor to this situation has been the limited role played by past boards in developing strategic and business plans for the commission.

The board of BC Housing has not to date adequately identified its information needs, and consequently it is not able to monitor the organization's performance effectively —another key role that the board should be carrying out. However, the current board is aware that it should identify its information needs, and is taking steps to do so.

BC Housing management has recognized that improvements to accountability are needed, and is in the early stages of introducing a framework for planning and measuring performance. The proposed framework is fairly comprehensive, has been developed in a logical manner and, if fully implemented, would provide a much improved basis for the internal management and external accountability reporting of BC Housing's performance.

Findings

Accountability to the Legislative Assembly and the Public

Meeting Statutory Requirements

BC Housing has not complied with all current statutory requirements for reporting to the Legislative Assembly and to the public. While both BC Housing and PRHC have produced the required annual reports and audited financial statements, BC Housing's recent annual reports have not been delivered to the minister responsible for tabling them in the Legislative Assembly within the prescribed time. Nor has BC Housing been able to produce all of the information required by the Financial Information Act. (PRHC is not covered by this Act.)

What the Statutory Requirements Are

Both BC Housing and PRHC have several legal requirements to meet in their reporting:

- The British Columbia Housing Management Commission Regulation requires that “not later than 120 days after the fiscal year end, the chair of BC Housing shall present to the minister a financial statement for the fiscal year, duly audited by an independent auditor, together with a report of the operation of the commission for such fiscal year.”
- Under Section 145 of the Company Act, PRHC is required to provide, at its annual general meeting, financial statements disclosing the state of the corporation's affairs and the results of its operations for the year.

- Under the Financial Information Act, BC Housing is required to provide additional financial information about its operations beyond that otherwise disclosed in its financial statement referred to above. This information includes schedules of debt, guarantees, remuneration to employees, and payments to suppliers. As well, Section 3 of the Act requires corporations to “provide to the minister, the Minister of Finance and Corporate Relations, or the committee of the Executive Council that is designated by the Executive Council strategic plans, operating plans, capital and operating budgets and other information requested by the minister or committee.”

The Agencies' Response to the Requirements

BC Housing produces an annual report that contains not just its own audited financial statements, but also, for information purposes, those of PRHC. The commission also produces the information about employee remuneration and payments to suppliers that is required under the Financial Information Act. BC Housing's ability to respond to requests for strategic and operating plans made under Section 3 of the Financial Information Act has been limited in the past, in that it did not have effective processes for preparing such plans. However, the completion in 1996 of its current strategic plan now allows BC Housing to meet some of these requests; and, once it has developed annual operating plans from the strategic planning framework, it will be able to provide better accountability information.

In recent years, BC Housing has not produced the information within the time frame set in legislation. BC Housing's fiscal year end is March 31, and therefore its financial statements and annual report need to be delivered to the minister by July 29 of each year. Its annual report for 1996/97 was not delivered to the minister until December 12, 1997. (The 1998 annual report that was due to be tabled by July 29, 1998 had not been delivered to the minister by March 31, 1999).

We found that PRHC had produced the audited financial statements as required under the Company Act.

It should be noted that the lack of timeliness with which British Columbia government organizations produce annual reports is a concern we have across government. For example, most ministry annual reports are tabled in the Legislative Assembly anywhere from 12 to 28 months after their year-end. Generally, Crown corporations do somewhat better; most are tabled within 4 to 12 months of their year-end.

Recommendation 11:

We recommend that the board of BC Housing ensure that the commission's annual report is presented to the minister responsible within the time limit imposed by legislation.

Reporting Performance

The latest BC Housing annual report contains much useful and relevant information, but it does not cover all aspects of performance and it does not clearly compare actual performance to plans and targets. Information reported about PRHC's activities is adequate.

The British Columbia Accountability Reporting Framework

In recent years, the Auditor General of British Columbia and the Province's Deputy Ministers' Council have been collaborating in an effort to improve performance management and public accountability of government organizations.

A 1996 report of the Auditor General and the Deputy Ministers Council resulting from this collaboration, "Enhancing Accountability for Performance in the British Columbia Public Sector," included a reporting framework for government and its organizations. A multi-year implementation plan designed to put the framework into practice was also developed.

The framework was built around the three key elements of government performance:

- financial;
- organizational and program; and
- legal compliance and fairness, equity and probity.

Financial accountability requires agencies to indicate the extent to which their financial goals are being achieved, and whether or not their financial controls are sound.

Operational accountability involves demonstrating the extent to which program objectives are being achieved, and whether or not this is being done with due regard to economy and efficiency. It also calls for agencies to show the extent to which they are developing and maintaining their organizational capacity for delivering results in the future.

Compliance accountability calls for the agencies to demonstrate that applicable legislation and regulations are being complied with. Government agencies must also show that their business is being conducted in a fair and ethical way, and is meeting the public's expectations of propriety.

The reporting framework called for:

- ministry and Crown corporation multi-year plans (including measurable goals and performance targets);
- measures of the quantity, quality and full cost of the goods and services—the outputs—provided;
- measures of the outcomes achieved (at organizational and sectoral levels);
- measures of the extent of compliance with legislation and expected standards of conduct;
- assessments of organizational capacity to deal with the future; and
- intended and actual standards of service delivery.

The report also set out a detailed matrix (see Exhibit 3.4) showing the questions that should be answered by accountability information.

Work to apply this framework to the Crown corporation sector continues—albeit at a pace somewhat slower than that contemplated when the 1996 “Enhancing Accountability for Performance” report was issued—with a particular focus on planning and performance measurement. But, generally, public reporting by Crown corporations does not yet include meaningful results information or cover all key aspects of performance.

Annual Reports

BC Housing’s most recent published annual report (for the 1996/97 fiscal year) contains good information about BC Housing’s views of its priorities and its accomplishments. Exhibit 3.5 provides a summary of the annual report’s contents.

The report does not provide information on all key aspects of performance, however. Lacking is quantitative information about BC Housing’s goals and objectives. For example, the report does not contain much information on how BC Housing rates its success in managing its partner relationship—a major strategic objective. (As we discuss later in this report, BC Housing is currently developing some measures that would allow it to do so.) Neither does the report include an annual plan of what BC Housing set out to achieve during the year under review. Current achievements, therefore, are not put in the context of expected performance. The report refers to performance targets being set (for example, Financial Services setting them for Treasury & Budgets and Accounting to enable Financial Services to measure operational efficiency) but it does not describe the

Exhibit 3.4

ACCOUNTABILITY INFORMATION MATRIX: GOVERNMENT-WIDE/SECTORAL LEVEL		
What questions should accountability information answer?	What information is needed to allow these questions to be answered?	
	PLANNING	RESULTS
OPERATIONAL:		
<p><i>Is government achieving what it set out to achieve?</i></p> <p>What is government trying to achieve?</p> <p>What are the challenges?</p> <p>What are its long-term goals, and how well is it progressing toward achieving them?</p> <p><i>Is government developing and maintaining the capacity to deliver results in the future?</i></p> <p>Does government have the ability to maintain or improve results, and the capacity to deal with the future?</p>	<ul style="list-style-type: none"> • strategic priorities and goals • analysis of key issues and trends • for each sector of government: <ul style="list-style-type: none"> – strategic goals – performance targets • details of any specific initiatives designed to improve capacity 	<ul style="list-style-type: none"> • key performance measures on long-term goals • assessment of financial condition, protection of assets, employee skills, work environment and operating controls
FINANCIAL:		
<p><i>Is government achieving its financial objectives?</i></p> <p>What are its financial objectives, and are they being realized?</p> <p>Are affairs being managed according to sound financial controls?</p>	<ul style="list-style-type: none"> • planned operating revenues and expenditures (government-wide and by sector) • planned capital expenditures (government-wide and by sector) • planned financial position, including debt • details of any major changes to be made to financial controls 	<ul style="list-style-type: none"> • actual revenues and expenditures (government-wide and by sector) • actual capital expenditures • actual financial position, including debt • management statement of adequacy of financial controls
COMPLIANCE:		
<p><i>Are government affairs conducted in accordance with legislated requirements and with expected standards of conduct?</i></p> <p>What laws does government need to comply with, and is it complying with them?</p> <p>What are government's standards of conduct, and is it complying with them?</p> <p>What are government's internal social policy objectives, and how well is it achieving them?</p> <p>Are there adequate controls designed to ensure compliance with legislation and standards of conduct?</p>	<ul style="list-style-type: none"> • identification of relevant laws • identification of standards of conduct • long-term goals • annual objectives • details of any major initiatives to improve controls over compliance 	<ul style="list-style-type: none"> • management statement of compliance • management statement of compliance • progress towards long-term goals • annual achievement • management statement of adequacy of compliance controls

**ACCOUNTABILITY INFORMATION MATRIX:
MINISTRY/CROWN CORPORATION LEVEL**

What questions should accountability information answer?	What information is needed to allow these questions to be answered?	
	PLANNING	RESULTS

OPERATIONAL:

<p><i>Is the organization achieving what it set out to achieve?</i></p> <p>What is the purpose of the organization?</p> <p>What are the challenges facing the organization?</p> <p>What are its overall long-term goals, and how well is it progressing toward them?</p> <p><i>Are its programs achieving what they are meant to achieve in a cost-effective way?</i></p> <p><i>Are its programs:</i></p> <ul style="list-style-type: none"> – needed (that is, relevant)? – achieving what was intended (that is, effective)? – achieving at a reasonable cost (that is, efficient and economical)? <p><i>Is the organization maintaining the capacity to deliver results in the future?</i></p> <p>Does the organization have the ability to maintain or improve results, and the capacity to deal with the future?</p>	<ul style="list-style-type: none"> • legal mandate • mission • analysis of key issues and trends • measurable (outcome focused) targets for long-term goals • client profile • program objectives • link to organization and government-wide objectives • intended outcomes • schedule of evaluations to be carried out • planned service delivery standards • intended levels of user acceptance • planned full cost of programs • planned unit cost of outputs • planned quantity/quality of output • details of any specific initiatives, designed to improve organizational capacity 	<ul style="list-style-type: none"> • key outcomes/performance measures on long-term goals • results of evaluations carried out • outcome measures • results of evaluations carried out including details about secondary impacts • actual service delivery standards • actual levels of user acceptance • actual full cost of programs • unit cost per output • actual quantity/quality of output • assessment of financial condition, protection of assets, employee skills, work environment, and operating controls
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ACCOUNTABILITY INFORMATION MATRIX: MINISTRY/CROWN CORPORATION LEVEL		
What questions should accountability information answer?	What information is needed to allow these questions to be answered?	
	PLANNING	RESULTS
FINANCIAL:		
<p><i>Is the organization achieving its financial objectives?</i></p> <p>What are its financial objectives, and are they being realized?</p> <p>Are affairs managed according to sound financial controls?</p>	<ul style="list-style-type: none"> planned operating revenues and expenditures planned capital expenditures planned financial position, including debt details of any major changes to be made to financial controls 	<ul style="list-style-type: none"> actual revenues and expenditures actual capital expenditures actual financial position, including debt management statement of the adequacy of controls
COMPLIANCE:		
<p><i>Are the organization's affairs conducted in accordance with legislated requirements, and with expected standards of conduct?</i></p> <p>Is spending kept within the limits approved by the Legislative Assembly?</p> <p>What laws does the organization need to comply with for (a) the conduct of business and (b) the operation of specific programs, and is it complying with them?</p> <p>What are its standards of conduct, and is it complying with them?</p> <p>What are government's internal social policy objectives, and how well is the organization achieving them?</p> <p>Are there adequate controls designed to ensure compliance with legislation and standards of conduct?</p>	<ul style="list-style-type: none"> voted appropriations identification of relevant laws identification of standards of conduct long-term goals annual objectives details of any major initiatives to improve control over compliance 	<ul style="list-style-type: none"> statements of actual expenditures compared to voted appropriations management statement of compliance management statement of compliance progress towards long-term goals annual achievement management statement of adequacy of compliance controls

Source: "Enhancing Accountability for Performance: A Framework and Implementation Plan, April 1996"

nature of the targets or the quantitative performance aimed for. Some comparative information is provided that would enable current accomplishments to be evaluated against those of prior periods, but it is not provided consistently throughout the report.

Also missing is clear information about whether the organization is developing and maintaining its capacity to deliver results in the future (for example, assessments of its

Exhibit 3.5

The Contents of BC Housing's Annual Report

BC Housing's latest published annual report (for the 1996/97 fiscal year) contains the following information:

- messages from the chair and minister;
- report from the general manager (cultural and structural evolution of the agency, strategic planning, future direction);
- cornerstones (mandate, vision, mission, guiding principles, organizational structure, identification of branches and description of their work);
- programs and services (information about what BC Housing has achieved in the year in areas such as HOMES BC, group homes, the federal/provincial housing programs, modernization and improvement program, and other programs);
- strategic plan and priorities (commentary on the evolution of the strategic planning process and what BC Housing is doing to ensure the success of the initiative);
- plan for measuring success (describes BC Housing's plans to meet quarterly with the ministry and the board to report on progress in fulfilling the priorities identified in the strategic plan); and
- audited financial statements of BC Housing and PRHC.

Source: BC Housing Management Commission

financial condition, the current state of maintenance of the housing stock, the skills of its workforce and the extent to which appropriate use is made of technology). As well, there is no information about whether the commission is carrying out its affairs in accordance with legislated requirements and with expected standards of conduct, or to what extent it is achieving government's internal objectives, such as employment diversity and equity.

Because it does not have ongoing operations in the way that BC Housing has, PRHC does not produce its own annual report. The BC Housing annual report does, however, describe the commission's role as agent for PRHC.

Recommendation 12:

We recommend that BC Housing improve its public reporting by providing in its annual report information about:

- ***all key aspects of its performance (financial, organizational and program performance, legal compliance and fairness, equity and probity);***
- ***measurable objectives and targets (when the commission has completed its process for developing business plans); and***
- ***historical performance.***

Sectoral Reporting

Although government organizations such as BC STATS and CMHC gather information about the current state of housing, neither BC Housing nor the Ministry of Municipal Affairs is collecting or reporting information about how well the social housing sector is responding to the challenges of affordability, diversity and sustainability—key objectives set out in the government’s “Strategy for Affordable Housing.” BC Housing’s 1996/97 annual report is focused on the commission’s own performance. And the current performance measurement initiative is linked to BC Housing’s own mission statement and strategic plan.

