Benchmark Funding Model

The Challenges and Benefits of the Benchmark Funding Model for Non-Profit Social Housing Providers

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Executive Summary

With the proclamation of the Social Housing Reform Act in 2000, the United Counties of Leeds and Grenville (UCLG) became the Service Manager for nine Non-Profit Housing Providers and one Local Housing Corporation. Under the legislation, UCLG assumed responsible for providing subsidies to the Non-Profit Housing Providers and became the owner/operator of the Local Housing Corporation. The Social Housing Reform Act 2000 dictates the responsibilities of the Service Manager including how subsidies are to be calculated and flowed to the non-profit providers using a benchmarked approach. Since the introduction of the benchmarked funding approach some providers have prospered, while others have struggled. This paper will explain how the subsidies are calculated and applied. It will give a background of how the duties of the Service Manager were turned over from the Province to the Municipalities and it will look at the rationale to use the benchmark approach.

After establishing an understanding of the benchmark funding model, the paper will review how the approach is working with the non-profit providers in UCLG. The paper will identify some of the challenges the providers have been experiencing in UCLG as a result of the funding model and recommend ways the Service Manager could be more effective in supporting the providers as it relates to the funding. It will show that the benchmark funding model can be an effective way of funding the non-profit providers.

Since UCLG is the Service Manager and also the owner/operator of what was previously the Local Housing Corporation, the paper will demonstrate that the same principals of the benchmark funding model would be effective if applied to its' own operations of the housing portfolio.

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Scope and Methodology

The United Counties of Leeds and Grenville (UCLG) oversees nine non-profit housing providers. The providers provide rent geared to income housing for seniors, families and the disabled. They are governed by volunteer boards of directors and are dependent on UCLG for subsidies. The non-profit providers in UCLG were established in the 1980s and 1990s through agreements with the provincial and federal governments, in an effort to provide affordable housing. At the time, non-profit groups submitted proposals to receive ongoing subsidy from the province and the federal governments for operations and rent geared to income tenants. Successful proposals resulted in operating agreements and funding commitments from the provincial and/or the federal government. The term of the agreements reflected the term of each provider's mortgages. Most of the providers in Leeds and Grenville have thirty five year term mortgages.

With the proclamation of Social Housing Reform Act 2000 (SHRA 2000), UCLG assumed the provincial responsibility of funding and overseeing the operating agreements with the non-profit providers. In UCLG, eight of nine providers were dependent on provincial funding and one solely on federal funding. The benchmark funding model only applies to the eight providers that are dependent on the provincial funding. This paper will limit its scope to these eight providers.

As Service Manager, UCLG does operational reviews on the non-profit providers. The operational reviews include a review of financial practices, rent geared to income calculations and adherence to their operating agreements. The providers also provide Annual Information Reports (AIRs) along with audited financial statements. The operational reviews and the AIRS provide clear insight into how the providers are functioning financially. At the conclusion of each operational review staff attend the provider's board meetings to present the findings and recommendations. This gives the board members the opportunity to provide feedback. Observations from the operational reviews and the AIRs will be used to show the challenges and benefits of the benchmark funding model and how it can be more affectively supported.

Resources from the Ontario Non-Profit Housing Association (ONPHA) and the Social Housing Service Corporation (SHSC) will be used to give insight on some of the challenges and benefits that housing providers are experiencing. ONPHA is a non-profit organization which was established by non-profit housing providers in Ontario. ONPHA was at the table with the province when the benchmark funding model was developed. UCLG, as a Service Manager, is an associate member of ONPHA and has relied on ONPHA for training and direction. The SHSC was established under the SHRA 2000 to provide housing-related services for municipal Service Managers and social housing providers across Ontario[1]. Both organizations provide training and support to housing providers and Service Managers.

[1] Social Housing Services Corporation, (March 2011), *The History of the SHSC.* http://www.shscorp.ca/content.aspx?file=SHSCCorporate/AboutSHSC.htm

Background

In 1997, the Ontario Government announced that social housing programs administered by the province would be devolved to the municipal level under an initiative called the Local Service Realignment. The Local Service Realignment was a result of a review of the newly elected Conservative government's "Who Does What" panel on provincial-municipal relations. [2] In 2000, the Social Housing Reform Act (SHRA 2000) was introduced. It established the new responsibilities of municipalities as Service Managers for the Non-Profit housing providers. It covered everything from the powers of the Service Managers to how subsidies would be calculated. Over the next few years, municipalities identified as Service Managers, were given the responsibility of overseeing the Non-Profit Housing providers along with the ownership of the Local Housing Authorities.

