



# CURE



## About the Center

The Centre for Urban Research and Education (CURE) is a multi-disciplinary network of researchers, primarily from Carleton University, who share an interest and commitment to strengthening municipal and urban affairs. With diverse experience, expertise and perspectives, the CURE network carries out collaborative research in areas including community governance, citizen engagement and local capacity building around planning for infrastructure to support social, economic, and environmental sustainability.

## Vision and Goals

We are committed to strengthening governance, policy making, and management in urban areas through collaborative research, community engagement, and education.

## Critique of PBO Report: Federal Program Spending on Housing Affordability in 2021.

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In response to requests from Parliamentarians, PBO has generated an update to their 2019 report on federal program spending on housing affordability, and as such focuses specifically on spending on the National Housing Strategy (NHS), announced in 2017.

PBO states at the outset that the report *is intended to help parliamentarians understand federal program spending on housing affordability*. While presenting many details on planned and actual federal spending in the NHS, the information provided is incomplete and, in some cases, misleading. As such it doesn't as much help understand as it muddies the waters and creates confusion. Now parliamentarians are busy with an election campaign, few are likely reading the report, but it remains important to correct and clarify aspects of the report.

Note: in an earlier version of this brief I critique the PBO for conflating non-budgetary loans with grants and contributions. The PBO have responded to say that they in fact have excluded all non-budgetary loans and compare only the actual budgetary expenses of the federal government.

This distinction was not made explicit (it is finally opaquely mentioned only on page 13) of the PBO report. As such this is a further example of a poorly written and miscommunicated report.

It is acknowledged that the NHS captures a large array of both pre-existing programs and legacy spending, as well as an array of new initiatives. This mix makes it inherently challenging to discern and understand the program intent, associated funding, and related achievements. And because much of the funding relates to constructing new housing, it is impossible to enumerate actual units created to date as most remain at the planning or construction stage.

The PBO report seeks to draw out critical issues and weaknesses in the early days of implementing the NHS, and correctly concludes that much of the rhetoric about historic and largest housing commitment is grossly overstated. It also correctly notes that much of the planned spending will not go toward helping the lowest income most vulnerable, mainly due to the new mechanisms and changes in targeting and eligibility compared to earlier federal (and cost shared) programs. So, it is easy to pull out some headline findings, but the report lacks in explaining these and in helping parliamentarians, or anyone else, understand federal program spending on housing affordability.

The terms “funding” and planned spending as used in both the NHS and in the PBO analysis are clearly defined. All official announcements on the NHS have aggregated different types of spending. Notably this conflates loans, which are not taxpayer funded expenditures, with grants and contributions. This mixing of budgetary and non-budgetary spending originates in the original NHS announcements and was clearly motivated by political interests in a big announcement: “first ever and largest ever”.

As the budgetary watchdog, PBO should be highlighting this form of reporting (and persistent CMHC misrepresentation and explicitly presenting the data with a clear and obvious breakout of budgetary and non-budgetary information. The PBO report fails to do this.

And while PBO officials responded to a draft to say that the spending amounts and comparisons use ONLY actual spending (and exclude loans, which make up much of the NHCF and the RCFI initiatives) this distinction is buried in their report, and so easily misinterpreted (they eventually do late in the report, p 13).

The PBO analysis then proceeds to compare NHS planned spending against the federal spending over the past decade. Without clear information that they are comparing only actual spending (excluding loans and contributions) this appears to be a classic case of apples and oranges – the prior decade was real tax-payer spending; the NHS is predominantly loans and other jurisdiction’s money (via cost sharing). It turns out that the comparison is apples to apples and the PBO concludes that the actual spending planned in the decade of the NHS only marginally increases average annual federal spending. And in real terms it is hardly an increase at all.

Information to date both in the NHS itself and in the series of federal budgets present spending over the full 10 years 2018/19 through 2027/28. The PBO in an apparent attempt to add clarity chose to present spending on average annual amounts per year. The presentation is not comparable with the form of these other formal announcements and for those that have tried to distill and understand spending in the NHS it is more confusing than helpful.