Sectoral information would provide valuable data about social housing need and help governments and others to develop an understanding of how these needs arise. And this information, recorded over time, would give an equally important measure of how well society and its institutions are responding to those needs. Achieving government’s goals for affordable housing does not depend on BC Housing’s efforts alone. The numbers of homeless or those otherwise in core need arise through economic and social circumstances beyond BC Housing’s control or influence. And BC Housing’s ability to address the need by building new housing is limited by the resources placed at its disposal by government for this purpose. Thus, all partners in social housing have a role to play.

The importance of partnerships has been recognized by BC Housing, and an emphasis has been placed on developing strong working relationships with the non-profit and cooperative sectors. In BC Housing’s 1996/97 annual report, for example, the minister said that, “only through collaborative efforts of government, private builders and developers and the non-profit sector can the wide range of housing needs in the province be satisfied.”

Since success depends on how well all partners in social housing are able to fulfill their roles, we believe that a higher level of performance—sectoral—should be of interest and concern to the government, the Legislative Assembly and the public, a level that extends beyond the performance of BC Housing alone. Indeed, the Select Standing Committee on Public Accounts confirmed, in its 1996 report, the legislators’ interest in sectoral performance. A good example of sectoral reporting is the report “Environmental Trends in British Columbia 1998” issued by the Ministry of Environment, Lands and Parks.

Sectoral information about social housing would provide the government with important information about the success of its housing program initiatives generally and its initiatives for social housing specifically. It would also give government some idea as to those initiatives that seem to be working and those that do not. And trends in sectoral performance could alert the government to the actions it may need to take in the future to respond to the affordability challenge.

One example of the kind of information that might be useful relates to the capacity of the housing stock. While information exists on the number of units that are available and occupied at any particular time, for future planning it would be valuable to know the estimated remaining life of the units currently in service. Another area of potential sectoral measurement is the proportion of tenants paying near-market rents. This could indicate the extent to which the diversity objective of government's social housing policy is being achieved.

By virtue of its relationship with the social housing sector, BC Housing could gather much information that the government may need about social housing stock and tenants. Moreover, recent enhancements in BC Housing's information technology provide improved capacity for maintaining and reporting the data at various levels of detail.

We note that the Ministry of Municipal Affairs had been attempting to define sectoral performance information needs, but it was not able to complete the exercise before responsibility for social housing matters was transferred from it to the Ministry of Employment and Investment.

Recommendation 13:

We recommend that the minister responsible and the board of BC Housing decide what information should be reported with respect to the performance of the social housing sector and how best to collect that information. If BC Housing is considered to be the most appropriate agency to collect the information, then reporting expectations should be made clear to it.

Accountability to Other Stakeholders

Besides their accountability obligations to the Legislative Assembly and the public, BC Housing and PRHC have accountability obligations to stakeholders within government. They must account to the minister responsible (and the related ministry), as well as the Treasury Board (and supporting staff).

The Minister Responsible and Related Ministry

Management of the Ministry of Municipal Affairs expressed concerns about the appropriateness and sufficiency of BC Housing's performance information when its minister was responsible for the operations of BC Housing. It felt that the information that it had received "did not tell a story," and it found that it was not always able to provide MLAs with the answers to questions put to the minister in the House (for example, how the costs of construction compared with those in the private sector). We understand that this was largely attributable to the lack of available information at that time within BC Housing.

As a result of these concerns, the ministry started a project in 1997 to develop a list of proposed performance measures for BC Housing. This led to a dialogue between the ministry and BC Housing about the latter's objectives and about how progress toward achieving those objectives might best be measured. Before this initiative could be completed, however, the ministry ceased to be responsible for social housing matters and the project was not completed.

The Ministry of Employment and Investment is not involved in the daily operations of BC Housing, but the ministry does provide input into BC Housing's annual budget process and reviews all of the commission's Treasury Board submissions. As well, in conjunction with the Ministry of Municipal Affairs, the ministry provides input into housing policy issues that affect the commission. The general manager of BC Housing is a member of the ministry's executive group.

The President of PRHC reports directly to the minister responsible for housing. We found that PRHC has a close working relationship with the minister responsible. Property acquisitions are pre-approved by the minister as part of the project allocation process, and any property transactions falling outside the allocation process have to be approved by the minister before they are carried out. Meetings take place at least monthly between the minister and the PRHC president where planned and completed activities are discussed.

Treasury Board Staff

Treasury Board Staff (TBS) has also experienced difficulty in obtaining from BC Housing all the information it would like to have about housing issues. BC Housing has been providing TBS with copies of its strategic planning and performance measurement documentation as these materials are developed, and TBS believes that the mission and vision statements are a

good start. However, it is unlikely that TBS's information needs will be fully met until BC Housing has finalized and implemented its performance measurement framework.

The Federal Government

BC Housing provides reports to the federal Canada Mortgage and Housing Corporation (CMHC) annually for projects partially funded by the federal government. The reports includes costs and occupancy levels, and are accompanied by an audit opinion provided by the external auditors of BC Housing.

Accountability to the Board

The board of BC Housing has the primary oversight role, on behalf of government, to assess the organization's performance in relation to its strategic objectives. However, lack of continuity in the composition of the board, coupled with lack of clarity about its role and responsibilities, has contributed to the board not yet having defined what sort of information it should be getting and how often. Consequently, it is not able to monitor the organization's performance effectively.

The current board of BC Housing is aware of the importance of identifying the kind of information it needs from management. It recently established a committee to look at the governance of BC Housing. As well, the board is in the process of reviewing the proposed framework of performance measures to evaluate whether it covers all the information that the board requires.

Recommendation 14:

We recommend that the board of BC Housing identify its information needs as soon as possible to enable it to monitor the organization's performance effectively.

Measuring Performance

BC Housing has not had an adequate performance measurement framework for setting targets and then measuring and monitoring results in relation to the targets. BC Housing management has recognized that improvements are needed, however, and is in the early stages of introducing a framework for planning and measuring performance. The proposed framework is fairly comprehensive, has been developed in a logical manner and, if fully implemented, would provide a much improved basis for internal management and external accountability reporting of BC Housing's performance.



Courtesy: BC Housing Management Commission

Cool Waters in Port Alberni

Selecting Appropriate Measures

An appropriate set of performance measures should, when considered as a whole, cover all key aspects of performance and contain all the information that is relevant to users. Performance measures should flow logically from the objectives of an organization, be limited to a reasonable number, be relatively simple and manageable, and provide an appropriate balance between input, output and outcome measures that can be presented in a meaningful context. They should be based on sound underlying information, and should be capable of being produced in a timely and cost-efficient way. And ideally, they should be developed in consultation with program managers, staff and key stakeholders.

Measuring performance adequately is not an easy task in any organization. But for those involved in social housing, the task is even more complicated. Housing management is complex and diverse in character. Therefore, much of what constitutes successful housing delivery is qualitative in nature and hard to capture in quantitative performance measures.

Even when a comprehensive measurement system is established, deciding what criteria by which to judge whether performance is acceptable is problematic. Some client groups are far more difficult to house than others. As well, geography and climate can be factors. Housing clients in the inner suburbs of large cities can pose more challenges than housing similar groups in suburbs or out of town. And

extremes in climatic conditions between one location and another can involve differing costs to achieve the same level of operational performance.

Another complication is having to measure housing performance where housing is delivered to client groups by organizations working in partnership. In such cases, successfully managing the partnership relationship is key to success, but getting a measure as to how well this is being done can be very difficult. Inflexible performance measurement regimes can demotivate some partners and deter potential new ones. Getting the right balance between autonomy for the partners and accountability for results is the challenge.

BC Housing's Current Performance Measurement Approach

The performance measures that BC Housing has traditionally used do not have all of the attributes of an adequate performance measurement framework. The organization has used a blend of activity and efficiency measures to track its operations. This information has been used within branches and, on a quarterly basis, for the review of overall BC Housing operations by the senior management team.

The reports produced are detailed, typically starting with the overall objectives of the branch and then breaking these down into specific activities. As a means of tracking progress against the activity goals and important milestones, we think these reports are an effective tool.

The measures address a number of important areas of service to clients, prudent management of resources, and dealing fairly with external stakeholders, staff, social housing partners and suppliers. As well, targets are set for deadlines and outcomes for many of the activities. However, this performance measurement, while clearly defined and accurate, falls short in some areas.

The measures have not covered an adequate spread of input, output and outcome information. Linkage to strategic objectives is obscure, and some key elements of BC Housing's performance, such as the success of managing partner relationships, are not measured at all. Neither has there been any formal measurement of organizational capacity or of the extent to which public business has been conducted appropriately.

Although the current measures are produced on a timely and cost-efficient basis, they sometimes lack context to show whether, over time, BC Housing's performance is getting better or worse. Performance information provided to the

senior management team is often analyzed by month within the quarter covered. However, little data is provided of prior periods to enable the trend of performance to be assessed over a longer period of time. While management probably has a good sense of what the context is, and what the trends actually are, users of the data who are not part of the management team might not be able to put current performance into a long-term perspective.

The Planned Approach

In recent years, both the Ministry of Municipal Affairs (until recently, the ministry responsible for housing) and BC Housing management have become increasingly aware that a meaningful regime of performance measurement is needed for the commission.

Consequently, BC Housing is in the early stages of developing and testing a performance measurement framework for its operations. The first step, the development of the 1997-1999 strategic plan, was completed in 1996. The agency is currently looking at its performance measurement practices and developing a framework to allow it to measure and demonstrate its performance.

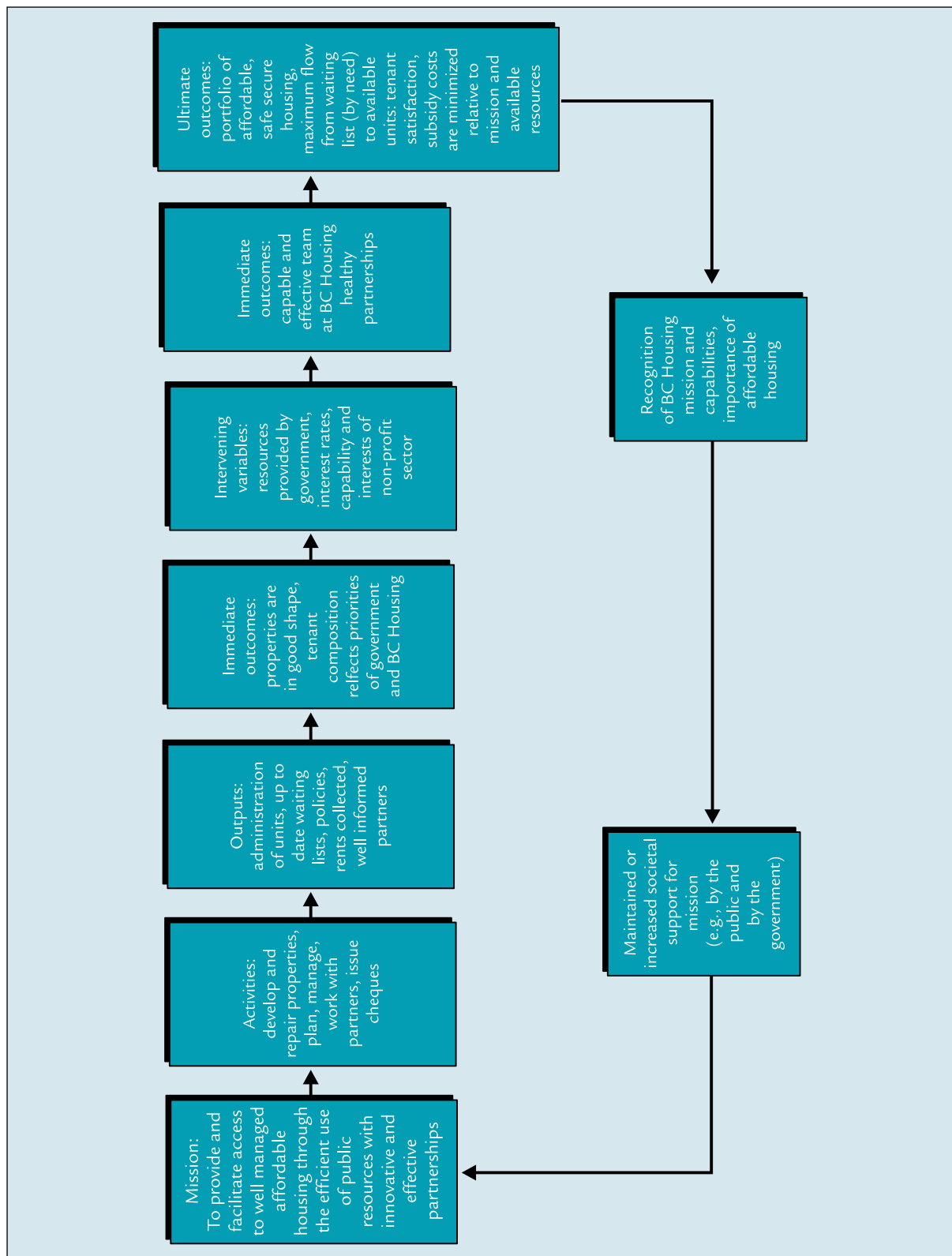
The framework is being developed by analyzing the relationship between the commission's mission, its day-to-day activities and the outcomes of that work. Exhibit 3.6 shows a summary of these linkages. The focus of the proposed measurement system will be on the intermediate outcomes ("a capable and effective team" and "healthy partnerships") and the ultimate outcomes ("affordable, safe, and secure housing; maximum flow from waiting lists to available units; tenant satisfaction; and efficient use of resources").

The project is ambitious and will take some time to fully realize, even with committed leadership and government support. However, we believe that the steps taken to date have been appropriate ones. The specific measures for each of the outcome areas are in the process of being developed and refined.

