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London
CANADA

Housing Division Notice

Date: September 3, 2013

HDN#: 2013 - 193

This applicable legislation/policy is to be implemented by the Housing Provider(s) under the following programs:

Please note if your program is **not checked**, this change is **not applicable** to your project.

✓	Federal Non-Profit Housing Program
✓	Private Non-Profit Housing Program
✓	Co-operative Non-Profit Housing Program
✓	Municipal Non-Profit Housing Program (Pre-1986)
	Local Housing Corporation

Subject: LOCAL STANDARD – MULTI-YEAR FINANCIAL PLANS

1. PURPOSE:

To inform all housing stakeholders of the local background and compliance standard under the *Housing Services Act, 2011* (HSA) and associated regulations related to multi-year financial plans.

2. COMPLIANCE STANDARD:

The *Housing Service Act, 2011* establishes the service manager's authority to set local standards on prescribed matters. Under section 75 of the Act, a Housing Provider shall operate a Part VII housing project and govern itself in accordance with both the prescribed provincial requirements and local standards made by the service manager. A service manager may only make local standards with respect to prescribed matters. These prescribed matters are outlined in section 100 of O.Reg 367/11 and include the following:

- i. Conflicts of Interest of Directors, Employees and Agents of a Housing Provider.
- ii. The minimum number of meetings of the Board of Directors of a Housing Provider that must be held.
- iii. The remuneration of the Directors of a Housing Provider.

- iv. Property management relating to Part VII housing projects, including the procurement of, and contracts for, property management services.
- v. Leases for units in Part VII housing projects.
- vi. Multi-year financial plans.

A local standard does not apply to the extent that it conflicts with a provincial requirement, unless the provincial requirement provides otherwise.

3. LOCAL STANDARD:

- (1) It is recommended that Housing Providers have a strategic plan that includes a multi-year operational financial plan illustrating current and projected financial status. A multi-year operational financial plan should include an income statement, balance sheet, cash flow statement, financial ratio analysis and three to five year financial projections, as well as an explanation of projections.
- (2) Despite section (1), a multi-year financial plan may be *required* if the Housing Provider incurs an accumulated deficit that is, in the opinion of the City of London, substantial and excessive. Such plans must be accompanied by written acknowledgement and commitment from the Board of Directors to reduce costs to eliminate the Housing Provider's accumulated deficit.
- (3) Housing Providers are required have to maintain a current multi-year capital reserve plan that includes both a Building Condition Assessment (BCA) and Reserve Fund Forecast (RFF) that spans the life of all building components.
- (4) Housing Providers are required to use an Asset Management Capital Reserve Fund forecasting tool for annual capital budget preparation and submission requirements. To ensure that the data remains current and meaningful, the software is to be updated on an annual basis and as capital work is completed, deferred or revised. Additional updates are required when the actual interest earned on any investments and annual mandatory capital reserve transfer amounts are determined.
- (5) A copy of the current Asset Management Capital Reserve Fund software is to be sent electronically to the Housing Division at least 90 days or three months prior to the commencement of the provider's next fiscal year along with the Annual Subsidy Estimation Request. (If program requires).
- (6) Housing Providers are required to submit a capital budget as part of their annual request for subsidy. The capital budget must be presented at a Board meeting and AGM (Co-ops only) for approval and show the proposed capital expense(s), the proposed source of funds, and the impact of the proposed expenses on the current and future operating budgets. Capital budgets will be reviewed and given final approval in conjunction with the annual subsidy estimation. Approval of the capital budget by the Housing Division will authorize the Board to spend the funds for capital expenditures for the purposes and from the sources specified, to a maximum of the total expenditures in the budget.
- (7) Housing Providers are required to regularly monitor and revise their short and long term capital reserve plans based on building conditions, priorities and availability of funding.

(8) Housing Providers are required to ensure that accurate and complete information of capital reserve activity is reported on the Annual Information Return (AIR). Capital expenditures should correspond to categories/building components identified in the capital budget.

4. ACTION:

The local standard in this Housing Division Notice (HDN) is effective immediately.

The HDN is to be reviewed by the Board of Directors and noted within the respective agenda and meeting minutes at the earliest possible opportunity.

As this HDN specifically addresses matters pertaining to the Board, including but not limited to rules of order and governance, and/or matters requiring specific Board action including multiyear financial planning, it must be received and formally acknowledged by the Board. A copy of this HDN shall be retained with the corporate bylaws and made available for reference and review

5. AUTHORIZATION:

Original signed by



Louise Stevens
Director, Municipal Housing

Appendix 1 - Background and Additional Information

Appendix 1

Background and Additional Information

HDN: 2013-193
Date: September 3, 2013
Subject: Local Standard – Multiyear Financial Plans

FINANCIAL MANAGEMENT

Good financial management requires Housing Providers to be conscious and deliberate when planning for both long term financial goals and immediate financial health. It is an ongoing process that features a cycle of good management habits. Sound procedures and internal controls help ensure accurate accounting and high-quality reporting. Evaluation of the information in the reports promotes appropriate planning and facilitates good management decisions. Regular evaluation of the process leads to consistent improvement in financial management.