The United Counties of Leeds and Grenville (UCLG) was identified as the Service Manager for the geographic region of the City of Brockville, the Town of Prescott, the Town of Gananoque and the ten lower tier municipalities within Leeds and Grenville. UCLG became the Service Manager for ten Non-Profit Housing providers and one Local Housing Corporation (LHC). Shortly after the devolution, the LHC was dissolved and the management of the LHC properties was brought in house. The former LHC properties are now in effect being managed by the Service Manager.

The section in the SHRA 2000 that covers the calculation of subsidy payments for housing providers refers to benchmarked revenues and benchmarked operating costs. In 2000 there were no established benchmarks for revenues or operating costs. It was not until 2004 that provincial working documents were released committing to an approach on how to establish the benchmarks. An advisory team which included representation from the stakeholders was established and a methodology for calculating benchmarks was drafted. In 2005, benchmarks for revenues and operating costs were finally introduced with the direction that they were to be applied in 2006. In 2008, indexation of operating costs for the funding calculations was introduced after the realization that the housing providers could not sustain operations under the original funding model due to inflation.

With the delay in introduction of benchmarks the province continued to assist Service Managers by reconciling the housing providers' Annual Information Report to their audited financial statements and therefore calculating the subsidies for the providers until 2006. It was at that time with the introduction of the benchmark funding model, UCLG fully assumed all duties as the Service Manager.

Benchmarking

Benchmarking is a methodology used by governments and other organizations as a means to encourage efficiency and accountability. It compares the costs and revenues of similar services, provided by different organizations, in similar environments. Benchmarks are usually established by calculating the average and determining an acceptable range. The benchmark is then used as a comparable for the

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[2] Ontario Non-profit Housing Association, (March 2011), *History of Devolution*
http://www.onpha.on.ca/AM/Template.cfm?Section=History_of_Devolution

organizations to measure success. In the case of the benchmark funding model, benchmarks are used to establish acceptable costs and revenue levels for the non-profit providers.

Operating Benchmarks

In the case of the subsidy funding model, data was collected and operating benchmarks were established for each housing provider for the following areas:

- administration and maintenance
- insurance
- bad debt
- utilities and heat
- capital reserve contribution

For the administration and maintenance benchmark, the most recent three years of costs available to the province were from the 1997 to 1999 AIRs. These numbers were inflated to come up with 2006 costs and grouped in sub-categories using geographic area, building type and project size. A range was established using an agreed to standard deviation from the average of all the numbers. If a provider's administration and maintenance costs fell within the range, it became their benchmark. If the provider's costs were above the range, their benchmark was set using the top of the range and if below, it was set using the bottom of the range.

The balance of the operating benchmarks other than bad debt were set specific to the provider using the most recent numbers provided and inflated to 2006 levels. The bad debts benchmark was based on the rental industry standard of 1% of benchmarked market rents.

Revenue Benchmarks

Revenue benchmarks were established for each housing provider for the following areas:

- market rent revenues
- non-rent revenues

To establish the rent revenue benchmark, the subsidy calculation tool already being used by the non-profit housing program called Unit Rent Factors (URFs) was used. Unit rent factors are established market rents of each bedroom size and type of unit within all geographic jurisdictions in the province of Ontario where there is non-profit housing. URFs reflect the market rents for similar private rental accommodations in the specific community. URFs are updated annually. The market rent benchmarks were set using the most recent URFs table. The generally accepted industry standard of a 3% adjustment was applied to rent revenue benchmarks to account for the vacancy lost factor when market units remain vacant between "move outs" and "move ins".

Some providers generate revenue through other means such as: charging for parking, providing laundry facilities and leasing space. Non-rental bench marks were established specific to the providers based on the most recent AIRs available to the ministry.

How are subsidies calculated?