We also believe that the proposed measures are generally appropriate and relevant, although some additional measures should be considered (for example, the measurement of the effective team should be expanded to cover other important aspects of organizational capacity, such as the availability of appropriate tools, and there should be measures developed to show the extent to which the organization has complied with legislation and other expected standards of conduct, such as employment equity).

Exhibit 3.6

Simplified Schematic of Links Between Mission and Ultimate Outcomes



Source: BC Housing Management Commission

The measures are derived from BC Housing’s mission statement and from the objectives in BC Housing’s strategic plan. They are also reasonable in number, about 25 measures that attempt to capture key areas of performance, and contain measures that cover inputs, outputs and outcomes. In the context of what is being measured, they are generally simple and manageable, and they have been developed with the involvement of program managers, staff and external stakeholders. Furthermore, the types of performance portrayed are consistent with the types measured in other significant jurisdictions, such as the United States and the United Kingdom.

The measures are clearly defined, and the information sources for the data are clearly set out in the framework. Moreover, because the measures are linked to output from BC Housing’s current systems, producing the information on a timely and cost-efficient basis, and in an appropriate context, should be possible.

Recommendation 15:

We recommend that the commission proceed as quickly as is practicable with the finalization and implementation of its performance measurement framework. In this regard, the board of BC Housing should satisfy itself that the framework provides an appropriate basis for the commission to demonstrate its performance in the context of government’s overall social housing objectives.



response from the ministry of social development and economic security and the british columbia housing management commission

Thank you for this opportunity to reflect on the excellent work your office has done to audit two fundamental aspects of the British Columbia Housing Management Commission (BC Housing).

The governance and social housing subsidies audits are timely. You may be aware that government has two other studies affecting BC Housing under way: one, to consider the role of social housing in the province's strategy for affordable housing; and a second that reviews the organization of this agency. By considering your report with the other two reports in a relatively short time frame we are well positioned to ensure BC Housing continues to build on its successes, while realistically meeting the challenges of the future.

As you know we are somewhat unique in British Columbia in that the commitment to social housing has been maintained in spite of the federal government's withdrawal from this program area. This makes it even more important to ensure that the governance structure and operations of BC Housing are the best they can be to meet government's goals with respect to social housing.

As is noted in your report, a significant development that affects many of the governance issues you identified occurred this summer. On July 21, the new Ministry of Social Development and Economic Security was formed and brought housing policy responsibilities and responsibility for BC Housing under one Minister.

This is an important development as it is now much easier to address some of the concerns you raised with respect to clear definition of roles and responsibilities and determining information needs to assess the performance of the social housing sector.

Both the Board of BC Housing and the Ministry of Social Development and Economic Security are working to address your recommendations and in fact a number have been addressed already. In addition, we would like to advise you that work is already underway to address, through proposed legislative amendments, your significant concerns about the role and structure of the Provincial Rental Housing Corporation (PRHC).



an audit of the
management of
social housing subsidies

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an audit of the management of social housing subsidies

Audit Purpose and Scope

The purpose of this audit was to find out whether the processes used by the British Columbia Housing Management Commission (BC Housing) provide reasonable assurance that the commission pays social rental housing subsidies in the right amounts, in relation to agreed standards of service, and that the subsidies are used with due regard for economy and efficiency.

We examined the nature and extent of the subsidy verification, payment and monitoring processes used by BC Housing to see whether they provided reasonable assurance that:

- subsidies received by the sponsoring organizations were spent by them with due regard for economy and efficiency;
- the portion of the operating costs of the social housing units contributed by the tenants was correct;
- subsidies paid were properly authorized and correctly calculated; and
- sponsors provided the standards of service set out in the funding agreements.

In carrying out our examination, we interviewed key personnel and reviewed internal and external documentation to enable us to identify and evaluate the main processes and controls used by BC Housing for managing subsidies. As well as assessing the design of the controls, we tested how they were applied to a selected number of subsidy transactions.

We carried out the majority of our audit work between November 1998 and February 1999. In preparing the report, we discussed our findings and conclusions with BC Housing.

Our examination was performed in accordance with the value-for-money auditing standards recommended by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Overall Conclusion

The nature and extent of BC Housing’s verification, payment and monitoring processes provide reasonable assurance that subsidies are being paid in the right amounts and are being used economically and efficiently, and that agreed standards of service are achieved. However, BC Housing’s information systems do not readily capture the results of these processes in a way that enables sponsor data to be aggregated, analyzed and evaluated. The commission is therefore not able to readily demonstrate that those sponsors that need the most support are receiving priority over those that need less, and to assess the extent to which improvements are being made in sponsor performance overall. Moreover, the lack of centralized sponsor information can make it unnecessarily time-consuming for BC Housing officers to gather the information they need to plan their reviews and other activities.

Key Findings

Reviews of Controllable Costs

BC Housing’s processes for reviewing sponsor budgets provide reasonable assurance about the economy of planned sponsor expenditures. The detailed knowledge that property portfolio managers have of sponsor operations enables them to assess whether budgeted resources are likely to be used efficiently. While the budget approval process gives most attention to those sponsors with the highest per unit costs, BC Housing does not use performance comparisons extensively to assess whether the unit costs are reasonable in the context of proposed levels of activity. As well, BC Housing needs more timely information about historical cost data to ensure that current budgets are realistic.

The nature and extent of BC Housing’s financial review process is comprehensive and appropriate for the purposes that the reviews fulfill. We found that the reviews are carried out thoroughly and competently. However, information collected in the process is not recorded and assembled in a way that makes it easy to assess overall sponsor performance. If this were done, the commission’s staff could more easily prioritize monitoring reviews and other support activities appropriately and demonstrate more clearly to stakeholders how well the sponsors are performing collectively.

Mortgage Negotiations

BC Housing generally gets good rates in negotiating mortgage renewals on behalf of sponsors in the range of between 0.5 and 1.5 percentage points below residential mortgage rates. The commission tenders all of the mortgages on time, and ensures that the buildings are adequately insured. While the commission's staff have considerable experience in the process, we believe that periodic access to specific mortgage expertise might assist BC Housing staff in achieving even more savings through lower interest costs.

Replacement Reserves

Using replacement reserves for replacing capital assets, as BC Housing does, is generally accepted in social housing operations in Canada. We believe, however, that BC Housing should evaluate whether its overall model and current funding approach continue to be the most appropriate means of funding capital replacements, or whether modifications to the model are needed to make it the most cost-effective option. For example, BC Housing needs to periodically confirm that certain assumptions implicit in its funding model, such as the lack of recognition of both inflation and income earned on assets, continue to be valid in the current economic environment. BC Housing also needs to monitor more closely the relationship between the replacement values of the assets covered by the reserves and the reserve balances to allow the commission to identify and correct situations where reserves become over-funded.

Tenant Rental Contributions

The nature and extent of BC Housing's rent calculation processes address the major risks of misstatement of tenant income and provide reasonable assurance that the tenant rent contributions used in calculating subsidies are accurate. However, we believe that by redoing every rent calculation that sponsors perform, it is carrying out more work than it needs to gain a reasonable level of assurance that subsidy payments are materially correct.

Subsidy Payments

Appropriate authorities exist for paying subsidies to sponsors of social housing developments and BC Housing has satisfactory controls over the approval and calculation of subsidy payments.

Standards of Service

Operational reviews to confirm the extent to which standards of service are being delivered are designed and generally carried out adequately, although where deficiencies are noted, follow-up is not always effective. Although BC Housing is improving its ability to carry out reviews on a timely basis, it is still not yet able to fully accomplish this goal. As well, the results of the operational reviews are not recorded in a database of sponsor information, nor are they summarized according to the differing levels of support that sponsors need. As a result, BC Housing is not readily able to demonstrate overall the extent to which agreed standards of service are being delivered by the sponsors, and whether, collectively, the degree of compliance by the sponsors with the terms of the operating agreements is satisfactory. It is therefore not clear that, overall, operational reviews are being focused on those sponsors that need the most support in meeting the standards.



summary of recommendations

Reviews of Controllable Costs

- 1. We recommend that BC Housing use external cost comparisons in the budgetary review process. The commission should, for example, conduct more detailed analyses of cost elements affecting most sponsor budgets so that it can determine ways of more formally comparing costs of developments that have similar operating circumstances (page 113).**
- 2. We recommend that BC Housing develop guidelines for budget approval based on criteria using percentages or dollar-value increases from prior years' budgets. This would enable the commission to identify inefficiencies or uneconomic operations more effectively than it can by relying solely on per-unit-per-month values (page 113).**
- 3. We recommend that BC Housing ensure that the most current financial information is used in the budget review process (page 113).**
- 4. We recommend that BC Housing record and accumulate information gathered in the financial review process in a way that assists all staff of BC Housing to direct their efforts toward those sponsors most in need of support (page 115).**

Mortgage Negotiations

- 5. We recommend that BC Housing supplement its existing mortgaging expertise by securing access to specialist advice for periodically confirming the suitability of the commission's mortgaging strategies and for advice on specific issues (page 118).**
- 6. We recommend that BC Housing confirm the appropriateness of its performance measures and its targets for mortgaging activities by comparing them with housing and similar agencies in other jurisdictions (page 119).**

Replacement Reserves

- 7. We recommend that BC Housing improve the administration and control over replacement reserves by:**
- **periodically confirming that its funding model for replacement reserves continues to provide the most efficient and effective way of funding capital replacement in social housing developments.**
 - **periodically reviewing the continued validity of the assumptions included in its funding model for replacement reserves. In particular, the commission should specifically account for the effects of inflation on the cost of replacing capital assets and of interest earned on the invested assets of the replacement reserves, as these no longer appear to be an appropriate offset.**
 - **monitoring more closely the relationship between the replacement values of assets covered by replacement reserves and the extent to which the reserves have been funded. This monitoring would enable BC Housing to identify and correct instances where overfunding either has occurred or is likely to occur in the future. BC Housing should also consider implementing the use of funding thresholds at a level less than 100% of covered assets, which would reduce subsidy requirements while still enabling needed capital replacements to be made on a timely basis.**
 - **using its information systems more extensively to learn more about the usage of capital assets so that the commission can confirm that the estimated useful lives of the assets for funding purposes are determined as accurately as possible. As well, the systems should capture and report information about reserves that will enable the commission to monitor at differing levels of aggregation the extent to which reserves are funded.**
 - **reviewing and changing as needed its investment policies for replacement reserve assets to ensure they provide the optimum blend of earnings potential, liquidity and risk (page 124).**

Tenant Rental Contributions

- 8. We recommend that BC Housing reduce the extent of its recalculation of tenant rents to a level that will provide it with reasonable assurance that tenant rents are materially correct for the purpose of calculating subsidies. The commission should also extrapolate the results of its testing for income loss from incorrect declarations of income and assets so that a conclusion can be made as to whether the likely total misstatement of tenant rent from this cause is at a level that the commission can accept (page 127).**

Standards of Service

- 9. We recommend that BC Housing record the results of operational reviews in a more uniform and comprehensive way so that they better disclose the extent to which sponsors are individually and collectively delivering an appropriate standard of service to tenants (page 133).**
- 10. We recommend that BC Housing ensure that its information systems report the information about sponsors that property portfolio managers need to properly prioritize operational reviews. As well, BC Housing should ensure that the systems provide regional managers with information to allow them to assess whether the prioritization of reviews is appropriate and the reviews and follow-up are carried out on a timely basis (page 135).**
- 11. We recommend that BC Housing, on an annual basis, obtain copies of management letters issued by financial statement auditors to the sponsor boards, or obtain confirmation that none were issued (page 136).**
- 12. We recommend that BC Housing ensure that board members be present for the conduct of the operational reviews and to discuss the findings, and that commitments be obtained from the board of directors of the sponsors as to future remedial actions. The implementation of action plans should be monitored and documented by BC Housing's property portfolio managers (page 137).**



What the Subsidy Payments Are For

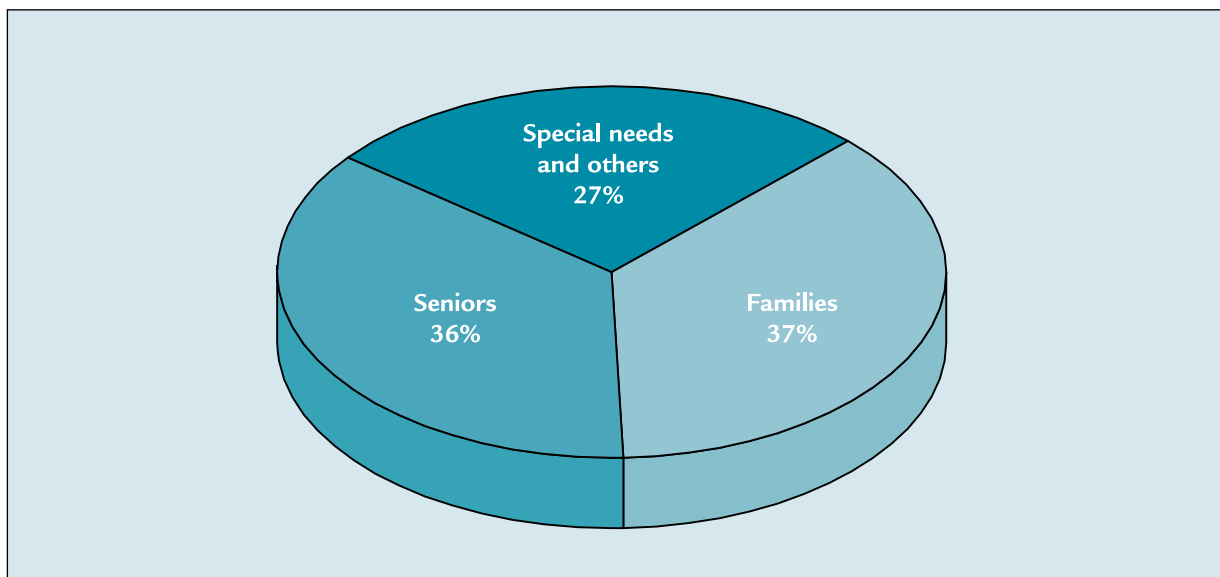
By far the largest component of government’s social housing programs are the units that are administered by BC Housing but managed by its sponsor partners. Approximately 730 not-for-profit societies and 250 cooperative associations in British Columbia are involved in the delivery of social housing. Of these, nearly 600 operate in partnership with BC Housing. BC Housing provides subsidies to these sponsors to finance the amounts by which the costs of the developments exceed the rentals recovered from the tenants. Such subsidies approximate \$100 million annually. The distribution of subsidized units among major categories of client is shown in Exhibit 4.1.