Organizational Budget

A Housing Provider's financial planning should include separate budgets for operating and for capital. Together these comprise an Organizational Budget. Creating an annual operating budget is a familiar task for Housing Providers; however, creating a capital budget, or capital reserve plan, is often overlooked or deemed unnecessary for small or midsize Housing Providers.

Operating Budget	Capital Budget
Associated with Statement of Activities (Income Statement, Profit & Loss) Planning income and expenses for a single fiscal year to accomplish immediate mission agenda Can be projected over multiple years as part of a strategic plan to include implementation of strategic initiatives Planning for end of operating agreements	Associated with Statement of Financial Position (Balance Sheet) Planning for optimal cash position (investment strategy that ensures resources are available to meet needs as they arise) Manage reserves to maximize investment income Planning for capital major repair, upgrade or replacement of original or existing building and site components over a longer time period based on priority Planning for end of operating agreements

Operating budget

A well-constructed operating budget will demonstrate in numbers the Housing Provider's commitment to fulfilling its mission. It will be based on reliable income projections and expense projections will be well-researched, conservative, and thorough. Those building the budget will understand what components of it are fixed and which can be adjusted as the budget year progresses.

The annual budgeting process should be documented, with tasks, responsibility of assignments and deadlines clearly stated.

A good budgeting process:

- engages those who are responsible for adhering to the budget
- allows for the Finance Committee (if applicable) to participate
- provides adequate time for research, review, feedback, revisions, etc. before the budget is ready for presentation to the full Board

- incorporates strategic planning initiatives
- is characterized by realistic projections for income and expenses
- is income-based (expenses do not exceed the realistic income projections)
- identifies fixed costs and relates them to reliable revenue
- is driven both by mission priorities and fiscal accountability
- meets HSA or operating agreement submission requirements and allows for proper notification, under applicable legislation, of any rent increases

Multiyear operating budgets that align with a strategic plan can provide enormous benefits. It can bring clarity and agreement on mission and vision, help Housing Providers prepare for the future, help Housing Providers anticipate and manage change, improve the decision making processes, promote effective stewardship, align the Board and staff, provide an opportunity to analysis systems and processes and reinforce the need to commit to continuous improvement.

Capital Budget or Capital Reserve Plan

An organizational budget should take into account the Housing Provider's annual operating income and expenses, as well as ensuring adequate resources for long-lived building components - this is the capital budget or capital reserve plan. A capital reserve plan should be based on a Building Condition Assessment (BCA) and a Reserve Fund Forecast (RFF) which covers several years and includes estimates (time and money) considering replacement lifecycles and repair of major building systems.

A capital reserve plan is a management tool that will help Housing Providers;

- 1) budget for the future costs for major repairs and replacements of capital items
- 2) gain an improved understanding of the physical condition of their building(s)
- 3) maintain their building(s) in a safe, efficient and structurally-sound condition
- 4) make good decisions about investing capital reserve funds

Capital reserve planning means taking a long-term view of the physical and financial needs of a property or building. A capital reserve plan looks at major repairs and replacements over a number of years and allows Housing Providers to plan, budget and pay for large replacements without large rent increases or emergency funding. Planning to maintain major systems in good order requires a long term perspective and significant coordination given the costs and impacts involved.

Capital reserve plans not only play a pivotal role in overall maintenance but strategically guides decision-making. While not as visible or frequent as demand or planned maintenance activities, the cost of these asset management activities are significantly larger in comparison. Major systems ensure that the building – the Housing Provider's primary asset – can continue to function and serve the needs of residents. Failure to replace or repair these major systems in a timely way puts the value of the asset at risk and creates potential liability for the owner. Deferred repairs can also impact on quality of life for residents and negatively influence the value, marketability and attractiveness of the property.

Making informed decisions at the right time – whether for one-time capital items or on-going maintenance – can have positive financial impacts and help ensure operational sustainability. Capital replacement decisions are made over the life of a typical building. These decisions tend to have the greatest impact on the building as it matures. But there are also prudent capital decisions to make at the design stage and proactively thereafter; these, too can have a meaningful impact on extending the building's overall useful life. Given the substantial cost of building replacement and scarce resources available for renewal, making informed decisions through its lifecycle is the next best opportunity to ensure that housing facilities continue to serve community needs.

Every Housing Provider should have an organized approach to addressing capital replacements. Similar to other maintenance functions, this approach includes gathering baseline information, establishing on-going conditions, and mapping out and prioritizing required actions. Given the sizable

financial impact of these actions, Housing Providers also need financial planning for capital replacements to ensure resources are available to meet needs as they arise.