Section 103(2) of the Social Housing Reform Act states:

> (2) The amount of the housing provider's total subsidy for a fiscal year in respect of its housing projects in a service area is determined using the formula,
>
> (A + B + C) – (D + E)
>
> in which,
>
> > "A" is the amount of the provider's mortgage subsidy for the fiscal year in respect of its housing projects in the service area;
> >
> > "B" is the amount of the provider's rent-geared-to-income subsidy for the fiscal year in respect of its housing projects in the service area;
> >
> > "C" is the amount of property taxes payable by the provider for the fiscal year in respect of its housing projects in the service area;
> >
> > "D" is the amount of the provider's mandatory payment for the fiscal year in respect of its housing projects in the service area; and
> >
> > "E" is the amount equal to 50 per cent of the amount of the provider's surplus for the fiscal year in respect of its housing projects in the service area, or such lesser amount as the Service Manager may determine. 2000, c. 27, s. 103 (2).[3]

Although the algebraic formula above, (A + B + C) – (D + E), appears straight forward, there are many complexities to the subsidy calculation. Section 104 to 111 of the Act goes on to further prescribe the funding, including directions on benchmarking and indexing. Since "B", "C", "D" and "E" from the formula are unknown quantities until after a provider's year end, the actual calculation for the fiscal year's funding cannot take place until the following year. However, subsidies are cashed flowed to the providers during the fiscal year based on estimates. Although this calculation process may seem apparent to people with an understanding of accounting principles, it is not always understood by the people on the non-profit boards and the people managing the properties. This has led some providers to believe the Service Manager penalizes providers that are cash flowed more subsidy than they are entitled, by recovering it as is part of their surplus. This will be discussed in more detail later in the paper.

The estimated subsidy which is cash flowed during the non-profits' fiscal year are calculated by adding the projected annual mortgage costs, the benchmarked operating costs and the estimated property taxes and subtracting the estimated revenue. Non-profit providers are required to provide audited financial statements after their year-end along with the annual information report (AIR). The AIR is provided in the form of a spreadsheet template which if completed properly, will actually calculate the

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[3] Social Housing Reform Act 2000

benchmarked subsidy. Unfortunately, most auditors and providers struggle with the AIR template, leaving the Service Manager to make corrections to correctly calculate the subsidy.

The formula above, (A + B + C) – (D + E), is set up using the brackets to separate what the housing provider doesn't have control over and what it does have control or influence over. "A", "B" and "C" represent the mortgage, the rent-geared-to-income (RGI) subsidy and the property taxes – things the provider does not have control over. All mortgage rates are negotiated with the banks by the province with the Service Manager recommending the term. The RGI subsidy is the difference between the market rent and what the tenant is required to pay, based on the RGI calculations. The province stipulates the RGI eligibility. Property taxes are determined at the municipal level.

"D" and "E" represent areas that housing providers can influence and control. "D" is the total gross rental revenue, plus the benchmarked non-rental revenue, minus the lesser of the actual operating costs and the operating benchmarks, plus the difference between and market rents and the market rent benchmark. Since the housing provider has the authority to raise market rents on an annual basis (based on the market rent index) rental revenue for the purpose of the benchmark funding formula is calculated using the indexed rent amount. The provider also has the authority to increase fees for parking, laundry and other services. Any increase in revenue above the non-rental revenue benchmark adds to a surplus. "E" is one-half (½) of any surplus between the actual operating costs and the operating benchmarks plus one-half (½) any surplus between the non-rental revenue and the non-rental revenue benchmark. "E" is dependent on "D". The goal of the housing provider should be to keep the operating costs below the benchmarked costs. This in effect creates surpluses which calculation of "E" allows for an increase in the subsidy equivalent to 50% of the surplus.

The following three examples will help to further assist in the understanding of the calculations and illustrate how subsidies exceed what a provider requires, if they keep costs within their benchmarks and how they create operating deficits when benchmarks are not met.

