



City of Greater Sudbury

Social Housing Governance Best Practices Review

Final Report

September 11, 2018





KPMG LLP
Chartered Accountants
Claridge Executive Centre
144 Pine Street PO Box 700
Sudbury ON P3E 4R6

Telephone (705) 675-8500
Fax (705) 675-7586
In Watts (1-800) 461-3551
Internet www.kpmg.ca

Ms. Cindi Briscoe
Manager of Housing Services
City of Greater Sudbury
199 Larch Street, Suite 603
Sudbury, Ontario P3A 5P3

September 11, 2018

Dear Ms. Briscoe,

We are pleased to provide our report to the City of Greater Sudbury (the "City") concerning our review of best practices for the organizational structure of social housing activities in Ontario. Our review of best practices has been requested in connection with a separate engagement to conduct a governance review of the Greater Sudbury Housing Corporation ("GSHC"), which is currently in progress.

As outlined in our engagement letter, the purpose of our review was to identify organizational structures for social housing implemented by the Province's 47 consolidated service managers, assess the benefits of the various structures and provide an analysis of alternative organizational structures that could be considered by the City. We anticipate that the results of our review will be incorporated into our main report relating to the governance review of the GSHC.

We trust our report is satisfactory for your purposes and appreciate the opportunity to be of service to the City. Please feel free to contact the undersigned at your convenience should you wish to discuss any aspect of our report.

Yours truly,

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Per Oscar Poloni, Partner
705.669.2515 | opoloni@kpmg.ca

Greater Sudbury Housing Corporation Governance Review

Introduction

The Greater Sudbury Housing Corporation (“GSHC”) was established in December 2000 in response to the passing of the Social Housing Reform Act (the “SHRA”), the enabling legislation for the transfer of social housing from the Province of Ontario to 47 service managers (consisting of 37 upper or single tier municipalities and 10 district social services administration boards). Pursuant to the SHRA, approximately 84,000 public housing units were devolved by the Province to Ontario municipalities effective January 1, 2001, including more than 1,800 units that were transferred to the GSHC. The establishment of separate corporations for the purposes of owning the transferred public housing units was a requirement of the SHRA.

Prior to the transfer of social housing, the City had already been designated as a Consolidated Municipal Service Manager (“Service Manager”), representing the organization responsible for the delivery of social and community health services, including social assistance (now called Ontario Works) and child care programs. While the SHRA transferred ownership of social housing units to the GSHC, it assigned to the City (as Service Manager) the overall financial and administrative responsibility for social housing. The City is unique in that it is the only municipality in Northern Ontario designated as a Service Manager, with district social service administration boards (“DSSAB’s”) acting as service managers in the remainder of Northern Ontario.

In order to manage the relationship between the City (as Service Manager), the GSHC (as owner and operator of the actual social housing units) and the Province of Ontario (as the ultimate funder of Service Managers), two agreements were executed:

- A shareholder declaration (the “Shareholder Declaration”); and
- An operating framework (the “Operating Framework”).

Collectively, these two documents were intended to prescribe the nature of the relationship between the GSHC and the City (in its capacity as both shareholder and Service Manager), including stipulating provisions with respect to decision-making, financial management and reporting.

A. Introduction to the review

On May 15, 2018, the City’s Auditor General released its report on the governance audit of the GSHC. Intended to assess the oversight framework, governance structure and mandate of the GSHC as well as the City’s oversight of the GSHC, the Auditor General’s report concluded that:

- The GSHC’s oversight framework is generally effectively designed and its governance structure and mandate are sufficient and appropriate to provide a framework for effective oversight; and
- The City has established a generally effective framework for the oversight of the GSHC.

Introduction

A. Introduction to the review (continued)

Notwithstanding the positive nature of the Auditor General's overall conclusions, the report did identify areas that were recommended to be addressed, including:

- The relevance of the Shareholder Declaration and Operating Framework, both of which were identified as dated and requiring updating;
- The orientation process (undertaken by the City) for City Councillors, which was seen as requiring enhancement in order to provide sufficient awareness of the role of the GSHC and the obligation of City Councillors servicing as GSHC directors;
- The orientation process (undertaken by the GSHC) for City Councillors acting as GSHC directors, with the Auditor General recommending changes intended to address the potential for conflicts of interest between the City and GSHC; and
- The absence of formal performance management processes, including a review of the GSHC's strategic plan to ensure alignment with the Operational Framework and reporting on key performance indicators.