The annual capital decision-making involves three main steps, each with associated decision points:

- 1) **Step 1: Evaluate capital needs and priorities** – assessing planned and unplanned capital needs based on building condition, prioritized by capital project
- 2) **Step 2: Establish an annual plan** – taking long-term plans, assessing in-year capital project options and developing a formal plan with regard to available funding, risks and capacity
- 3) **Step 3: Implement the plan** – moving forward with execution of projects or if necessary, deferring capital projects and revising capital plan requirements accordingly.

The initial step in the process relies heavily on input from a capital plan where building lifecycle needs have been assessed and projected chronologically, along with associated costs. Recognizing that conditions change from year to year, these identified needs are then assessed against current conditions to develop a priority list reflecting “actual” work required – whether planned or otherwise. As capital reserve plans are based on predictions, it is essential that they are updated as things change, for it to remain a useful management tool.

Without a formal capital plan, work in any given year would be largely demand-based, driven by inspections and resident complaints. This approach is ineffective in terms of planning and tends to be more expensive.

With a more complete sense of capital need requirements over the lifecycle of the building, Housing Providers can be more proactive, make more effective decisions and better align resources with capital needs. Capital resources are limited, so Boards must make value-added decisions when determining what projects to undertake and when. Consider that doing nothing can also have a financial impact – costs associated with liability and risks dramatically increase when health and safety issues are not addressed.

Conclusion

The financial risk facing Housing Providers is real. Although most Housing Providers are operating independently, breaking even, and supported by some level of financial reserves, many will be short of money as their buildings age and need reinvestment. Land leases will need to be renewed and the subsidy dollars available for low-income households in housing will decline with the end of operating agreements. Therefore, it is essential that Housing Providers manage short and long-term financial risks and investments for their properties and assets to determine the best approach to maintaining and enhancing facilities.

Housing Providers must have a clear road map for future risk management that provides the essential information they need to make critical strategic decisions, reduce operating costs and enhance facility conditions. Without an asset-planning and optimization program for a given building portfolio, Housing Providers will not be able to respond to new demands and funding requirements, employ newer technologies, implement environmentally-friendly solutions, and adapt to continuous changes in the marketplace.

SOCIAL HOUSING RESERVE FUND STUDY

An important role of the City of London in administering the social housing portfolio is to help social Housing Providers ensure that their housing projects are maintained in adequate condition for the health and safety of their residents and that the portfolio is physically and functionally sound. It is the responsibility of the Housing Provider to understand the current condition of the building and identify any needed repairs along with the longer term cost implications of these necessary capital improvements.

Accordingly, in March of 2009, the City of London, in cooperation with the County of Middlesex commissioned a Capital Reserve Fund Study and Building Condition Assessment of its social housing stock. This study consisted of an analysis of the cash flow required for the Capital Reserve Funds held by social Housing Providers to meet current and future capital repair requirements of the portfolio.

Housing Providers were given the opportunity to participate in the study by providing feedback before the final studies were approved. Housing Providers received copies of their own Building Condition Assessment (BCA) and Reserve Fund Forecast (RFF) along with the Asset Management Capital Reserve Fund (CRF) software. The software is an excellent tool to help the non-profit/cooperative sector in reserve fund planning and management by allowing Housing Providers to update and manage building data, run various scenarios and print reports and charts.

In 2010, all Housing Providers received training and education on how the studies are to be updated and utilized as a 'living' document for annual capital budget preparation and submission requirements.

RESOURCES

Asset Management Centre (AMC) is a collaborative, cross sectoral organization whose mission is to be the leading centre of asset management excellence supporting community Housing Providers to maintain their properties to a high standard.

FRAME (Fundamental Resources for Asset Management Excellence) is a basic framework of best practices for the maintenance and improvement of community housing buildings. It helps Housing Providers develop strong asset management practices in four key areas: capital planning and preventive maintenance within a framework of environmental sustainability and workplace safety.

Download Frame

The Ontario Non-Profit Housing Association (ONPHA) and **The Co-operative Housing Federation (CHF)** provide members housing resources and programs aimed at improving Housing Provider's short and long-term health.

Canada Mortgage and Housing Corporation (CMHC) collaborated on a project to produce a manual that will be useful to all Housing Providers who are undertaking capital replacement planning. It can be used as a stand alone document, by non-profit and co-operative Housing Providers, or in conjunction with CMHC's Capital Replacement Planning Software as an effective tool for planning and budgeting for capital replacement projects associated with their housing portfolios.

City of London's Capital Reserve Guide outlines the Housing Division's position and administrative approach on the capital planning, spending and investing activities of Housing Providers. The purpose of the guide is to explain the different program rules that affect the capital reserve and investing, describes what a capital item is, explains when a capital item should be replaced and what it should be replaced with, clarify what kinds of costs cannot be paid for from the capital reserve, outline purchasing requirements, highlight the pertinent information pertaining to capital reserve planning and investing and provide additional resources.