Example A – Break even

	Actual	Benchmark	Subsidy	
Mortgage	$200,000	n/a	$200,000	A
RGI Subsidy	$200,000	n/a	$200,000	B
Property Taxes	$50,000	n/a	$50,000	C
Rental Revenue	$300,000		$300,000	
Non-Rental Revenue	$3,000	$3,000	$3,000	
Operating	$150,000	$150,000	$150,000	
			$153,000	D
1/2 of Surpluses			$0	E
Total	($297,000)		$297,000	(A+B+C)-(D+E)
Net Surplus/(Deficit)				nil

Example B – Surplus

	Actual	Benchmark	Subsidy	
Mortgage	$200,000	n/a	$200,000	A
RGI Subsidy	$200,000	n/a	$200,000	B
Taxes	$50,000	n/a	$50,000	C
Rental Revenue	$300,000		$300,000	
Non-Rental Revenue	$5,000	$3,000	$3,000	
Operating	$140,000	$150,000	$150,000	
			$153,000	D
1/2 of Surpluses			$6,000	E
Total	($285,000)		$291,000	(A+B+C)-(D+E)
Net Surplus/(Deficit)				$6,000

Example C – Deficit

	Actual	Benchmark	Subsidy	
Mortgage	$200,000	n/a	$200,000	A
RGI Subsidy	$200,000	n/a	$200,000	B
Property Taxes	$50,000	n/a	$50,000	C
Rental Revenue	$300,000		$300,000	
Non-Rental Revenue	$5,000	$3,000	$3,000	
Operating	$160,000	$150,000	$150,000	
			$153,000	D
1/2 of Surpluses			$1,000	E
Total	($305,000)		$296,000	(A+B+C)-(D+E)
Net Surplus/(Deficit)				($9,000)

Challenges

<u>Surplus/Deficit</u>

The last two examples help to demonstrate one of the biggest challenges some providers come up against. Once a provider gets in a deficit position (with their accumulative surplus/deficit), it is very difficult to get back to a surplus position. One of the intents of the funding model was to create an effective incentive structure that benefits both the providers and Service Manager.[4] When a provider ends a year in a surplus position, the provider keeps one half of the surplus and the balance is applied to the subsidy provided by the Service Manager, therefore reducing the Service Manager's costs. When a provider ends a year in a deficit position, the full deficit remains with the provider. There is no increase in subsidy provided by the Service Manager.

Example B (Surplus) shows the provider exceeding the operating benchmark by $10,000 and the non-rental revenue benchmark by $2,000. The result is a $12,000 overall surplus - $10,000 from the operating benchmarks and $2,000 from the revenue benchmark. Once the final subsidy calculations are applied, the provider is allowed to keep only half of the surplus or $6,000. In this case, the Service Manager would have the equivalent savings in the subsidy payments.

Example C (deficit) shows the provider not meeting the operating benchmark by $10,000, but exceeding the non-rental revenue benchmark by $2,000. Since the provider is allowed to keep half of the surplus from the rental revenue benchmark, the result is a $9,000 operating deficit. From the two examples it

[4] S. Pomeray, *Review of Issue Arising in Implementation of Benchmarks in the Social Housing Funding Model*(MMAH 2004), p.1

becomes apparent that the disincentive for operating in a deficit position is greater than the incentive to operate in a surplus position. To add to this, since the subsidy is flowed in advance (based on the provider breaking even), when the Service Manager recovers their 50% share of the surplus subsidy, providers often see it as being penalized for having a surplus.

There are many factors that can affect a provider's operating expenses. Although the benchmarks are indexed, it doesn't take into consideration such things as the local economy or social issues. In any given year, a provider may have to deal with a jump in the number of tenant move-outs or evictions, or non-payment of rent. The new Ontario Human Rights policy on rental housing has made the duty to accommodate disabled tenants a greater responsibility for landlords, especially public sector landlords[5]. All these factors reduce a providers' ability to control costs and increase the risk of deficits. Unfortunately there were a number of the providers in UCLG that were already in a deficit position with accumulated surplus/deficit prior to the introduction of the benchmark funding. The introduction of the benchmark funding increased funding for some providers; however, the recovery of half of any operating surplus remains a hindrance to any deficit reduction plan.

It should be noted that when a provider's accumulated surplus/deficit is in a deficit position, it usually involves borrowing from their capital reserve fund. This results in the reduction of available capital funds and earned interest. It should also be noted that Service Managers have the option to use the recovered surpluses as they deem appropriate, which could include letting the providers keep the surpluses to apply against deficits; however, UCLG has not approved such a policy to date.