The PBO analysis also seeks to compare the nature of spending and more specifically the degree to which the NHS is actually meeting deep housing need (homeless and low-income renters with high shelter burdens, many of whom are racialized and face discrimination that constrains access to safe and affordable housing).

Past social/affordable programs have targeted households below prescribed household income limits and typically set rents very low, often on a rent geared to income (RGI) basis at 30% of income. The NHS programming, despite its rhetoric, lacks any of this formal targeting. It seeks to create “affordable housing” but does not provide ongoing subsidy to achieve it; nor does it define which metric is used to define “affordable”.

And with most of the “funding” in the form of repayable loans the NHS is incapable of achieving similar deeply affordable rents – because those low rent levels can’t support the associated loan payments. The PBO report implies this in seeking to expose reductions in funding toward targeted units but doesn’t fully explain the nature of the issue because it fails to expose the high dependence on lending, instead simply using the term “capital commitments”. A loan is not a capital commitment; this term should be reserved for grants and contributions (i.e. actual federal expenditure).

In an incomplete aside, the report refers to a separate analysis on Urban, Rural, and Northern Indigenous Housing, stating that under the key National Housing Co-Investment Fund [NHCF], *Canada has secured contractual commitments averaging \$0.38 in discounts relative to market median rents for each dollar of total government capital contributions* (p.9). There is no discussion of this, nor an explanation. Does this mean that on average units supported under the NHCF have achieved rents at 38% below local median rents? Or that in 38% of units rents are below the local median rent. Another case of the report not really helping to understand federal program spending on housing affordability. In an attempt to explain this the PBO advised that they spread the total capital funding contribution over the 10 years of the NHS and using the planned number of units that might be created, determined how far, on average rents, would be below the future anticipated median rent levels. This is not my idea of a simple easily understood calculation, understandable to parliamentarians!

In reviewing those past subsidy commitments and deeper subsidies, the report highlights the issue of expiring federal subsidies and asserts that with the federal subsidy ending on some 183,000 units these will be *converted to market rate units or off-loaded to sub-national governments*. This too is highly misleading – it implies that many of the 183,000 will be lost or no longer affordable.

These properties are already owned and operated by either public (provincial/municipal) entities or by non-profit and co-operatives, all committed to preserving affordability. A few units might transition to market rate, but this is not significant. And thus, the statement is misleading. The main impact will be an increasing subsidy burden on the province/territory (and in Ontario, municipalities), but these jurisdictions have shown a willingness (and in Ontario have a statutory obligation) to absorb any increased subsidy and preserve these units. And a specific funding stream in the NHS, which is not explicitly presented in the PBO report will provide some financial support to help manage these ongoing subsidy costs. That said the sub-national governments will be impacted by increased subsidy obligations.

The PBO report (in Appendix B) speaks to bilateral cost-shared spending and suggests that the current mechanisms will not impose any need for provinces/territories/municipalities to increase their spending above 2019 levels in order to meet cost sharing requirements. This completely overlooks the fact that these jurisdictions have, and are, increasing their spending, largely outside of the cost matching elements of the NHS.

The PBO report does provide some details on the growth of the NHS from its initial \$40billion headline to a now \$70+ billion. It highlights that only \$6.8 billion of this \$30+ billion increase is new funding directed to addressing affordability. It doesn’t explicitly identify how the other \$24+ billion is allocated (most went to loans for the Rental Construction Financing Initiative, RCFI, although again, the report

does not speak to the fact that the RCFI does not address affordable need, despite having an affordability criterion, a serious flaw in this initiative).

And despite being framed as a report on housing affordability, the report does not discuss the slow implementation and grossly underfunded nature of the Canada Housing Benefit, one of the cost matched initiatives under the bilateral agreements, with potentially the greatest and fastest impact on addressing affordability.

As we enter an election campaign, the PBO report will no doubt provide some fuel to critique the Liberal government's performance in both designing, implementing, and expanding the National Housing Strategy. But as an objective impartial exercise intended to add understanding, the report achieves a failing grade.