Sponsors are very diverse in origin and size. Typical organizations involved in social housing include residents’ cooperatives, service and veterans’ clubs, ethnic and church organizations, and groups representing seniors and other community interests. Some manage a number of individual developments while others look after one.

Regardless of their circumstances, however, all have the responsibility of maintaining the housing stock under their management and ensuring that their developments are well-managed. And for BC Housing, success in managing these partner relationships involves achieving a balance between

Exhibit 4.1

Percentage Distribution of Social Housing Units by Major Category of Client



Source: BC Housing Management Commission

protecting the interests of the taxpayer who provides the subsidy and avoiding unnecessary intrusion in the management processes of the sponsors as they carry out their responsibilities.

How the Subsidies Are Calculated

In general terms, the subsidy paid by BC Housing for rental housing developments is based on the amount by which the economic rent of each unit in the development exceeds the income of the household occupying that unit. The subsidies for each unit are aggregated and paid to the sponsor managing the development. Payments are made in monthly instalments over the year to which they relate.

The total cost to operate a social housing development for one year is referred to as the economic rent. It includes all actual costs, such as mortgage interest, property taxes, staff wages, utilities and administration and adjustments to the reserves from which capital assets are replaced. Exhibit 4.2 shows an example of the expense budget of a typical sponsor as recorded in BC Housing's information system.

As the exhibit shows, by far the largest component of the economic rent is mortgage interest, which on average accounts for about 60% of total costs, but which, for many sponsors, can be a much higher proportion of their costs. From the sponsor's perspective, this is an uncontrollable cost, as it is BC Housing that handles new mortgage negotiations and mortgage renewals. Other items over which the sponsor has no control are property taxes and the replacement reserve provision (which is determined by BC Housing). These account for a further 11% of costs. Ultimately, only about 29% of the total costs are controllable by the sponsor.

However, this does not imply that the controllable costs are insignificant or unworthy of attention. For example, in 1997, the controllable costs of sponsors receiving subsidies from BC Housing amounted to almost \$50 million. Annual expenditures of this size clearly have the potential for significant savings arising from value-for-money considerations, and this supports the role of BC Housing in promoting the efficiency of sponsor operations.

Sponsors receive funds to operate their developments from two main sources. The first is from the tenants, whose contribution toward the economic rent is based on a percentage of their household income up to a maximum of 30%. The second source is the subsidy from BC Housing.

Exhibit 4.2

Example of a Sponsor's Expense Budget

Budget Review								
Program	Block		Estate file: CMHC file: Fiscal year end # of eligible units Unit months Budget status					
	1999 Budget	Revision	Cost per Unit Month	1998 Budget	Cost per Unit Month	Prior Year Actuals		
						1997	1996	1995
Expenses								
Property tax	32,000		66.67	30,500	63.54	27,115	22,995	21,837
Land lease rent								
Insurance	3,500		7.29	3,500	7.29	3,169	3,224	3,293
Utilities	17,500		36.46	18,400	38.32	16,989	15,974	15,452
Maintenance	33,200		69.17	30,500	63.54	31,650	26,271	25,850
Administration	14,530		30.28	13,800	28.75	14,634	14,504	13,472
Replacement reserve provision	23,733		49.44	16,217	33.79	18,223	18,223	21,538
Contingency for vacancy loss	1,500		3.13	1,500	3.13			
Principal reduction on mortgage						24,028	22,047	20,347
Mortgage interest	158,918		331.08	158,918	331.08	186,068	188,049	189,749
Building rent								
BCNPHA	375		.78	300				
Other expense	550		1.15			6,848		
Total expenses	285,806		595.45	273,635	569.44	328,724	311,287	311,538
PUPM	71,155		148.24	68,000	141.67	152.69	124.94	120.97

Source: BC Housing Management Commission

Subsidy dollars are funded by the federal and provincial governments. Of the total social housing units in British Columbia, 58% are wholly funded directly by the federal government. BC Housing pays the subsidies for the remaining 42%, of which 88% are jointly funded by the federal and provincial governments and 12% are wholly funded by the provincial government.

Economic and Efficient Use of Subsidies

Introduction

Sponsors that operate economically and efficiently are likely to require less subsidization than those that do not. BC Housing's role in encouraging sponsors to use resources economically and efficiently is carried out at different levels.

At one level, we expected to find processes for looking at a sponsor's immediate planned activities and at the financial and operational results of that sponsor's past performance. As part of this first level monitoring, we expected that BC Housing would collect appropriate historical information on budgeted and actual subsidy costs for each sponsor, and would evaluate that information using techniques such as profiling or comparing financial performance against suitable standards. We also expected that BC Housing would identify those cost elements where there is the most potential for gaining efficiencies, and would encourage a consistent approach to the review of sponsor costs by the commission's staff.

These monitoring activities help promote efficiency in the short term by identifying areas where adjustments to budgets are needed. As well, however, we expected BC Housing to be carrying out a second level of support underpinning the short-term monitoring. This second level would focus on helping the sponsor sector improve its ability to manage its developments economically and efficiently in the long term. It would therefore include such matters as helping sponsors strengthen their organizational capacity, and undertaking studies of sponsor costs to identify cost-saving strategies.

Conclusion

BC Housing's processes provide a suitable framework for gaining reasonable assurance that sponsors use subsidies with due regard for economy and efficiency. The extent that the commission is implementing the processes enables this level of assurance to be achieved. However, the results of the review and monitoring activities that the commission carries out are not well organized in its information systems. BC Housing is therefore not readily able to demonstrate how efficiently the sponsor sector as a whole is operating. Furthermore, it is missing the chance to use these results to develop sponsor profiles in the systems, and so improve the efficiency of its monitoring and support activities.

Reviews by BC Housing staff of sponsors' short-term operations—encompassing the examination of budgets and financial statements—are carried out reasonably thoroughly. To complement this short-term monitoring, BC Housing carries out appropriate support activities to help sponsors manage their developments successfully in the long term. However, we believe that using appropriate external cost comparisons to evaluate the economy and efficiency of sponsor operations might help BC Housing achieve a reasonable level of assurance more efficiently and effectively.

While the mortgage negotiation process is achieving good results, we believe that periodic access to mortgage specialists might help BC Housing staff negotiate even lower interest rates for sponsor mortgages and therefore reduce subsidy costs.

The basic design of the replacement reserve process is sound, but we believe that the commission needs to confirm that the existing design and assumptions used continue to be the most economic and efficient way of financing capital replacements. As well, BC Housing staff need to monitor more closely the relationship between the replacement cost of assets covered by reserves and the levels to which the reserves are funded, as some reserves may be funded to higher levels than necessary.

Promoting Economy and Efficiency

BC Housing reviews and monitors the controllable costs of sponsors through two main direct processes: the approval of sponsor budgets, and a review of the audited financial statements of sponsors, including a comparison of actual financial performance with approved budgets. In addition to these processes, BC Housing also carries out other activities with a longer-term focus aimed at helping sponsors improve their ability to manage their projects economically and efficiently. These include preparing and distributing materials that provide guidance on such issues as organizational capacity and financial reporting. As well, BC Housing occasionally carries out special projects examining individual controllable cost items to see if these can be arranged in a way to minimize the cost to sponsors. Insurance costs are an example.

Findings

Reviews of Controllable Costs

Budget Review Process

The budget approval process assesses the future budget needs of sponsors by referring to financial budgets and actual cost information from prior years, and identifies and tracks spending trends both overall and for individual expenditure components.

BC Housing's processes for reviewing sponsor budgets provide reasonable assurance about the economy of planned sponsor expenditures. The detailed knowledge that property portfolio managers have of sponsor operations enables them to assess whether budgeted resources are likely to be used efficiently, and the approval process gives most attention to those sponsors with the highest per unit costs. However, BC Housing does not use comparable performance measures or standards to assess whether the unit costs are reasonable in the context of proposed levels of activity. As well, BC Housing needs more timely information about historical cost data to ensure that current budgets are realistic.

When a new sponsor receives approval for a social housing development, it submits an initial operating budget for approval by the community services officers at BC Housing. These officers examine and approve the budget before development takes place, and then review the budget again after the first three months of operations, making adjustments (where necessary) based on actual cost experience. Where BC Housing has prior experience with the sponsor from other developments, the property portfolio managers involved may also provide their views about the reasonableness of the expenditure estimates. This initial budget provides a base from which budgets of future years are developed.

For continuing operations, an operating budget is prepared for each sponsor several months before its year-end. The budget details the components of the economic rent for the coming fiscal year for each development. Some sponsors prepare and submit their own budgets; for others, BC Housing will prepare a draft budget for the property portfolio manager to discuss with the sponsor. In either case, the budget is finalized by negotiation between the sponsor and the property portfolio manager. In reviewing the budget, the property portfolio manager will compare planned expenditures with past audited financial statements and, where necessary, with more recent unaudited expenditures. Once agreed and approved by



Courtesy: BC Housing Management Commission

Children at the opening of Ospika Heights in Prince George

BC Housing, this budget becomes the basis on which the commission will provide subsidy instalment payments during the period covered by the budget.

To ensure that sponsors with higher costs receive more scrutiny, BC Housing has a ranking process to determine the levels of approval for sponsor budgets. For each development, a per-unit-per-month (PUPM) cost for each cost element is calculated. Most sponsor budgets are approved by the property portfolio manager assigned to that sponsor’s development. The exceptions are that budgets with a PUPM cost in the top 20% for their group require the approval of regional managers and, in the case of the top 10%, the approval of BC Housing’s director of regional operations. In this way, BC Housing appropriately gives more attention to the sponsors with the highest per unit costs. The PUPM therefore serves a useful purpose, but it is not a benchmark or a target, and thus does not of itself provide assurance about the economic and efficient use of resources by the individual sponsor.

The determination of approval thresholds, however, does not consider the percentage increase or decrease in budgets over past years. It is therefore possible that a sponsor may have a significant budget increase, yet still come in below the 80% threshold. No higher approval would be needed than that given in prior years. We think that the budget approval process could be strengthened if the regional manager were made responsible for approving sponsor budgets with increases that exceed a determined percentage of prior year costs.

BC Housing does not use external performance comparisons in the budget review and PUPM monitoring processes, so the mere examination of the data presented in the budget will not, in all cases, identify areas where sponsors are inefficient in their operations. However, property portfolio managers do try to compare budgets with those for other developments (these may not always be totally comparable but they at least usually provide a reasonable basis for reconciling the respective costs). Success in approving budgets that reflect efficient operations ultimately hinges on BC Housing staff having a good understanding of the operational circumstances of each sponsor. Knowing such information can

help staff form a view of what would be “reasonable” economy and efficiency for each sponsor or building.

To enable property portfolio managers to better gain this knowledge, BC Housing has raised the profile of the managers in the past few years, designating them as the main point of contact between sponsors and the commission. This allows them to gather the knowledge needed to properly assess the level of economy and efficiency inherent in sponsor budgets. To make best use of this knowledge, BC Housing has attempted to ensure that the managers are able to bring an appropriate blend of property management and financial analysis skills to this task. We found that a number of them are professionally qualified in the field of property management. As well, the property portfolio managers have ongoing contact with the sponsors, visit the developments and carry out operational reviews. Because of this, they and their regional managers should generally possess the knowledge they need about each sponsor’s circumstances to be able to assess the reasonableness of the budgets and evaluate whether the sponsors have efficiently used their resources in the past.

However, the understanding that a property portfolio manager has about his or her sponsors’ operations is equally valuable to other BC Housing staff that also work with sponsors and monitor their activities. These staff include financial analysts and community housing officers, as well as other property portfolio managers when sponsor portfolios change hands. However, this information is not formally recorded in a way that is readily accessible to all BC Housing staff, such as in a database of sponsor profiles. As a result, we feel that commission staff collectively spend more time than is necessary in obtaining and updating their knowledge of sponsor operations to the level needed for their work.

Good communication between the property portfolio managers that approve budgets and financial review analysts is essential. Managers with whom we spoke felt that there was a good degree of communication and cooperation between these functions. Nonetheless, we believe that property portfolio managers, financial analysts and community housing officers would benefit from having access to a centralized information file containing key information about the strengths and weaknesses of sponsors.

The use of benchmarking and other types of performance comparisons is another tool that can help staff establish reasonable expectations for sponsor performance. However, developing appropriate performance comparisons for social

housing developments is not easy. Part of the difficulty is collecting relevant information from a widely diverse number of sources. As well, there are many factors that can account for differences in costs, even between buildings that are the same size and age. These factors include labour costs, climate, urban vs. suburban location, type of building construction, and the relative size of the sponsor and number of buildings it administers.

Notwithstanding these difficulties, we believe that BC Housing would benefit from looking for suitable comparisons both within and outside its jurisdiction. As well, information gathered from sponsors about the cost factors that most affect efficiency of sponsor operations could help regional staff, when they are reviewing budgets, identify the areas where efficiencies are most likely to be found. However, although cost information about each sponsor's operations is maintained, BC Housing's information systems do not currently aggregate or summarize sponsor costs by, for example, geographic area, sponsor size or type of development, although the systems have the capability to do this. As a result, a property portfolio manager's ability to analyze sectoral cost trends as part of the budget review is limited. We discuss these issues further in later sections of this report.

We also believe that the timeliness of information used in the budget review process could be improved. The most recent cost data is the most relevant in the budget process. The historical cost information we found being used in the budget process was always more than a year old and sometimes much older when audited financial statements were late.