<u>Small Providers</u>

In the UCLG catchment area the majority of the providers are considered small projects – with less than fifty units. In a discussion paper, "Is there an Optimum Size for a Social Housing Provider," produced by the Social Housing Services Corporation, it points out that the scale of operations plays a considerable role in a provider's ability to provide service delivery with value for money. Smaller revenues usually means the small providers can only afford part-time staff or a part-time property manager. The discussion paper concludes that the optimum size for a provider is 125 units or more. Large providers are able to hire full time staff or contract full time property managers who have more time and resources to more effectively budget, and understand funding and legislation. The larger providers can also take advantage of lower costs due to economies of scale when it comes to purchasing services. The discussion paper goes on to recommend that a merger of providers is an effective method to ensure that the economies of scale are achieved.[6]

Although the size of the providers was taken into account when the benchmarks for the funding model were established, the fact that issues normally considered minor challenges for a large provider become larger risks for a small provider was not accounted for. Providers with full time staff are more likely to have the resources to control costs than providers that can only afford part-time staff. Small providers

[5] Ontario Human Rights Commission, (April 2011), *Policy on Human Rights and Rental Housing*, http://www.ohrc.on.ca/en/resources/Policies/housing/pdf

[6] S. Turner, *Is there an Optimum Size for a Social Housing Provider*(Social Housing Corporation, 2009), pp.3-13

may not have the resources to effectively tender for services or pursue unpaid rent. Going through the eviction process for tenants who don't pay their rent is a costly and time consuming process, for both small and large providers. For the small provider that doesn't necessarily have the time or resources to ensure all the steps and time lines are met, the costs can increase exponentially. Other factors such as weather can make expenses such as snow removal or heating much more volatile, especially to the smaller providers' budget. Although only the costs that a provider has control over are benchmarked for the funding model, the smaller provider has less control over the costs due to their size.

Bad Debt

As previously stated, providers with family units in UCLG have difficulty in meeting their established benchmark for bad debt. The rental industry standard of 1% of all rental revenues was used to set the bad debt benchmark in the funding model. Unfortunately, the benchmark did not take into account the makeup of the tenants served by the non-profit providers. The industry standard includes the private market, where landlords have the option of completing credit checks and usually require a last month's rent deposit. Although it is an option for non-profit providers to require last month's rent, it would be an onerous bookkeeping task due to monthly fluctuation in rent geared to income calculations – something small providers would find challenging. It is also questionable how accurate the industry standard is, given many private landlords may not actually apply proper accounting principles by recording uncollected rent as a bad debt. It is simpler and has the same net effect to just not record the uncollected rent as revenue.

Non-profit providers do not have the option of completing credit checks for the rent-geared-to-income units. They cannot turn down a tenant, unless the tenant has arrears from a prior stay in social housing in Ontario. The rent-geared-to-income tenants come from a centralized wait list maintained by the Service Manager. To qualify to be on the wait list, applicants must have limited income. The incomes of families tend to fluctuate more than the seniors or the disabled who are usually receiving pensions. This accounts for the challenge the providers have with bad debt and the family units. As incomes fluctuate, rental amounts are adjusted, often creating budgeting problems for the tenants. Once a tenant is behind with their rent, they are less likely to have the financial resources to catch up, therefore creating rent arrears for the provider. These rent arrears eventually get written off as a bad debt expense. It should be noted that if a rent-geared-to-income tenant's income increases, and they do have the financial resources to pay full market rent they no longer qualify to live in social housing and have 12 months to vacate the unit.[7] Knowing that they are being forced to move out doesn't give the tenant a lot of incentive to pay their rent.

When establishing the bad debt benchmark, other factors than the industry standard should have been used. The benchmark should have looked at only the non-profit providers and taken into account the makeup of the tenants served by the non-profit providers.