In response to these findings, the Auditor General made six recommendations with respect to the governance of the GSHC, including the completion of an operational review of the GSHC. As outlined in the Auditor General's report, the purpose of the operational review would be *"to evaluate the effectiveness of the current oversight structure and processes and recommend changes to better align the strategic objectives, initiatives and budgets of the GSHC with the City's objectives and plans"*. In response to this recommendation, the City has retained KPMG LLP to conduct a governance review of the GSHC, which is currently in progress.

A component of our overall governance review of the GSHC is an analysis of organizational structures for social housing in Ontario for the purposes of assessing the merits of different organizational structures and identifying common/best practices and this report outlines the results of our analysis of this specific component of our review.

Introduction

B. Scope of review

Our findings and conclusions are based on the following sources of information:

- A review of the Shareholder Declaration between the City and the GSHC;
- A review of the Operating Framework between the City and the GSHC;
- A review of the Social Housing Reform Act, 2000;
- A review of the Housing Services Act, 2011;
- A review of the Auditor General's report on the governance audit of the GSHC;
- A review of governance structures for local housing corporations; and

Discussions with and information provided by representatives of:

- City of Greater Sudbury Housing Division;
- Ministry of Municipal Affairs and Housing;
- Selected Consolidated Municipal Service Managers in Ontario.

Introduction

C. Restrictions

This report is based on information and documentation that was made available to KPMG at the date of this report. KPMG has not audited nor otherwise attempted to independently verify the information provided unless otherwise indicated. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and opportunities as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, the City of Greater Sudbury. Accordingly, KPMG will assume no responsibility for any losses or expenses incurred by any party as a result of the reliance on our report.

This report may include or make reference to future oriented financial information. Readers are cautioned that since these financial projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypotheses occur, and the variations may be material.

Comments in this report are not intended, nor should they be interpreted, to be legal advice or opinion.

Our fees for this engagement are not contingent upon our findings or any other event.

KPMG currently provides external audit services to both the City and the GSHC.

Greater Sudbury Housing Corporation Governance Review

KPMG Comments and Observations

For the purposes of our report, we comment on each of the following:

- Overview of the current organizational structure
- Overview of organizational structures utilized by other Service Managers
- Evaluation and recommendation of a preferred organizational structure

A. Overview of the current operating structure

The current operating structure utilized by the City for City-owned social housing has not changed since the devolution of social housing by the Province in 2001, with the City acting as shareholder and Service Manager. Pursuant to Section 2.1 of the Shareholder Declaration, the GSHC board (comprised of seven directors, two of which are City Councillors) has been provided with *"the authority to manage or supervise the management of the business and affairs of the GSHC in accordance with"* the Shareholder Declaration. Section 2.2 of the Shareholder Declaration further states that *"the GSHC has be responsible for the management of the housing portfolio, for making policy and operational decisions and being accountable for such policy and operational decisions through the submission to the Shareholder and Service Manager of the Annual Report"*.

As noted in the Auditor General's report, both the Shareholder Declaration and Operating Framework are dated and in need of revision. Specifically, we note that:

- Both documents continue to refer to the SHRA, despite its repeal on January 1, 2012;
- Neither document reflects the current regulatory environment for social housing, defined by the HSA and as such, do not reflect the City's additional responsibilities and powers under the HSA; and
- Neither document has been updated to reflect City policies introduced subsequent to their execution, as an example the City's policy with respect to the GSHC reserves established in December 2006.

As a result of the above-noted instances, there are inconsistencies between (i) the Shareholder Declaration/Operating Framework and the City's powers as Service Manager under the HSA; and (ii) the Shareholder Declaration/Operating Framework and the City's internal policies with respect to the GSHC's reserves. Examples of these inconsistencies are provided on the following page.