The timing of budgetary reviews makes it difficult to use completely current historical cost information when approving the budget. The reviews are normally carried out three months prior to the year covered by the budget, at a time when audited financial information of the prior year's results is not yet available. BC Housing tries to make its processes flexible by allowing mid-year budget revisions if the financial review of the prior year's actual costs indicate that such adjustments are needed. As well, property portfolio managers are encouraged to use year-to-date financial information for the preceding year when reviewing the sponsor budgets, particularly where recent audited financial statements are not yet available. We did, however, note several instances where the latest audited cost information on file was three years old yet was still used to set the budget. This means that recent factors affecting the trends in costs may not have been fully considered by the property portfolio manager during the budget process.

Mid-year revisions to sponsor budgets can also arise from other factors. Through the year, changes in a sponsor's circumstances can have a significant effect on its expenditures and cash flows. One change is when a mortgage is paid out and renegotiated. Mortgages constitute the largest single cost item in the economic rents of most sponsors, often accounting for more than 50% of the economic rent. A difference in interest rates between the previous and the new mortgage can have a major effect on costs. Other changes are expensive emergency repairs and variations in tenant incomes or living arrangements. Because many sponsors have only limited additional financial resources to draw on when changes such as these result in additional costs, BC Housing allows adjustments to the subsidy instalments to help sponsors deal with unforeseen events.

Recommendation 1

We recommend that BC Housing use external cost comparisons in the budgetary review process. The commission should, for example, conduct more detailed analyses of cost elements affecting most sponsor budgets so that it can determine ways of more formally comparing costs of developments that have similar operating circumstances.

Recommendation 2

We recommend that BC Housing develop guidelines for budget approval based on criteria using percentages or dollar-value increases from prior years' budgets. This would enable the commission to identify inefficiencies or uneconomic operations more effectively than it can by relying solely on per-unit-per-month values.

Recommendation 3

We recommend that BC Housing ensure that the most current financial information is used in the budget review process.

Financial Review Process

The design and nature of BC Housing's financial review process is comprehensive and appropriate for the purposes that the reviews fulfill. We found that the reviews are carried out thoroughly and competently. However, information collected in the process is not recorded and assembled in a way that makes it easy to assess overall sponsor performance and to prioritize BC Housing's support for each sponsor, including operational reviews and other support activities.

BC Housing carries out financial reviews of the sponsors' annual audited financial statements. Sponsors are meant to submit these statements to BC Housing within three to four months after the end of their fiscal years. Most sponsors are able to comply with this deadline, but invariably not all of the financial statements will be received by BC Housing on time. The financial review section follows up delinquencies with the sponsors concerned—moreover, we noted that financial review staff (as well as property portfolio managers) meet and work with sponsors to deal with financial issues and concerns that arise. When financial statements are received, BC Housing examines them to ensure that sponsors spent their funds in accordance with the approved budgets and within BC Housing guidelines.

The financial review process covers a number of important areas of subsidy administration, of which economy and efficiency of sponsor operations is but one. In this context, the process ensures that sponsors prepare reliable financial reporting of their activities, shows the extent to which expenditures were in accordance with the budget, and indicates whether any additional approvals regarding the level of sponsor costs are needed beyond those provided after the budget review.

We found that the reviews of financial statements received by BC Housing are completed thoroughly and competently. The financial review section attempts to prioritize the reviews of individual sponsors that are considered to be “higher risk” (for example, new sponsors and those with known difficulties), but the process does not interact with a formal database of sponsor information, such as a sponsor profile.

Although audited cost information is being entered accurately into the systems for use in the financial review process, it is not kept in one place or analyzed all together. This makes it more difficult to assess risks and deploy resources accordingly. Much of the information gathered and used for the financial review influences the frequency and timing of other monitoring and support activities, such as operations reviews.

Some of the record keeping could also be more efficiently done. In the financial review process, two forms are used to assess the financial health of the sponsor: the priority ranking sheet and the sponsor annual review form. The information provides a basis for evaluating the sponsor, but the two forms are compiled separately at different stages of the financial review, and some of the information from the priority ranking

sheet is also retyped onto the sponsor annual review form. Furthermore, the priority ranking worksheet, once completed, is often discarded, even though it contains information that is not readily available elsewhere. We suggest that the content and timing of completion of these forms be reviewed to minimize the work in preparing them.

Recommendation 4

We recommend that BC Housing record and accumulate information gathered in the financial review process in a way that assists all staff of BC Housing to direct their efforts toward those sponsors most in need of support.

Support Activities for the Sponsor Sector

BC Housing has developed a number of programs and activities designed to help sponsors improve their organizational arrangements and control costs. It is also working hard to achieve the right balance between protecting the taxpayers' interest in social housing and giving the sponsors an appropriate degree of autonomy in managing their affairs.

We believe that these activities enhance BC Housing's ability to manage its relationship with its sponsors, as well as enabling the best interests of both the sponsors and the taxpayers to be served. They yield both monetary and non-monetary benefits over the duration of the operating agreements and therefore justify the importance that the commission attaches to them. The sponsor sector is generally supportive of BC Housing's initiatives in these areas. Many sponsors we spoke to appreciated the availability of the materials that BC Housing provides.

Long-term support is an essential part of managing the partner relationship. Well-organized, competent sponsors are more likely to manage their affairs efficiently than sponsors who are not, and therefore are likely to need less ongoing monitoring and support from BC Housing. In the long run, this not only reduces subsidy costs, but also enables BC Housing to be more efficient in the use of its own resources.

BC Housing provides support in two main ways. First, a number of its programs focus on helping sponsors improve their organizational capacity. Key components of organizational capacity are:

- leadership and direction (includes delegation and communication, ongoing operational management, information management);

- people (includes workforce competencies, succession planning);
- tangible assets (includes facilities, properties and infrastructure, protection of tangible assets);
- financial condition (includes depth of available financial resources); and
- risk management (includes fraud protection, security of key information).

BC Housing's approval processes and operating agreements with sponsors already provide the commission with some influence over a sponsor's organizational capacity. For example, the commission can consider the current and projected financial condition of applicants when considering applications for new developments and renewing mortgages. And BC Housing's operational reviews look at how well sponsors are protecting the developments through appropriate maintenance and capital replacement.

However, there are other areas of organizational capacity, such as people, where BC Housing has no mandated influence and where it tries to help sponsors through counsel and support. For example, it has developed a number of guides to assist sponsors in managing their developments and their corporate affairs. As well, the commission has developed materials to assist sponsors in implementing recently developed professional standards for not-for-profit accounting.

In another type of support, BC Housing carries out studies of individual elements of sponsors' costs to see if these elements can be provided less expensively under a different regime. For example, the commission recently examined the costs of insurance to find out whether coverage could be provided at lower cost. Some sponsors achieved savings in insurance costs as a result of this research. As well, BC Housing's research into how to implement new financial reporting requirements for not-for-profit organizations demystified the topic for a number of sponsors.

We encourage BC Housing to continue to search for opportunities to assist sponsors in managing their affairs and reducing costs within the guiding principles set by the commission.

Mortgage Negotiations

We found that BC Housing tenders all of its mortgages on time, and ensures that the buildings are adequately insured. Moreover, it is getting overall good rates on mortgages, in the range of between 0.5 and 1.5 percentage points below

residential mortgage rates. BC Housing has placed nearly 75% of the current mortgage principal outstanding with the Canada Mortgage and Housing Corporation (CMHC), where the five-year rates are consistently lower than those quoted by private sector financial institutions. Although the commission is achieving good results, we believe that some extensions to its processes might enable it to do even better.

BC Housing acts as an agent for the sponsors in negotiating rates in the marketplace for mortgages on new developments and the renewals of mortgages on existing ones. In an average year, BC Housing will put out to tender a total of about \$250 million of mortgage financing, at intervals of two to three months.

Debt servicing makes up about 60% of the total costs of sponsors and amounts to about \$100 million annually. The total owed by sponsors under current mortgages exceeds \$1 billion. Effectively managing the mortgage market rates and terms therefore has a substantial cost savings potential for sponsors and for the government. For example, a difference of one-quarter of a percent on BC Housing's average annual tender would have an annual cost effect of about \$600,000.

BC Housing currently calls for bids from financial institutions on packages of mortgages. Mortgages are assigned to one of two tender packages: new mortgages and renewals of existing mortgages. To minimize the risk of default, BC Housing performs a check at each renewal date as to the ability of sponsors to continue to support the debt servicing costs. It further attempts to smooth the impact of interest rate fluctuations by setting up mortgage renewals in roughly equal proportions over four to five years.

Access to available expertise is a key element to managing the mortgage process successfully. As the results of its mortgaging activities suggest, BC Housing staff are experienced in the mortgage negotiation process. We think, however, that the commission might benefit from having periodic access to the advice and expertise of external specialists so that it can confirm that its strategies continue to be the best ones for attracting the most institutions to bid and for gaining the best rates. We do not believe that these tasks require a full-time involvement, but having a specialist on retainer would give BC Housing the best of current thinking on a number of issues. For example:

- Although its mortgage rates appear good, CMHC offers only a five-year term. It may be possible that BC Housing could get a better result overall by accepting a shorter term with other institutions. A specialist might be able to offer



Courtesy: BC Housing Management Commission

Family housing is an important component of social housing programs

informed advice on whether the potential gains from doing so outweigh the incremental cost that BC Housing would assume should a shorter-term strategy result in higher interest costs than the CMHC option.

- BC Housing's mortgage placement policy is to make a number of tenders during the year. However, discussions with financial institutions suggest that making fewer but larger tenders could elicit marginally better rates. Again, the advice of an external specialist would be useful to the commission for forming a view as to the potential benefits and risks of modifying their current policy.

BC Housing regularly compares the rates it achieves to those posted by financial institutions. As well, the commission has also chosen a performance measure (1–1.5 percentage points below residential mortgage rates) against which to measure and report the results of its mortgage negotiations, and it is usually successful in achieving this standard. We believe that the commission might benefit from comparing its chosen measure with those used by housing and similar agencies in other jurisdictions to confirm that it is appropriate by nature and that it sets a challenging but achievable level of performance.

Recommendation 5

We recommend that BC Housing supplement its existing mortgaging expertise by securing access to specialist advice for periodically confirming the suitability of the commission's mortgaging strategies and for advice on specific issues.

Recommendation 6

We recommend that BC Housing confirm the appropriateness of its performance measures and its targets for mortgaging activities by comparing them with housing and similar agencies in other jurisdictions.

Replacement Reserves

The value of replacement reserves is significant. According to the most recent sponsor financial statements available, the aggregate value of the reserves that BC Housing funds for its sponsors amounted to approximately \$48 million. Ensuring that reserves are adequately but not excessively funded is therefore a key management issue for BC Housing.

Timely access to funds for making capital replacements (such as roofs, carpets, refrigerators and stoves) helps ensure that residents will continue to enjoy housing that is safe and adequate to their needs. As well, making major capital repairs when required contributes to maximizing the service life of a development's units, and thus helps deliver the most value for money from the investment in the development. Managing replacement reserves well involves trying to achieve all of these goals at a reasonable cost.

BC Housing's operating agreements with sponsors call for the establishment and maintenance of a replacement reserve for equipment, fittings and major renewable parts of buildings. Although the agreements do not set out how and at what rate the reserves are to be funded, BC Housing has developed a process for this. For each item in the reserve, the sponsor receives an annual funding instalment that should accumulate to the item's original cost over its estimated useful life. The sponsors are responsible for investing these funds until they are required, in accordance with investment policies established by BC Housing.

Funding is not intended to provide an exact account for each item; rather, it is meant to provide a flow of funds that, over a number of years, will allow the sponsor to replace assets when needed. Consequently, certain assumptions are made in the funding formula—for example, that income earned on the investment of the reserve funds will approximately offset the effect of inflation on the cost of replacing items in the reserve.

When a sponsor's annual operating budget is prepared, the responsible property portfolio manager works with the sponsor to set up the reserve and identify the capital items that should be in it. As well, the financial review process monitors the way in which the replacement reserves are administered.



Courtesy: BC Housing Management Commission

Cairillon Place, a family development in Victoria

The analysts prepare a reconciliation of the transactions flowing through the reserve, and examine the balance sheet to make sure that the balance of the reserve has been properly invested by the sponsor.

We expected to find that BC Housing had processes for confirming that its funding model and the assumptions included in it continue to be the most appropriate way of funding capital replacements, and for confirming that reserves are funded to an adequate, but not excessive, level. We looked to see if the required contents of the reserve were adequately defined, and if the commission’s information systems provided appropriate information for monitoring the management of the reserves. As well, we considered whether the parameters set for sponsors about investment of reserve funds seemed to be reasonable.

BC Housing has been working to make the system for funding and managing replacement reserves easier for sponsors and for its own staff. We believe that the modifications it has made to the process benefit both the sponsors and the commission without compromising the latter’s ability to adequately monitor the expenditures.

Confirming the Model for Funding Capital Replacements

The existing model for funding replacement reserves is one method of providing for capital replacements and has general acceptance where social housing programs exist. However, BC Housing does not periodically confirm that the model continues to be the most cost-efficient method of funding capital replacement in social housing developments. Although it may be undesirable to alter the established arrangements with sponsors of existing developments, we think BC Housing should consider whether modifications to the existing model or an alternative approach might achieve greater cost savings when applied to future projects.

One option would be to fund reserves based on an annual inspection, similar to those carried out by property portfolio managers at group homes. The inspections would identify capital replacement needs for the forthcoming year and reserves would be funded on that basis. Although this might result for an individual sponsor in varying levels of funding each year, on a sectoral basis the year-to-year funding needs

may not vary greatly. In this way, the level of funding could be based on more practical immediate needs, and may allow resources otherwise applied to reserve accumulation to be allocated to building new housing.

Review of Assumptions

BC Housing does not periodically review whether the assumptions in its replacement reserve funding model continue to be appropriate under current economic conditions. We question whether at least one assumption used in the funding model is appropriate.

The model assumes that the interest earned on the replacement reserves offsets the effects of inflation in replacing the capital assets included in the reserve. The funding model therefore does not factor in the effect of changes in these two elements. This may have been an appropriate assumption to make at one time, but we found no evidence that BC Housing regularly analyzes the relationship between the elements to confirm that the assumption is still an appropriate one to make for funding purposes.