[7] Social Housing Reform Act 2000

Lack of Understanding of the Funding

It should be noted that non-profit providers are run by volunteer boards of directors. The directors have the ultimate control and responsibility of the non-profit providers. According to the duties and obligations of directors, as defined by the Ontario Non-Profit Housing Association (ONPHA), it is the responsibility of the directors to be sufficiently knowledgeable concerning their corporation's business and affairs to perform their guidance and monitoring functions effectively. ONPHA also points out that the responsibility extends to informing and educating themselves about whatever endeavours the corporation assumes.[8] Unfortunately, the UCLG has observed that directors often do not understand their role.

The directors are made up of representatives with various backgrounds. They range from members of local municipal councils, to tenants living in the housing providers' portfolios. Business or financial experience, although preferred, is not a prerequisite for serving on the boards. Often boards are short on representation and have challenges recruiting members. As with most boards, members usually agree to serve terms and often do not stay on a board for an extended time, resulting in high board turnover. The individuals that usually agree to serve on volunteer boards usually do so because they have an interest in the project and their interest may not be in line with the goals of the organization, let alone the goals of the funding model.

With the introduction of benchmark funding, the Ontario Non-Profit Housing Association (ONPHA) developed information and training sessions on the new funding formula and provided the sessions to providers and Services Managers throughout the province. Attendance by the non-profit providers to these sessions was voluntary. This meant not all providers started with a good understanding of the funding formula. Since 2006, with constant turnover of non-profit board members, it is unreasonable to expect the members to understand the funding model - something that is crucial for the model to be successful, since the boards of directors make decisions on budgets and spending.

Benefits

The introduction of benchmark funding was initially driven by the government's goal to reduce costs. Fortunately, the providers were proactive through their associations in influencing the development of the funding model.[9] The result is a funding model that establishes a fair playing field, assures predictable subsidies and encourages providers to live within their means.

Geographic regions, building sizes and building designs were taken into account when the benchmarks were established. Subsidies are calculated consistently throughout the province based on the environment which the provider operates. There should no longer be providers underfunded or overfunded based on past performance or political decisions. With the predictable subsidies, both

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[8] Ontario Non-profit Housing Association, (April 2011), *Duties and Obligations of Directors*, www.onpha.on.ca

[9] S. Pomeray, *Review of Issue Arising in Implementation of Benchmarks in the Social Housing Funding Model*(MMAH 2004), pp.1-2

providers and Service Managers can effectively anticipate future budgets and plan accordingly. The subsidies are no longer at the whim of government: prior to the introduction of the benchmark funding model, a freeze in government spending often resulted in a freeze in subsidy payments.

The funding model encourages providers to operate in a more businesslike manner. Although still reliant on subsidies, providers are expected to emulate the practices of the private sector. They are expected to make do with whatever income they generate in the same way as private landlords.[10] The funding model is incorporated with incentives and disincentives. Like private landlords, providers are expected to maximize revenues and operate to make a profit or surplus. Things like failing to apply annual market rent increases or failing to be diligent in collecting rents are not offset by subsidies and can result in operating deficits. As previously discussed in the challenges, the funding formula holds the provider 100% accountable for any deficit, which should be a strong disincentive to not overspend.

The incentive for operating in a surplus position - keeping half the surplus - may seem unfair; however, it is necessary to look at the purpose of a non-profit provider and the relationship with the Service Manager. The objective of non-profit housing is to provide safe, affordable housing in a not-for-profit environment. Providers are responsible for the prudent management of their assets.[11] The goal of the Service Manager is to support the non-profit provider in form of subsidy, education and direction. If the Service Manager is successful in educating and providing direction, the end result should be providers operating with surpluses. Operating surpluses result in reduced subsidies paid by the Service Manager. Service Managers are funded though municipal budgets. In effect, non-profit providers operating with surpluses lead to reduced pressure on the municipal tax base.

Benchmarked Operating and Revenues

In order for providers to operate in a surplus position they must ensure operating costs are less than their benchmarked operating costs and ensure revenues exceed their benchmarked revenues. Mortgage and municipal taxes (which make up the major part of most providers' expenses) are not part of their benchmarked operating costs, since the provider has no control of over interest rates or municipal taxes. The providers do have some control over the benchmarked operating costs and revenues.

