

Community Resources and Employment

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Main points

This chapter describes the key risks that Saskatchewan Housing Corporation (SHC) must manage well in order to be successful. The Department of Community Resources and Employment operates SHC. SHC must:

- ◆ understand the housing marketplace in order to identify the long-term housing needs of Saskatchewan residents;
- ◆ manage its resources to deliver its mandate;
- ◆ manage its interest rate risk; and
- ◆ manage relationships with a variety of partners.

We did this work to help Members of the Legislative Assembly and the public understand and assess the key risks facing SHC. We encourage SHC to report on the risks facing SHC and its strategies to manage those risks.

This chapter also includes the results of our audit of SHC for the year ended December 31, 2002. We concluded that SHC's financial statements are reliable, it had adequate processes to safeguard its assets, and it complied with authorities governing its activities.

Introduction

The mandate of the Department of Community Resources and Employment (formerly Social Services) is to advance the well-being of Saskatchewan people by providing programs and assistance aimed at strengthening participation in the economic and social life of the Province. The Department provides basic income support, housing, childcare, career services, and employment programs to reduce the risks and disadvantages of unemployment and poverty.

In Chapter 10 of our 2002 Fall Report – Volume 2, we reported the results of our audits of the Department and its agencies for the year ended March 31, 2002.

In this chapter, we report the results of our audit of the Saskatchewan Housing Corporation (SHC). The Department operates SHC under the authority of *The Saskatchewan Housing Corporation Act (Act)*. SHC provides housing services for seniors, families, and others who could not otherwise afford safe, secure shelter. SHC directs the development, delivery, and administration of housing programs in the province. The provincial, federal, and municipal governments fund development, delivery, and administration costs.

As part of its mandate, SHC coordinates the activities of 281 public housing authorities. These public housing authorities provide community-based management for housing projects. Public housing authorities are corporations established by ministerial order under the Act. The Minister has the legislative authority to create public housing authorities and appoint their members. Also, the Act provides that public housing authorities must comply with policies established by SHC.

SHC manages about 31,000 housing units and co-ordinates services to tenants through a network of public housing authorities, non-profit organizations, housing co-operatives, and private landlords. SHC and the public housing authorities directly administer about 19,500 housing units located in over 300 communities around the province. These housing units are targeted primarily to low-income seniors and families. Other programs covering an estimated 11,500 housing units provide accommodation for special needs and low-to moderate-income seniors

and families. These units are generally owned and operated by non-profit and co-operative housing groups.

In 1997, Canada Mortgage and Housing Corporation (CMHC) transferred responsibility for all off-reserve social and affordable housing to SHC under a social housing agreement. As part of the social housing agreement, CMHC provides subsidies for the operation of the housing projects transferred under the agreement. SHC must spend these subsidies on federally approved programs by the end of the agreement in 2038.

SHC also provides subsidies to non-profit housing sponsors and for a variety of home repair programs designed to assist low-income housing homeowners.

In 2002, SHC had revenues of \$156 million and expenditures of \$157 million. At December 31, 2002, SHC had assets of \$284 million, liabilities of \$263 million, and net assets of \$21 million.

Key risks

It is important that the Members of the Legislative Assembly (MLAs) and the public know the key risks facing a government agency. Also, they should receive information on these risks to understand and assess an agency's performance. We think sharing our understanding of the SHC's key risks will help MLAs and the public better understand and assess SHC's performance.

We identified the following key risks SHC must manage well to be successful. It must:

- ◆ understand the housing marketplace in order to identify the long-term housing needs of Saskatchewan residents;
- ◆ manage its resources to deliver its mandate;
- ◆ manage its interest rate risk; and
- ◆ manage relationships with a variety of partners.

We identified these key risks through discussions with SHC's management and by reviewing its web site and annual report. Management confirmed that these are the key risks facing SHC. We encourage SHC to report on the risks facing SHC and its strategies to manage these risks in future annual reports.

We have not audited the systems and practices SHC uses to manage its key risks.

Understand the housing marketplace in order to identify the long-term housing needs of Saskatchewan residents

To know what programs to provide, SHC needs to know the public's long-term housing needs. SHC needs to collect and assess forecast data on long-term population changes. These changes include an aging population and rural to urban migration. As a result of these shifts, waiting lists for social and affordable housing are growing in some communities, while chronic vacancies grow in others.

To supplement this information, SHC also needs to monitor and analyze relevant market forecasts and key economic indicators including: private housing markets, housing prices, rental rates, vacancy rates, and employment. This information is critical to fully understand the market environment in which SHC operates.

Manage its resources to deliver its mandate

SHC must identify the physical, financial, and human resources needed to meet its long-term plan for housing programs. To ensure it has adequate resources, SHC needs resource plans consistent with its and the Government's long-term plans.

SHC's financial resources are under considerable pressure. Federal funding for operations is based on actual expenditures in 1995-96 and will decline steadily until the social housing agreement expires in 2038.

SHC's major asset is its investment in various housing properties. The net book value of these housing properties was \$267 million at December 31, 2002. Ongoing maintenance and improvements are a necessary aspect

of ownership. Funding to maintain the investment in housing properties is limited. Operating costs are increasing significantly. A large portion of operating costs is for modernization, improvements, repairs, maintenance, and to maintain health and safety standards. These expenditures preserve the useful life or address obsolescence of SHC's housing properties.

In addition to federal funding, clients, the Province, and municipalities provide funding for operations. Clients contribute through payment of affordable rents and through cost recovery charges for assisted living services. The Government and municipalities contribute to ongoing operating costs and share in construction costs for new housing.

SHC must ensure the public and the Assembly have the information they need to understand and assess SHC's performance. Good public performance reports will help encourage better management of programs, build public confidence in SHC's performance, and provide support for its need for resources to carry out its programs.

Manage its interest rate risk

SHC received money from the Canada Mortgage and Housing Corporation under the social housing agreement that was not immediately required for the operation of housing projects. SHC has used this money to pay down debt temporarily. In the future, these federal contributions will be required for federally approved programs as required by the agreement and SHC will need to manage its cash and debt accordingly.

For 2002, interest expense was \$11.5 million. This is approximately 7% of SHC expenditures. However, higher interest rates could increase this expense over the next few years. The increased interest expense would mean less money is available to pay for other operating costs.

Manage relationships with a variety of partners

SHC deals with a large number of partners who have a wide range of interests and needs. SHC's partners include other governments, a network of public housing authorities, non-profit organizations, housing co-operatives, and private landlords. SHC has to balance its partners' needs against the mandate and priorities of SHC.

Our audit conclusions and findings

Our Office worked with KPMG LLP the appointed auditor for SHC. We used the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>). Our Office and KPMG LLP formed the opinions below.

In our opinion, for the year ended December 31, 2002:

- ◆ **SHC's financial statements are reliable;**
- ◆ **SHC had adequate rules and procedures to safeguard and control its assets; and**
- ◆ **SHC complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

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