Although earned interest rates on investments have not been high in recent years, the annual increase in the overall Consumer Price Index (CPI) has averaged only 1.2% over the last five years. An excess of interest earnings over the incremental cost of replacement will contribute to an over-funding of reserves, as the excess of interest can lead to reserve levels exceeding the replacement costs of the assets. We believe that a more realistic approach would be to deduct the expected interest earned on replacement reserve assets from the annual funding instalment, and to increase the instalment by an allowance for the effect of inflation on the cost of replacing assets.

Levels of the Reserves

Funding the replacement of capital items over time using replacement reserves is a sound concept. However, BC Housing's goal of funding reserves to a level of 100% of the replacement costs of the assets results, we believe, in reserves that are excessive in the context of immediate needs. As well, we believe that more monitoring needs to be done to ensure that components of the reserves are not funded above 100% of the replacement cost.

We found that the levels of reserves can accumulate very quickly, and in one case we found that the value of the reserve (\$510,000) was considerably more than the current cost of replacing all of the assets covered by the reserve (\$224,000).

This suggests to us that the rates at which some current reserves are funded may be in excess of needs.

Although BC Housing checks to ensure that reserve funds have been invested, there is no organized procedure to compare the levels of reserves in a sponsor's financial statements with the replacement values of the covered assets and to recover excess reserves.

Historically, a target of funding reserves to a level of 100% has been the norm. We believe, however, that once a reserve balance has reached a level where it is adequate to fund capital replacements in the foreseeable future, a threshold could be established where no incremental funding would be provided in excess of the threshold. This would reduce the amount of taxpayer resources applied to currently funding long-term commitments and could release the funds to finance new developments.

Information for Managing Reserves

BC Housing lacks information with which to properly manage the balances on the replacement reserves. Although the commission's information systems include the replacement reserve balances for each sponsor that BC Housing funds, the systems do not routinely aggregate the balances to form a picture of the extent of funding of the sector, either wholly or by sponsor groups. As a result, BC Housing is not able to track trends in the levels of funding, to generate sectoral information about reserves and their adequacy, or to confirm that the assumptions in the funding model continue to be relevant.

The balance sheets that sponsors submit annually to BC Housing contain information about replacement reserves and related investments. As part of the financial review process, BC Housing staff enter the financial activity on the replacement reserve into the commission's data systems and prepare a reconciliation of the opening to the closing balance. However, at this time, the information systems do not aggregate routinely the total replacement reserves of all sponsors, nor do they summarize the data by, for example, type of housing, geographic location, or type and size of sponsor. However, the systems have the current capability of providing this information.

Because of this, BC Housing lacks important information it could use to monitor replacement reserves. For example, monitoring the trends in reserve levels and activity by appropriate groupings would help the commission assess whether the estimated useful lives of assets reflected in the funding formula were reasonable, based on practical experience

for similar buildings and classes of asset—and, if they were not found to be, the need for revisions could be identified. As well, trend information would enable BC Housing to identify the threshold at which, for practical purposes, the reserves would contain sufficient funding to meet capital replacement needs in the foreseeable future.

Strategies for Managing Replacement Reserve Investments

In the guidance it issues to sponsors, BC Housing defines the types of investment that sponsors may acquire with replacement reserve funds. Currently, BC Housing's policies allow sponsors to invest replacement reserve funds in interest-earning accounts insured by the government or by deposit insurance corporations, with a maximum term of one year.

What the commission has not done, however, is study whether its current policies are allowing sponsors to maximize the earnings on invested assets and to maintain an appropriate level of liquidity without incurring an unacceptable level of risk in the nature of investments chosen. If BC Housing's policies do not enable earnings to be maximized within acceptable risk and liquidity parameters, then the commission will be paying the sponsors more in subsidies than is necessary. As more knowledge is gained about the rates at which the reserves accumulate and the factors that affect how and when asset replacements are made, existing investment policies for reserve assets need to be reviewed to see whether they provide an appropriate blend of yield potential, liquidity and risk. The ability to do this properly, though, depends on the commission's information systems producing meaningful information about the reserves—something, as we noted above, that is not being done adequately.

Nevertheless, we believe that, with the current goal of funding to 100% of covered assets, a substantial portion of current reserve balances are unlikely to be needed for some years, and therefore the need for investment liquidity is less compelling now than it might have been in the past when the reserves were smaller. This suggests that some portion of the reserve investments could be moved to longer-term vehicles without compromising the ability of sponsors to access the funds that they need in the short term for capital replacements.

This move would also enable the earnings potential of the portfolio to be increased, and therefore reduce the amount of subsidization needed to fund the replacement of capital assets. As an example, if sponsors switched to purchasing provincial government bonds through bond funds (the units of which can be bought and sold daily by the unit holders), liquidity could

be maintained, but returns would likely be higher for about the same overall risk. BC Housing could also refer to Section 15 of the Trustee Act to determine the types of longer-term investment considered appropriate for assets held in trust. The issues of balancing liquidity, earnings potential and risk for trust assets are equally relevant to those for funding replacement reserves.

Recommendation 7

We recommend that BC Housing improve the administration and control over replacement reserves by:

- ***periodically confirming that its funding model for replacement reserves continues to provide the most efficient and effective way of funding capital replacement in social housing developments.***
- ***periodically reviewing the continued validity of the assumptions included in its funding model for replacement reserves. In particular, the commission should specifically account for the effects of inflation on the cost of replacing capital assets and of interest earned on the invested assets of the replacement reserves, as these no longer appear to be an appropriate offset.***
- ***monitoring more closely the relationship between the replacement values of assets covered by replacement reserves and the extent to which the reserves have been funded. This monitoring would enable BC Housing to identify and correct instances where overfunding either has occurred or is likely to occur in the future. BC Housing should also consider implementing the use of funding thresholds at a level less than 100% of covered assets, which would reduce subsidy requirements while still enabling needed capital replacements to be made on a timely basis.***
- ***using its information systems more extensively to learn more about the usage of capital assets so that the commission can confirm that the estimated useful lives of the assets for funding purposes are determined as accurately as possible. As well, the systems should capture and report information about reserves that will enable the commission to monitor at differing levels of aggregation the extent to which reserves are funded.***
- ***reviewing and changing as needed its investment policies for replacement reserve assets to ensure they provide the optimum blend of earnings potential, liquidity and risk.***

Tenant Rental Contributions

Introduction

The accuracy of tenant rent calculations directly affects the amount of the subsidy that is payable for “rent-geared-to-income” (RGI) tenants. If tenant rents are calculated at a value lower than what they should be, taxpayers will be providing more resources by way of subsidy than they should.

Rents are based on the type of occupants and their household income and assets. Tenants are required to declare who is actually living in the unit they occupy, so that an appropriate calculation of rent can be made based on the income of all the occupants. This can result in more than one occupant paying a rent for the same unit. As well, RGI tenants must provide declarations of income and assets at each annual rent review.

From this information, the sponsor calculates the household income. Tenants paying market or near-market rents will pay an amount close to the economic rent of the unit they occupy. The economic rent is the rent that would be charged to enable the full costs of providing and maintaining the unit to be recovered. RGI tenants will pay the higher of the minimum rent or 30% of declared household income. The minimum rent is based on the support rate for shelter a household would receive if it were eligible for Guaranteed Income Assistance.

As at April 1, 1998, BC Housing had approximately 18,000 tenant rent calculations within its system for households in developments managed by sponsors.

Misstatements of rent can arise from two main sources. First, the information provided by occupants and used for calculating the rents may not be wholly correct. And second, errors can occur in the calculation of the rents payable and the values used in the subsidy calculation.

We expected that BC Housing would have processes to check that the rents contributed by tenants were accurate. In this regard, we expected to find: approved policies for calculating tenant rent contributions; consistently applied calculations that produced the correct rents; and appropriately verified source data.

Conclusion

The nature and extent of BC Housing's rent calculation processes address the major risks of misstatement of tenant income and provide reasonable assurance that the tenant rent contributions used in calculating subsidies are accurate. However, in redoing every rent calculation that sponsors perform, BC Housing is performing more work than it needs to in this area to gain a reasonable level of assurance that subsidy payments are materially correct.

Findings

The basis of calculating tenant rent contributions is adequately defined although the calculations are complex and can be time-consuming to carry out. BC Housing is, where possible, trying to make the calculations less challenging for those who have to perform them and has initiated studies to see whether the basis of calculating rents can be redesigned to remove some of the complexities. It also helps provide training for members of sponsors' staff who are responsible for performing the calculations to minimize the risk of errors happening in the first place.

We found that BC Housing applies a standard set of procedures to ensure that rents are consistently and accurately determined from source data supplied by the tenants. These procedures involve redoing all of the sponsors' tenant rent calculations. In our view, this level of checking is excessive for the purpose of assuring the accuracy of subsidy payments. Furthermore, we have not seen any analysis by BC Housing to show that this effort is needed to control the risk of errors to a level the commission can accept. We believe that for sponsors with no history of calculation errors, or for groups of tenants whose rent calculations are very straightforward, something less than 100% checking would still deliver an acceptable level of assurance if no errors were found in the sample of calculations verified.

Although sponsors do sometimes make errors in rent calculations, errors in source data provided to the sponsor by tenants can also result in misstated rental revenue. BC Housing has two principal ways by which it attempts to gain reasonable assurance that this source of potential error is controlled.

- First, the operating agreements require each sponsor to obtain and hold on file their tenants' declarations about their circumstances. BC Housing obtains confirmation from the sponsors' financial auditors that this information is kept. The

requirement for formal declarations makes the tenants aware of the importance of providing complete and accurate information.

- Second, BC Housing carries out independent verification of the validity of the information provided by tenants. Some 300 tenants are selected for verification each year, most of them at random, from groupings of occupants that BC Housing believes are those most susceptible to misstating their income and assets. While we believe that this approach is appropriate, the results of the work are not currently evaluated or extrapolated in a way that a conclusion can be drawn as to the most likely effect of income misstatement on the accuracy of the total subsidies paid. The sample size should enable such an extrapolation to be made, but because it is not, BC Housing is not able to conclude as to whether the possible misstatement of subsidies from this cause is within limits the organization would find reasonably acceptable.

Recommendation 8

We recommend that BC Housing reduce the extent of its recalculation of tenant rents to a level that will provide it with reasonable assurance that tenant rents are materially correct for the purpose of calculating subsidies. The commission should also extrapolate the results of its testing for income loss from incorrect declarations of income and assets so that a conclusion can be made as to whether the likely total misstatement of tenant rent from this cause is at a level that the commission can accept.

Subsidy Payments

Introduction

Payment of subsidies to sponsors is an ongoing process. The amount of the provisional subsidy for each sponsor is determined when sponsor operating budgets are reviewed. At this stage, BC Housing makes an estimate of the likely subsidy based on budgeted operating costs and an estimate of the tenant rents for the year. The estimated subsidy is paid to the sponsor in equal monthly instalments—although, where a sponsor's circumstances change significantly during the year, BC Housing may adjust the amount of instalments to allow for significant, unanticipated additional costs. The commission makes a final determination of the subsidy based on audited information on sponsors' actual operating costs and actual rents due from tenants, and then adjusts payments accordingly.

Our expectation was that BC Housing would ensure that subsidies were paid with the appropriate statutory and contractual authority, and be approved and calculated correctly.

Conclusion

Appropriate authorities exist to provide for the payment of subsidies. The design and implementation of BC Housing's processes for paying subsidies to sponsors provide reasonable assurance that subsidy payments are properly authorized, approved and calculated.

Findings

There are appropriate authorities to enable BC Housing to pay subsidies to the sponsors of social housing developments. Legislation gives the minister responsible the authority to implement social housing programs, and the Legislative Assembly approves funding for these programs through the annual Estimates process. Operating agreements document BC Housing's contractual authority to make subsidy payments to sponsors who, under the same agreements, accept responsibility for managing the social housing developments.

BC Housing has adequate processes governing the calculation and approval of subsidy payments. As well as controls incorporated into the payment process, the commission's financial review analysts verify each subsidy payable based on the audited financial statements provided by the sponsors. The analysts examine sponsor operating costs to identify and exclude those that are not eligible for subsidy, and recalculate the sponsor's annual net income or deficit based on actual tenant rents received by the sponsor and eligible costs. Although sponsors operate on a not-for-profit basis, there is often a small net surplus or deficit. These amounts, adjusted for items identified by the financial review, are either paid to or collected from the sponsor, and effectively represent an adjustment to the subsidy already paid on account. We found these procedures to be sufficient to identify any material errors in the calculation and payment of the subsidy.

Standards of Service

Introduction

Subsidies paid to sponsors are not unconditional. The government must be satisfied that its financial support helps provide an appropriate standard of shelter to those for whose benefit the subsidies are paid.

For this reason, the operating agreements that BC Housing has with sponsors require the sponsors to observe certain conditions, or “service standards”. Some of these directly relate to the immediate needs of the tenants—for example, the requirement to comply with health and safety standards. Others aim at providing a stable and supportive environment for tenants in the long term. Examples are those measures that are focused on maintaining the financial and administrative health of the sponsor, such as the maintenance of proper financial records.

We expected to find that BC Housing had designed appropriate processes to assess how well the service standards set out in the operating agreements were being met. We also expected these processes to be applied comprehensively and consistently, and the results of their application to be appropriately documented, aggregated and reported.

Conclusion

BC Housing is not readily able to demonstrate the extent to which agreed standards of service are being delivered by the sponsors, and whether, collectively, the degree of compliance by the sponsors with the terms of the operating agreements is satisfactory. The reason for this is that the results of operational reviews are not recorded in a database of sponsor information, nor are they summarized according to the differing levels of support that sponsors need. It is therefore not clear that, overall, operational reviews are being focused on those sponsors that need the most support in meeting the standards. Operational reviews that are performed are designed and carried out adequately, although where deficiencies are noted, follow-up is not always effective. Although BC Housing is improving its ability to carry out reviews on a timely basis, it is still not yet able to fully accomplish this goal.