Administration and Maintenance: Like any business, non-profit providers can always look for ways of reducing costs when it comes to administration and maintenance (A&M). If the provider's A&M benchmark falls within the benchmarked range and as long as the provider doesn't increase annual A&M costs greater than the inflation rate, it will result in a surplus in A&M.

Insurance: Under the Social Housing Reform Act, providers are required to purchase insurance though the Social Housing Services Corporation (SHSC). As a result of bulk purchasing, the SHSC has consistently been able to negotiate insurance costs less than the provider's benchmark for insurance, thereby creating a surplus for operating costs.

[10] Ibid., p.3
[11] *Guide to Risk Management for Projects in Difficulty p.7*

Bad Debt: As addressed in the challenges, the bad debt benchmark has been unrealistic for some providers. Fortunately, bad debt is a small percentage of a provider's operating budget and has only a small impact on the funding. In the United Counties of Leeds and Grenville, the providers mandated to provide housing for seniors have had success with meeting the bad debt target.

Utilities and Heat: The Social Housing Services Corporation negotiates with utility and gas companies on behalf of the non-profit providers. The providers can take advantage of this bulk purchasing process, along with implementing their own energy reduction plans in order to ensure utility and heating costs are below the benchmarks.

Capital Reserve Contributions: The benchmarked capital reserve contribution is an amount that a provider is mandated to contribute on an annual basis to their capital reserve. Since the funding formula accounts for the mandatory contribution, the actual contribution does not affect whether a provider has a surplus or deficit. The benchmark is indexed for inflation to ensure reasonable contributions.

The benchmarked operating costs are accumulated, so if a provider does not meet a benchmark in one area it can be offset by another area.

Market Rent Revenue: The provider is expected to raise their market rents on an annual basis based on the market rent index. Since vacancy lost is incorporated in the providers with market rental units' benchmark, providers can minimize vacancies in the market units in order to help to achieve an operating surplus. (RGI unit vacancies are subsidized since RGI units are filled from the wait list held by the Service Manager.)

Non-Rent Revenue: Non-rent revenue is the only benchmark that is not indexed. Any revenue above the benchmarked amount is applied towards a surplus. Providers with non-rent revenue can increase the amount of non-rent revenue going towards the surplus by consistently increasing the amount charged for services like parking and laundry.

Key to Success

In order for the benchmark funding model to be successful, the Service Manager needs to take a proactive approach. The non-profit providers were established and funded by the province long before the municipalities were given the duties as Service Manager and with the non-profit provider's association, ONPHA, playing a significant role in the development of the benchmark funding model, along with training on the model; it could be assumed that the providers have a good understanding of the funding model. As previously discussed, this is not necessarily the case. Service Managers need to be proactive in educating providers and their boards on the funding model on an ongoing basis. This will help to ensure sound financial decisions are made at the board level.

Services Managers need to ensure providers provide annual budgets for review and approval. This will ensure the providers are adhering to their established operating benchmarks. ONPHA developed a

budget template for providers and Service Managers that easily identifies whether a provider's budget is conforming to the benchmarks and where there are pressures.

The Annual Information Review (AIR) process needs to have established time lines and the time lines need to be met. Providers are to submit their audited financial statements and their AIR within four months of their year-end. The Service Manager needs to reconcile the AIR before the provider starts planning for the following year's budget. Since providers don't know their final financial numbers until the AIR is reconciled and the subsidy calculation is completed, it is essential the timelines are adhered to so the provider can affectively plan for the following year's budget.

The Service Manager needs to develop effective policies in regards to funding the providers. A policy for dealing with providers that are delinquent in submitting their AIR and audited financial statements within timelines should be established. In UCLG, some providers are consistently late submitting information. Unless a policy with consequences for not meeting timelines is established and communicated to the providers, the Service Manager shares some of the responsibility for what could be considered poor management of a provider.

Although operating surpluses are shared 50/50 between the Service Manager and the provider, the Service Manager has the option to use any of the recovered money for initiatives that that could support the providers. The SHRA 2000 leaves the door open for Service Managers to establish policies that could allow providers keep greater than their fifty percent share of any surplus under different situations. Policies could be developed that allow providers to keep 100% of any annual surplus if it is being used towards deficits from prior years, or going towards capital reserve funds that may be close to being depleted. The service manger also has the option to develop a policy to allocate its share of any surpluses to a reserve for other non-profit housing initiatives.