Greater Sudbury Housing Corporation Governance Review

KPMG Comments and Observations

A. Overview of the current operating structure (continued)*Inconsistencies between the Shareholder Declaration/Operating Framework and the City's powers as Service Manager under the HSA*

Pursuant to Section 27(1) of the HSA, it appears that the City can, at its sole discretion as Service Manager, implement rules that apply to the GSHC (provided these rules do not conflict with the prescribed rules under the HSA). As noted in Section 27(2) of the HSA, these rules may address "the operation and activities of the local housing corporation, including such matters as reporting requirements, budgeting and funding, the maintenance of housing projects, audits and investigations, the exchange of information and such other matters as the service manager or Lieutenant Governor in Council considers appropriate to ensure the performance of the local housing corporation's duties under this Act". This provision allows the City as Service Manager to make operational decisions relating to the GSHC, representing an inconsistency with Section 2.2 of the Shareholder Declaration which delegates this operational responsibility to the GSHC. Examples of issues arising from this inconsistency include the following:

- We understand that the GSHC has implemented a lateral transfer policy that levies a \$250.00 fee for residents on the GSHC wait list that wish to transfer from one unit to another. In advance of the implementation of the lateral transfer policy, the City as Service Manager requested the GSHC to "not move forward with the implementation of this policy" pending a legal review to ensure that the policy was not a contravention of the HSA. We understand that notwithstanding the City's request to defer the matter, the GSHC implemented the policy.
- In March 2018, the City as Service Manager directed the GSHC to enter into an agreement with the Canadian Mental Health Association – Sudbury and Manitoulin for the shared funding of a transitional community support worker. In response to this direction, the GSHC questioned the ability of the Service Manager to impose this agreement on the GSHC and also requested a review of the business case and potential risks prior to agreeing to the shared funding arrangement.

Inconsistencies between the Shareholder Declaration/Operating Framework and the City's policies with respect to the GSHC's reserves

In December 2006, City Council passed Council Resolution 2006-993 endorsing the creation of reserve accounts for the GSHC beginning in the 2007 fiscal year as per the position outlined in a report from the General Manager of Community Development. In the report, it was recommended that three types of reserves be established – a capital reserve, an operating reserve and a rent supplement reserve – with each reserve to be funded from annual expenditures in the respective program area. While the report did not establish a maximum of the reserves, it did indicate that "the GSHC would be able to contribute to and/or withdraw monies from the reserves only with the prior written consent of Housing Services, acting on behalf of the Service Manager". The report also indicated that "such consent would be at the sole discretion of Housing Services", which would appear to preclude the requirement for Council approval.

Greater Sudbury Housing Corporation Governance Review

KPMG Comments and Observations

A. Overview of the current operating structure (continued)

In April 2018, the GSHC requested permission from the City to transfer approximately \$1.5 million of unspent subsidies to its operating, capital and rent supplement reserves, with an additional request for \$490,000 in capital reserves to be used to finance capital projects approved but not completed at the end of the GSHC's 2017 fiscal year. Subsequent to its review of the request, the City advised the GSHC that it would be recovering approximately \$940,000 in unspent subsidies, comprised of the \$1.5 million in surplus less the \$490,000 requested for capital funding of projects approved but not completed at year-end. Following the City's notification of the surplus recovery, there has been ongoing discussion between the City and GSHC concerning the precedence of the reserve policy approved by the City in December 2006 over the Operating Framework (Section 4.5 of which indicates that subsidy surpluses are to be recovered by the City as Service Manager), notwithstanding the fact that it appears that Housing Services has the authority under the reserve policy to deny the request for reserve transfers and recover unspent subsidies.

We believe the inconsistencies between the Shareholder Declaration/Operating Framework and (i) the City's role as Service Manager under the HSA; and (ii) the City's reserve policy with respect to the GSHC have contributed, at least in part, to an overall deterioration in the relationship between the GSHC and the City (specifically Housing Services). It is apparent that relationship has become increasingly adversarial and confrontational over time.

In addition to the effects of the above-noted inconsistencies, we also believe that the relationship between the GSHC and the City has been adversely impacted by instances where the GSHC appears to have or intends to contravene provisions of the Shareholder Declaration/Operating Framework and Provincial requirements, including the following:

- Documentation provided by the City indicates that the GSHC has been late in quarterly filings relating to the Social Housing Improvement Program ("SHIP") and Social Housing Apartment Retrofit Program ("SHARP"), representing instances of non-compliance with Provincial requirements. While the GSHC is required to submit financial reports to the City, which are then submitted to the Province, the documentation indicates that reporting by the GSHC for some quarterly claims in 2017 and 2018 has either been late or incomplete, in the latter case resulting in delays associated with the time required to accumulate the missing information. The documentation also indicates that in at least one instance, the potential existed for the loss of Provincial funding due to non-compliance with Provincial filing requirements.
- We understand that the GSHC has been denied permission for the reconstruction of three-bedroom units into two-bedroom units. The City has taken the position that its approval is required pursuant to Section 5.3.1(c) of the Shareholder Declaration, which states "*Without the prior written approval of the Shareholder the GSHC will not proceed with redevelopment projects, or material changes in the number or distribution of rent-g geared-to-income units, including changes in targeting plans*". The GSHC's response cites sections of the Shareholder Declaration delegating responsibilities to the GSHC as well as providing interpretation of Section 5.3.1, based on part on discussions with its legal counsel.

Based on overall assessment of the current organizational structure, we believe it is reasonable to conclude that its effectiveness and efficiency is compromised by the identified inconsistencies between the relevant governance documents and the generally poor relationship between staff of the GSHC and the City.



Greater Sudbury Housing Corporation Governance Review

KPMG Comments and Observations

B. Overview of organizational structures utilized by other Service Managers

At the time of devolution of social housing by the Province to Service Managers, the establishment of a local housing corporation (“LHC”) was a requirement imposed by the Province. Subsequent to devolution, a number of Service Managers have adopted alternative governance structures for their social housing portfolios.

Based on our discussions with representatives of the Ministry of Municipal Affairs and Housing, other Service Managers (both municipal and DSSAB) and industry representatives, we understand that three organizational structures are currently in common use in Ontario:

- Some Service Managers continue to utilize the initial organizational structure established at devolution – a separate LHC for the purposes of owning and managing their social housing portfolios – with governance provided by a board of directors comprised primarily of unelected individuals.
- Some Service Managers continue to utilize their LHC for the purposes of owning their social housing portfolios, with the management of social housing delivered directly by the Service Manager. Under this model, governance is ultimately provided by Council or the board of the DSSAB (depending on the nature of the Service Manager).
- Some Service Managers have discontinued their LHC and have assumed direct ownership of their social housing portfolio as well as direct administration of social housing programs. As with the use of the LHC only as a holding company, governance is provided by Council or the board of the DSSAB.

During the course of our review, we have requested, but were not provided with, information from the Ministry of Municipal Affairs and Housing concerning the distribution of Service Managers by type of organizational structure. However, our review indicates that the use of a separate LHC for the purposes of both owning and managing social housing portfolios (i.e. the current model used by the City) is **not** the most prevalent organizational model, with an estimated 10 to 12 of Ontario’s 47 Service Managers continuing to utilize this structure, including larger Service Managers such as Toronto, Ottawa, London, Peel Region and Windsor. Rather our review indicates that the direct delivery of social housing by the Service Manager is the most common approach. This is consistent with a survey conducted in 2007 by Housing Services Corporation, which indicated that, of the 38 Service Managers that responded to the survey, only 12 utilized separate organizations to manage social housing, while the other 26 responding Service Managers directly managed social housing.

Accordingly, it appears that direct management of social housing by the Service Manager, with ownership either retained by the LHC or directly by the Service Manager, represents the best/most common practice in Ontario.

Greater Sudbury Housing Corporation Governance Review

KPMG Comments and Observations

C. Evaluation and recommendation of a preferred organizational structure

As noted in the previous section, there appear to be three potential organizational structures available to the City with respect to its social housing portfolio:

- Option 1 – Ownership and management by the GSHC (current option)
- Option 2 – Ownership by the GSHC but management by the City
- Option 3 – Ownership and management by the City

For the purposes of our report, we have evaluated these options based on the following considerations:

- Does the option provide the best opportunity for a skills-based governance board?
- Does the option reduce the potential for political influence of decisions, allowing decision-making to be guided by relevant considerations (client service, financial sustainability)?
- Does the option contribute towards consistency between the City's long term affordable housing strategy and the management of the social housing portfolio?
- Does the option contribute towards consistency between infrastructure investment requirements and associated financing for social housing units and the City's broader asset management planning and capital financing activities?
- Is the option consistent with industry best/common practice?
- Is the option consistent with the City's organizational structure for social services?
- Does the option contribute towards the integration of human services delivery, enhancing the ability to provide one-window service to clients?
- Does the option contribute towards the integration of administrative services, enhancing the potential for operating efficiencies?
- Does the option result in decision-making that is compliant with the provisions of the HSA and other regulatory requirements?