Findings

Requirements of Operating Agreements

Monitoring the extent to which the operating agreements are complied with is not an easy task. For BC Housing, achieving an appropriate balance between protecting the interests of the taxpayer and recognizing reasonable expectations of autonomy by the sponsors is a significant challenge—the more so because this balance will be different for each sponsor. In cases where the well-being of residents is at risk because a sponsor is not able to meet the conditions

of funding, BC Housing and, where appropriate, its other funding partners, act to enforce their rights under the operating agreements to ensure that the residents are protected. However, in less extreme situations of non-compliance, BC Housing sees its role in the partnership arrangement as being that of encouraging sponsors to achieve an acceptable level of compliance with their operating agreements, rather than that of imposing sanctions on them.

These agreements are not always in the same form. The earlier ones for developments funded jointly by the federal and provincial governments are different from those for later developments funded wholly by the provincial government under the HOMES BC program. The earlier agreements often express in general terms what the sponsors will do; the later ones tend to set out more extensive and specific expectations for sponsor performance. A summary of key conditions about service standards contained in each of the types of agreement is shown in Exhibit 4.3.

Operational Reviews

The main way that BC Housing knows that these standards are being met is by performing operational reviews. BC Housing's stated purposes for the operational reviews are "to look for areas that can be improved, to identify strengths and weaknesses, and to help sponsors rectify problems that may exist." These purposes emphasize the supportive role contemplated by BC Housing's guiding principles.

The reviews are performed by the property portfolio managers who work out of the regional offices. Although usually carried out at intervals not exceeding five years, the reviews may be performed more frequently if the property portfolio manager or the sponsor think it necessary.

Operational reviews provide assurance that the interests of the tenants and the taxpayer are being met. The knowledge that the property portfolio manager gathers during the reviews enables him or her to meaningfully evaluate the sponsor's budget for economy. As well, the manager's observations of the development provide a basis for assessing whether the sponsor has been efficient in deriving the most value from expenditures that have already been made. These activities provide a foundation for ensuring that taxpayer funds are being well spent. They also enable the property portfolio manager to ensure that the safety and well-being of tenants are respected in the way in which the development is managed.

Exhibit 4.3

Sponsor Obligations for Service Standards

Subject	Federal/provincial project agreements	HOMES BC agreements
Overall purpose	Not stated	The common goal is to provide safe, affordable, well-managed non-market housing for low and moderate income tenants.
Operating standards	The society will develop and maintain sound maintenance, leasing, tenant relations and general operational procedures and practices.	
Corporate organization	Not stated	<p>The society will establish a well-organized corporate structure, and policies and procedures to ensure that the development is well managed, including:</p> <ul style="list-style-type: none"> ■ recruiting and maintaining its board of directors and membership in such a way as to ensure continuing ability to manage effectively; ■ conducting business in an ethical manner that does not permit personal gain to society directors and associates; ■ meeting all statutory and corporate obligations; ■ complying with the society's lease for the land, if any; and ■ maintaining accurate and complete records for all aspects of its operations.
Maintenance	<p>Societies will manage projects efficiently, maintain projects in a satisfactory state of repair, and comply with health and safety standards.</p> <p>Good management includes:</p> <ul style="list-style-type: none"> ■ implementing sound procedures of preventive and corrective maintenance; ■ maintaining files on all tenants; ■ maintaining good operational files; and ■ ensuring sound fire and tenant safety procedures. <p>The society will provide efficient project management and will maintain the development in a satisfactory state of repair and fit for habitation. The society shall:</p> <ul style="list-style-type: none"> ■ develop and maintain sound adequate maintenance files and shall implement sound procedures of preventive and corrective maintenance; 	<p>The society will maintain the development in a good state of repair for the benefit of the tenants and the community and, in particular, will:</p> <ul style="list-style-type: none"> ■ establish maintenance procedures to maintain the value of the development and prolong the life of the improvements; ■ ensure that the necessary skills are available to clean and maintain the development; ■ ensure that the development complies with health and safety standards; ■ ensure that fire regulations are observed and fire inspections are carried out; and ■ obtain sufficient insurance <p style="text-align: right;">...continued</p>

Subject	Federal/provincial project agreements	HOMES BC agreements
Maintenance (continued)	<ul style="list-style-type: none"> ■ comply with health and safety standards, including any standards required by law; and ■ ensure that sound fire and safety procedures are set up with directions given to tenants, and attempt to ensure that the development is inspected at least annually by local fire department officers. 	
Finance	The society will maintain adequate financial records, expenditure controls and cash receipt controls.	<p>The society will establish policies and procedures for effective control of finances, and will:</p> <ul style="list-style-type: none"> ■ prepare an operational budget for, and regularly review the financial affairs of the development; and ■ ensure that sound financial operating policies are in place, including the definition of authorities and adequate policies, procedures and record keeping.
Tenants	<p>The society will devise and use a specific set of tenant-weighted criteria to determine applicant eligibility and will not discriminate.</p> <p>The society will notify BC Housing when vacancies occur.</p> <p>The society will maintain an applicant list and select tenants.</p>	<p>The society will have policies and procedures to:</p> <ul style="list-style-type: none"> ■ select tenants in an open, fair and non-discriminatory way; ■ serve tenants promptly and courteously with clear and informative communication; ■ develop opportunities for tenant participation in decision-making; and ■ provide each tenant with access to information about him or her, and protect the privacy of tenants.

Source: Data compiled by the Office of the Auditor General of British Columbia

We found that the design of the operational review program covers the major service requirements contained in the operating agreements.

For the sponsors whose files we examined, the property portfolio managers had generally followed the process as designed for completing the reviews. Property portfolio managers we spoke with felt that they had a good sense of the risks and needs of the individual sponsors in their portfolios. However, this knowledge was not always documented in a way that would allow sponsor performance to be summarized or further analysis to be made. Part of the reason for this seemed to be a feeling by BC Housing staff that managing the partner relationship should not involve issuing “report cards”

on sponsors, and staff members were reluctant to use any formal classification system that might imply that this was being done. This view appears consistent with the supportive nature of BC Housing's guiding principles, which see building and maintaining the confidence of partners as prerequisites to success in addressing social housing needs.

However, while the way the reviews are done can help build this confidence, the results of the reviews still need to be evaluated so that BC Housing can be satisfied (1) that it is directing its resources to where they are most needed and (2) that its own efforts are making a difference in helping sponsors improve their management capacity. Compiling a profile for each sponsor that could be aggregated at differing levels of detail would help BC Housing achieve these goals.

Recommendation 9

We recommend that BC Housing record the results of operational reviews in a more uniform and comprehensive way so that they better disclose the extent to which sponsors are individually and collectively delivering an appropriate standard of service to tenants.

Timeliness of Carrying Out Operational Reviews

Keeping up-to-date with operational reviews has always been a challenge for BC Housing, and, although more resources have been applied to the task in recent years, it continues to be a problem. As well, information on which to base the selection and prioritization of reviews is still insufficient to ensure that the sponsors most in need of support receive it first.

The competing demands on the time of property portfolio managers make it difficult for them to keep operational reviews current. Operational reviews have become increasingly complex in recent years, and the number of developments that property portfolio managers have to look after has been increasing.

Property portfolio managers are responsible for three types of portfolio: buildings that are owned and managed directly by BC Housing; group homes owned by PRHC, where BC Housing acts as the landlord; and the not-for-profit sector managed by the sponsors. The diversity of these three types of portfolios requires a different management approach for each. Directly managed buildings are the most labour-intensive for the property portfolio managers, as they must be involved in many of the day-to-day administrative and tenant issues. Group homes require annual inspections as well as contract administration duties. These two types of portfolios take up

most of the available time of the property portfolio managers. What time they have left over goes mainly to looking after the non-profit sector.

Not carrying out the operational reviews according to schedule creates a risk that, as the overall portfolio of developments increases over time, property portfolio managers will find it increasingly difficult to maintain the knowledge they need to review the annual sponsor budgets adequately. Should the devolution of the portfolio of wholly federally funded developments occur, the problem will become even more acute.

In the past five years, BC Housing has taken a number of steps to improve its ability to perform operational reviews in a more timely way. It has reassigned the responsibility for doing the reviews from a central office to the regional offices. And, more recently, it simplified the structure of the operational review program by breaking down the procedures into four modules. As well, it has implemented a policy whereby only two of the four modules (maintenance records and financial management) are mandatory, while the remaining two are performed at the discretion of the property portfolio manager. Most non-profit housing programs jointly funded by the provincial and federal governments or wholly funded by the province used to require, as a minimum, a review every three years. However, this interval has been expanded recently to every five years. These changes have, we believe, helped BC Housing complete the reviews on a more timely basis without comprising the overall assurance that performing the reviews provides.

Notwithstanding these changes, the time constraints that property portfolio managers continue to face in carrying out operational reviews make it important to ensure that the sponsors that need the most support receive priority, and that the managers make the most efficient use of their time to this end. Achieving both these goals requires information systems that provide sufficient data to identify upcoming reviews, prioritize them and monitor the results. Currently, the systems do not meet this standard.

Operational reviews to be carried out in the immediate future are entered into a “bring-forward” system, but the system has limitations. Although it provides the date of the last completed review, it does not indicate the next scheduled date for a review. Moreover, neither the “bring-forward” system nor any other system reports information that would help property portfolio managers organize their reviews in an appropriate

order. For example, information is not available about the organizational capacity of each sponsor (such as the length of service of the board) nor is there an historical summary of the results of past operational reviews and important current issues that would give some sense of how well the affairs of the sponsor have been managed.

This lack of information causes a number of problems. It makes it difficult for property portfolio managers and senior management to make sure those sponsors that need the most immediate monitoring and assistance are the first to get it. It also makes it harder for senior managers to determine whether the regions are up-to-date in their review activities.

Recommendation 10

We recommend that BC Housing ensure that its information systems report the information about sponsors that property portfolio managers need to properly prioritize operational reviews. As well, BC Housing should ensure that the systems provide regional managers with information to allow them to assess whether the prioritization of reviews is appropriate and the reviews and follow-up are carried out on a timely basis.

Using other sources of information

BC Housing is not taking full advantage of other sources of information that might help it to better assess which sponsors need the most support. One good example is management reporting provided to sponsors by their independent financial statement auditors.

Although BC Housing receives annual audited financial statements from each sponsor, it does not routinely request copies of related management letters that are sent to sponsors by the auditors. These letters usually report weaknesses in financial and administrative controls, and other matters that the auditors identify during the financial statement audit and feel the boards should know about.

In our view, having this information would greatly help BC Housing better assess the risks associated with a sponsor and ensure that the level of support and monitoring it provides is appropriate. Benefits might accrue to sponsors too—they would have an opportunity to provide evidence of their capacity and competence, and, for many of them, this could mean a reduction in the extent of approval and monitoring activities that BC Housing would otherwise feel it has to do.

Recommendation 11

We recommend that BC Housing, on an annual basis, obtain copies of management letters issued by financial statement auditors to the sponsor boards, or obtain confirmation that none were issued.

Follow-up to operational reviews

It is not enough that the operational reviews are done; BC Housing should communicate the review findings to the sponsor adequately, and make sure that significant issues are acted on within a reasonable period of time.

The process of following up on operational review findings requires improvement. Deficiencies identified when reviews are originally carried out are not always recorded as having been followed up and there is often little evidence of their having been resolved.

Participation and commitment by the sponsor organizations are key to ensuring that appropriate standards are maintained. The design of the operational review process calls for sponsor participation during and after the reviews. At the initial stage, the property portfolio manager is to carry out the review on-site with the sponsor staff responsible for management of the property. The presence during the review of a member of the board of the sponsor is also encouraged.

After the findings have been assembled and reviewed, the property portfolio manager is to send a report of the review findings, including a plan for remedial actions, to the board and, if necessary, meet with board members to discuss it. After six months have elapsed from the date the report was issued, the BC Housing regional office is to follow up on what action has been taken by the sponsor to address items of concern resulting from the review.

Although the design of the communication and follow-up process seems to be appropriate, we found that it was not always followed in practice.

In several of the reviews we examined, no board members were recorded as being present during the review or at the discussion of findings. We were told that in such cases it was likely that board members were not available. However, because the operating agreement is signed by board members of the sponsor, it is the board's responsibility to ensure that the terms of the agreement are met. If board members do not fully participate in the operational review process, they are less able to do the job properly, and also less able to evaluate the

performance of their own staff realistically. And, with the recent reduction in the required frequency of operational reviews (from every three years to every five years), it becomes even more important for the boards of sponsors to involve themselves in the process.

We noted several instances where property portfolio managers had, in their reviews of sponsor-managed developments, identified deficiencies in building maintenance and management practices, but they did not follow them up. Although the concerns were expressed in a summary letter to these sponsors, we could find no action plan with the sponsor, or evidence of subsequent monitoring to ensure the problems were rectified.

Whether or not an action plan is needed appears to be at the discretion of the individual property portfolio manager—we are not aware of any guidance developed for the managers indicating when an action plan is needed and when it is not. However, we believe that in all cases there should be some monitoring of how the sponsor is dealing with issues, even if no formal action plan is prepared or issued.

Recommendation 12

We recommend that BC Housing ensure that board members be present for the conduct of the operational reviews and to discuss the findings, and that commitments be obtained from the board of directors of the sponsors as to future remedial actions. The implementation of action plans should be monitored and documented by BC Housing's property portfolio managers.



response from the british columbia housing management commission

BC Housing appreciates the opportunity to respond to the recommendations contained in The Management of Social Housing Subsidies audit report, completed by the Office of the Auditor General (OAG). BC Housing supports the key findings contained in the report in the areas of Controllable Costs, Mortgage Negotiations, Replacement Reserves, Tenant Rent Contributions, Subsidy Payments, and Standards of Service.

BC Housing in exercising its responsibility for managing social housing subsidies strives to balance the efficient use of public resources with the need for housing sponsors to have an appropriate level of autonomy in their operations. The recommendations confirm that approach. BC Housing is committed to supporting the work of the housing sponsors in building community capacity and expertise in the management of social housing.