Why not apply to United Counties of Leeds and Grenville Portfolio

Along with downloading of the duties and responsibilities of Service Manager to UCLG, the province transferred the ownership of the social housing properties managed under the Local Housing Corporation. Shortly after, UCLG council voted to dissolve the corporation and bring the management of the properties in house. The result being UCLG is the Service Manager for the non-profit providers, as well as itself as a social housing provider. Although there may be a perceived conflict of interest with that arrangement it has never been an issue.

As a social housing provider, UCLG follows the same regulations and requirements mandated under the SHRA 2000 and the Residential Tenancy Act as the non-profit providers. Both have the same mandate of providing safe and affordable housing. The major difference is how they are funded. Where the non-profit providers rely on subsidies calculated based on the benchmark funding model, the operations of the UCLG properties are part of the consolidated UCLG operational and capital budgets. It may be seen as an advantage or disadvantage depending on the perspective. The funding for non-profit providers is a mandatory amount in the UCLG budget, where council still has the discretion on what funds are approved for the county owned properties. Applying the non-profit benchmark funding principals would give the message that non-profit providers and the UCLG are operating on same fair playing field.

With the operations of the UCLG social housing properties included in the UCLG consolidated operational and capital budgets, factors outside the housing operations influence the social housing budget. The UCLG budget includes many other services and programs that all are competing for funds. Often when there are budget pressures within another program the pressure is felt within the social housing program. For example: If there is a demand to repair more county roads than usual, programs such as the social housing properties could be expected to reduce their budget. Since establishing a capital reserve fund in 2003 for the UCLG owned properties, the annual contribution has varied from $667,000 annually to $256,750 due to budget pressures. The benchmark funding model ensures a maximum annual capital reserve contribution that is only varied for the inflation index.

Presently social housing costs are not tracked on the Finance Information Return (FIR) for the Municipal Performance Measurement program (MPMP). The FIR is the tool used by the province to measure the financial health and performance of the municipalities. [12] Since the municipal housing costs are not tracked in the FIR and there is no other provincial established mechanism that monitors the costs provincial wide, UCLG cannot be easily measure to determine how efficient and effective the services are being delivered, compared to other municipalities. The application of the benchmark funding model to municipal delivered housing would be an effective tool to ensure that UCLG spending is in-line not only with the non-profit providers is oversees, but with all social housing programs delivered throughout the province.

If the principals of the benchmark funding model were used for the UCLG properties the same benefits that apply to the non-profits would be applicable for the staff making decisions for the UCLG owned properties. The same incentives and disincentives would apply. Where staff under the present arrangement may look at spending up to the amount budgeted for the program while funds are available, under the benchmark funding principals, there would be more of an incentive to look at ways of reducing spending to ensure surpluses. Budgets would be more predictable which would be beneficial for both council and staff. Since the benchmark model indexes operating costs based on the provincial economy, uncontrollable factors such as inflation would have less of an effect on operations. Over all the benchmarking principals would ensure more accountability.

Conclusion

Like any funding model, the benchmark funding model is not perfect. However, most challenges identified with the model are actually a part of bigger issues that would exist to some degree, regardless of the funding model used. The stakeholders were at the table and did play a large part in the development of the model. Ongoing knowledge and understanding are key requirements for the success of non-providers and it is not just limited to the funding model. UCLG, as the Service Manager, can support the funding model and the providers through providing ongoing training on the model as well as competencies on operating boards.

[12] R. J. Heil & C. R. Tindal, *Municipal Accounting & Finance Course*, Lesson 3 of Unit One, Municipal Expenditures page 23

The benchmark funding only applies to the term of each providers' original operating agreement which mirrors their mortgage. In theory once their mortgages are discharged providers should be able to survive indefinitely without operating subsidies. The funding model forces the providers to operate within their means – something they could be required to do once the operating agreements end. Overall the benchmark funding model is philosophically correct. It helps to ensure good accountability for the taxpayers' dollars by promoting providers to operate like a private business. It would also be good for UCLG to be a role model in delivering social housing by operating in the same manner.

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