Our evaluation of the identified organizational structures (Options 1, 2 and 3) is provided on the following page.

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KPMG Comments and Observations

Evaluation Consideration	Option			Notes
	1	2	3	
Does the option provide the best opportunity for a skills-based governance board?	●	○	○	The current organizational structure involves a board of directors comprised of a majority of non-Council members, allowing for the appointment of individuals with requisite skills (finance, legal, engineering, social services, etc.)
Does the option reduce the potential for political influence of decisions, allowing decision-making to be guided by relevant considerations (client service, financial sustainability)?	●	◐	◐	The current organizational structure provides a degree of separation from City Council by virtue of (i) having a majority of board members being non-Councillors; (ii) setting parameters for governance through the Shareholder Declaration and Operating Framework; and (iii) establishing interaction between the LHC and the City based on the annual report and budget process.
Does the option contribute towards consistency between the City's long term affordable housing strategy and the management of the social housing portfolio?	◐	●	●	Direct management by the City (Housing Services) would ensure consistency between all programs focused on social housing.
Does the option contribute towards consistency between infrastructure investment requirements and associated financing for social housing units and the City's broader asset management planning and capital financing activities?	◐	●	●	Direct management by the City would establish social housing as a City division, resulting in its inclusion in all City financial planning activities.
Is the option consistent with industry best/common practice?	○	●	●	Direct administration of social housing by the Service Manager represents the majority of organizational structures adopted by Service Managers in Ontario, with the current structure (Option 1) used by less than 25% of Service Managers.

● Fully effective in meeting consideration ◐ Partially effective in meeting consideration ○ Least effective in meeting consideration



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Evaluation Consideration	Option			Notes
	1	2	3	
Is the option consistent with the City's organizational structure for social services?	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Within the slate of health and social services programs shifted to the City under Local Service Realignment, the GSHC is the only wholly-controlled subsidiary maintained by the City. All other health and social services transferred under Local Service Realignment, including Ontario Works, childcare and subsidies to not-for-profit housing organizations are administered directly by the City.
Does the option contribute towards the integration of human services delivery, enhancing the ability to provide one-window service to clients?	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	Under the current model, the delivery of Ontario Works and social housing is provided through separate locations with limited integration between the two services despite the correlation between Ontario Works usage and social housing. Direct management by the City would allow for the establishment of a "one-window" approach to client service.
Does the option contribute towards the integration of administrative services, enhancing the potential for operating efficiencies?	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	The current structure has resulted in the establishment of parallel functions, including finance and facilities maintenance. In addition, the GSHC is required to incur certain corporate expenditures such as directors and officers insurance and audit fees that could be eliminated if the City directly managed the social housing portfolio. We also note that the GSHC has on occasion retained legal counsel to advance positions that are contrary to the City's direction.
Does the option result in decision-making that is compliant with the provisions of the HSA and other regulatory requirements?	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	We do not believe that any of the options will impact the degree of compliance with the HSA.

Greater Sudbury Housing Corporation Governance Review

KPMG Comments and Observations

Based on the results of our analysis, we have identified the direct management of social housing by the City as Service Manager, along with either the direct ownership by the City of the social housing portfolio or the continuance of the GSHC as a property holding company, to be the preferred organizational structure.

To the extent that the City decides to proceed with this restructuring, we suggest that consideration be given to an implementation framework that considers the following:

1. Dissolution of the current board of the GSHC and the appointment of additional members of City Council to serve in a transitional capacity.
2. The establishment of a transition team comprised of City staff from Housing Services, Finance, Infrastructure, Social Services and the GSHC. In establishing the transition team, the City should also appoint a project manager that has overall responsibility for the transition.
3. A review of related collective bargaining agreements for GSHC unionized employees and contracts for non-unionized employees to identify personnel-related matters to be addressed as part of the transition of management responsibilities, including but not limited to the harmonization of wage rates and benefits coverage, notice periods and other rules relating to successor employer situations.
4. The transition of GSHC functions and personnel to the City to be completed on a phased, function-by-function basis, with one function being integrated before commencing integration on others.
5. The establishment of a reporting framework to Council on the overall transition progress.
6. The development of a post-transition analysis of benefits arising from the transition and issues experienced.



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