BC Housing maintains a database containing details of sponsor operating budgets. The recommendations for more extensive analysis of this information will support prudent budget decisions for controllable costs. Comparative analyses to other housing jurisdictions will enable BC Housing to clearly assess its operational strengths.

We are particularly pleased to note that many of the report's recommendations concerning rent calculation and other sponsor related activities are consistent with the process we have already begun. Last year, BC Housing worked with representatives of the housing sector to streamline the administrative processes in the areas of operational reviews and replacement reserves. In particular, the reforms used an approach that recognized the differing abilities and needs of sponsor groups. The audit report's recommendations build on work to date in this area and include ways to continue to improve performance.

Specific Responses to Recommendations

Reviews of Controllable Costs

Recommendation 1

We recommend that BC Housing use external cost comparisons in the budgetary review process. The commission should, for example, conduct more detailed analyses of cost elements affecting most sponsor budgets so that it can determine ways of more formally comparing costs of developments that have similar operating circumstances.

BC Housing agrees that the use of external cost performance comparisons in reviewing sponsor operating budgets will assist in determining the appropriateness of the expenditures. The review of social housing policy currently underway through Treasury Board will also provide a cross-Canada analysis of sector costs for BC Housing to assess the performance of sponsors.

Recommendation 2

We recommend that BC Housing develop guidelines for budget approval based on criteria using percentages or dollar-value increases from prior years' budgets. This would enable the commission to identify inefficiencies or uneconomic operations more effectively than it can by relying solely on per-unit-per-month values.

BC Housing will incorporate the use of year over year percentage changes in sponsor operating budgets as part of the approval process. The annual review of per-unit-per-month sponsor operating budget guidelines will be enhanced to include average controllable operating cost tables by project type and geographic location. This will enable BC Housing's property portfolio managers to provide a more thorough assessment of individual projects relative to group norms and to identify cases for further action. The result would be improved budget forecasts to ensure efficient sector operations.

Recommendation 3

We recommend that BC Housing ensure that the most current financial information is used in the budget review process.

We agree and property portfolio managers will obtain the sponsor's most current financial information for review prior to approving the annual operating budget.

Recommendation 4

We recommend that BC Housing record and accumulate information gathered in the financial review process in a way that assists all staff of BC Housing to direct their efforts toward those sponsors most in need of support.

BC Housing recognizes the need to use the housing database to capture information about sponsor performance. In particular, the information collected manually during the financial review process on the priority ranking sheet and sponsor overview needs to be entered in the database to enable the identification of those sponsors most in need of support. Such information will allow staff to allocate their efforts so as to maximize improvement.

Mortgage Negotiations

Recommendation 5

We recommend that BC Housing supplement its existing mortgaging expertise by securing access to specialist advice for periodically confirming the suitability of the commission's mortgaging strategies and for advice on specific issues.

BC Housing will seek specialist advice as needed to confirm that the mortgaging strategies used are the most beneficial in terms of rates and attracting bidders.

Recommendation 6

We recommend that BC Housing confirm the appropriateness of its performance measures and its targets for mortgaging activities by comparing them with housing and similar agencies in other jurisdictions.

A comparison of the performance measures for mortgage rates for housing agencies in other jurisdictions will ensure that the standard of mortgage negotiations, currently set at 1-1.5 percentage points below residential mortgage rates, is set appropriately.

*Replacement Reserves**Recommendation 7*

We recommend that BC Housing improve the administration and control over replacement reserves by:

- **periodically confirming that its funding model for replacement reserves continues to provide the most efficient and effective way of funding capital replacement in social housing developments.**
- **periodically reviewing the continued validity of the assumptions included in its funding model for replacement reserves. In particular, the commission should specifically account for the effects of inflation on the cost of replacing capital assets and of interest earned on the invested assets of the replacement reserves, as these no longer appear to be an appropriate offset.**
- **monitoring more closely the relationship between the replacement values of assets covered by replacement reserves and the extent to which the reserves have been funded. This monitoring would enable BC Housing to identify and correct instances where overfunding either has occurred or is likely to occur in the future. BC Housing should also consider implementing the use of funding thresholds at a level less than 100% of covered assets that would reduce subsidy requirements while still enabling needed capital replacements to be made on a timely basis.**
- **using its information systems more extensively to learn more about the usage of capital assets so that the commission can confirm that the estimated useful lives of the assets for funding purposes are determined as accurately as possible. As well, the systems should capture and report information about reserves that will enable the commission to monitor at differing levels of aggregation the extent to which reserves are funded.**
- **reviewing and changing as needed its investment policies for replacement reserve assets to ensure they provide the optimum blend of earnings potential, liquidity and risk.**

BC Housing supports the need to keep the stock of affordable housing in good repair. In addition to program-specific modernization and improvement funding, replacement reserve funds are allocated for major items as part of the on-going subsidy to the society.

During the streamlining of the administration of the non-profit program in 1998, BC Housing established a staff committee to review the use of a base allocation for non-profit replacement reserves. This committee will continue to review assumptions on a regular basis. In

addition, BC Housing will incorporate a review and establish appropriate funding levels for replacement reserves as part of the financial review process. A periodic review of the replacement reserve process will ensure that this is an effective method to fund asset replacement.

The committee has reviewed and adjusted funding thresholds and asset life years for replacement reserves to reduce subsidy requirements.

The housing database will be modified to capture replacement reserve levels and transactions from sponsor audited financial statements so that an overall analysis of over and under funding of those reserves may be completed.

The present framework for replacement reserve investments conforms to the CMHC guidelines. BC Housing will review investment policies for replacement reserve assets with an aim of broadening investment options to maximize earnings.

Tenant Rental Contributions

Recommendation 8

We recommend that BC Housing reduce the extent of its recalculation of tenant rents to a level that will provide it with reasonable assurance that tenant rents are materially correct for the purpose of calculating subsidies. The commission should also extrapolate the results of its testing for income loss from incorrect declarations of income and assets so that a conclusion can be made as to whether the likely total misstatement of tenant rent from this cause is at a level that the commission can accept.

The Financial Services Branch and Program Audit will undertake a study to assess the impact of reducing the extent of checking of rent calculations to reach an acceptable level of accuracy for calculating subsidy payments.

Standards of Service

Recommendation 9

We recommend that BC Housing record the results of operational reviews in a more uniform and comprehensive way so that they better disclose the extent to which sponsors are individually and collectively delivering an appropriate standard of service to tenants.

In conducting an operational review, the BC Housing property portfolio manager monitors the sponsor's performance through inspection of the properties and interviews with the non-profit society representatives.

BC Housing recognizes the need to capture portions of this assessment of sponsor performance in a profile stored in the social housing database. In addition to the sponsor information collected during the financial review, the findings of the operational review will help to identify sponsors most in need of support. Staff will be able to prioritize their work to ensure that those most in need are reviewed more thoroughly.

Recommendation 10

We recommend that BC Housing ensure that its information systems report the information about sponsors that property portfolio managers need to properly prioritize operational reviews. As well, BC Housing should ensure that the systems provide regional managers with information to allow them to assess whether the prioritization of reviews is appropriate and the reviews and follow-up are carried out on a timely basis.

Operational reviews are required to be performed over a five year cycle. The development of a ranked sponsor profile in the housing database will assist the BC Housing property portfolio managers and regional managers to assess the risk and prioritize operational reviews. The operations of those sponsors most in need of support would be reviewed in a more timely manner.

Recommendation 11

We recommend that BC Housing, on an annual basis, obtain copies of management letters issued by financial statement auditors to the sponsor boards, or obtain confirmation that none were issued.

BC Housing will request sponsors to provide copies of management letters issues by financial statement auditors. However, the management letter is privileged client information and there is no requirement for the sponsor to provide this information to BC Housing.

Recommendation 12

We recommend that BC Housing ensure that board members be present for the conduct of the operational reviews and to discuss the findings, and that commitments be obtained from the board of directors of the sponsors as to future remedial actions. The implementation of action plans should be monitored and documented by BC Housing's property portfolio managers.

While BC Housing staff prefer to meet with the society board members to discuss the outcome of the operational review, this is not always possible. In the case of larger societies, the responsibility may

be delegated to the Executive Director. In discussing the findings of the review, the property portfolio manager will seek an acknowledgement from the society of any concerns raised during the review and work with them to develop an action plan. The property portfolio manager would need to enter critical information concerning the actions to be taken into the sponsor profile in the database to permit timely follow-up.



appendices

appendix a

Office of the Auditor General: 1999/2000 Reports Issued to Date

Report 1

1999 Follow-up of Performance Audits/Reviews

Report 2

Report on Government Financial Accountability
for the 1997/98 Fiscal Year

Report 3

Maintaining Human Capital in the British Columbia
Public Service: The Role of Training and Development

Report 4

Managing the Woodlot Licence Program

Report 5

A Review of the Fast Ferry Project:
Governance and Risk Management

Report 6

Forest Renewal BC:
Planning and Accountability in the Corporation
The Silviculture Programs

Report 7

Report on the Preparedness of British Columbia
in Dealing with the Year 2000 Problem

Report 8

Social Housing:
The Governance of the British Columbia Housing
Management Commission and the Provincial
Rental Housing Corporation
The Management of Social Housing Subsidies



appendix b

Office of the Auditor General: Performance Auditing Objectives and Methodology

Audit work performed by the Office of the Auditor General falls into three broad categories:

- Financial auditing;
- Performance auditing; and
- Compliance auditing.

Each of these categories has certain objectives that are expected to be achieved, and each employs a particular methodology to reach those objectives. The following is a brief outline of the objectives and methodology applied by the Office for performance auditing.

Performance Auditing

Purpose of Performance Audits

Performance audits look at how organizations have given attention to economy, efficiency and effectiveness.

The concept of performance auditing, also known as value-for-money auditing, is based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

The Nature of Performance Audits

An audit has been defined as:

... the independent, objective assessment of the fairness of management's representations on performance, or the assessment of management systems and practices, against criteria, reported to a governing body or others with similar responsibilities.

This definition recognizes that there are two primary forms of reporting used in performance auditing. The first—referred to as attestation reporting—is the provision of audit opinions on reports that contain representations by management on matters of economy, efficiency and effectiveness.

The second—referred to as direct reporting—is the provision of more than just auditor’s opinions. In the absence of representations by management on matters of economy, efficiency and effectiveness, auditors, to fulfill their mandates, gather essential information with respect to management’s regard for value for money and include it in their own reports along with their opinions. In effect, the audit report becomes a partial substitute for information that might otherwise be provided by management on how they have discharged their essential value-for-money responsibilities.

The attestation reporting approach to performance auditing has not been used yet in British Columbia because the organizations we audit have not been providing comprehensive management representations on their performance. Indeed, until recently, the management representations approach to value for money was not practicable. The need to account for the prudent use of taxpayers’ money had not been recognized as a significant issue and, consequently, there was neither legislation nor established tradition that required public sector managers to report on a systematic basis as to whether they had spent taxpayers’ money wisely. In addition, there was no generally accepted way of reporting on the value-for-money aspects of performance.

Recently, however, considerable effort has been devoted to developing acceptable frameworks to underlie management reports on value-for-money performance, and public sector organizations have begun to explore ways of reporting on value-for-money performance through management representations. We believe that management representations and attestation reporting are the preferred way of meeting accountability responsibilities and are actively encouraging the use of this model in the British Columbia public sector.

Presently, though, all of our performance audits are conducted using the direct reporting model; therefore, the description that follows explains that model.

Our performance audits are not designed to question government policies. Nor do they assess program effectiveness. The Auditor General Act directs the Auditor General to assess whether the programs implemented to achieve government policies are being administered economically and efficiently. Our performance audits also evaluate whether members of the Legislative Assembly and the public are provided with appropriate accountability information about government programs.

When undertaking performance audits, auditors can look either at results, to determine whether value for money is actually achieved, or at management processes, to determine whether those processes should ensure that value is received for money spent.

Neither approach alone can answer all the legitimate questions of legislators and the public, particularly if problems are found during the audit. If the auditor assesses results and finds value for money has not been achieved, the natural questions are “Why did this happen?” and “How can we prevent it from happening in future?” These are questions that can only be answered by looking at the process. On the other hand, if the auditor looks at the process and finds weaknesses, the question that arises is “Do these weaknesses result in less than best value being achieved?” This can only be answered by looking at results.

We try, therefore, to combine both approaches wherever we can. However, as acceptable results information and criteria are often not available, our performance audit work frequently concentrates on managements’ processes for achieving value for money.

We seek to provide fair, independent assessments of the quality of government administration. We conduct our audits in a way that enables us to provide positive assessments where they are warranted. Where we cannot provide such assessments, we report the reasons for our reservations. Throughout our audits, we look for opportunities to improve government administration.

Audit Selection

We select for audit either programs or functions administered by a specific ministry or public body, or cross-government programs or functions that apply to many government entities. There are a large number of such programs and functions throughout government. We examine the larger and more significant ones on a cyclical basis.

We believe that performance audits conducted using the direct reporting approach should be undertaken on a five- to six-year cycle so that members of the Legislative Assembly and the public receive assessments of all significant government operations over a reasonable time period. Because of limited resources, we have not been able to achieve this schedule.

Our Audit Process

We carry out these audits in accordance with the value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.

One of these standards requires that the “person or persons carrying out the examination possess the knowledge and competence necessary to fulfill the requirements of the particular audit.” In order to meet this standard, we employ professionals with training and experience in a variety of fields. These professionals are engaged full-time in the conduct of performance audits. In addition, we often supplement the knowledge and competence of our own staff by engaging one or more consultants, who have expertise in the subject of that particular audit, to be part of the audit team.

As performance audits, like all audits, involve a comparison of actual performance against a standard of performance, the CICA prescribes standards as to the setting of appropriate performance standards or audit criteria. In establishing the criteria, we do not demand theoretical perfection from public sector managers. Rather, we seek to reflect what we believe to be the reasonable expectations of legislators and the public. The CICA standards also cover the nature and extent of evidence that should be obtained to support the content of the auditor’s report, and, as well, address the reporting of the results of the audit.



Compiled and typeset by the Office of the Auditor General of British Columbia
and published by the Queen's Printer for British Columbia[®]
Victoria 1999

