



**Co-operative Housing Federation of Canada**  
**Fédération de l'habitation coopérative du Canada**

**National Office / Bureau national**

311-225, rue Metcalfe Street, Ottawa, Ontario K2P 1P9

Fax/télécopieur (613) 230-2231

Telephone/téléphone (613) 230-2201

[www.chfc.coop](http://www.chfc.coop) [www.fhcc.coop](http://www.fhcc.coop)

## **Briefing Note: Co-operative Housing Programs Administration Agency**

### **Issue Summary**

Nine years after the first proposal to transfer responsibility for CMHC's co-operative housing programs to a non-governmental agency was tabled and nearly a year after the government announced publicly that it would proceed, there is still no signed agreement between the new agency and CMHC. Detailed budgets and the business case for the agency were submitted a year ago and agreements reached on the agency's scope of service, authority, governance arrangements and accountability framework finalized before that. A draft service agreement between the agency and CMHC is in front of CMHC now.

### **Background**

#### **A decision eight years in the making**

In 1996, CHF Canada presented a proposal to the Minister Responsible for CMHC that would see significant responsibility for administration of the federal government's legacy co-operative housing programs<sup>1</sup> move from CMHC to a non-profit agency located within the co-operative housing sector but operating at arm's length from CHF Canada. The proposal was conceived as an alternative to devolution of the programs to provincial or territorial control. Proponents of the agency argued that a new, risk-based approach to managing the programs, stressing effective information management and client-centred service, would deliver incremental benefits in the programs' cost-effectiveness and minimize losses to the federal co-operative housing portfolio from project failures.

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<sup>1</sup> CMHC delivered three co-operative housing programs from 1973 to 1991. The programs entailed long-term financing and government assistance, provided within the framework of project operating agreements having terms of from 30 to 50 years.

Affected housing co-operatives and members of Parliament alike expressed strong support for the agency alternative. Nonetheless, over 1997 and 1998, CMHC signed social housing agreements with the territories and several provinces and just over 10% of the co-op portfolio was devolved. In 1999, the Minister Responsible for CMHC halted further transfers. A year later he struck a working group to examine the agency proposal in detail. The group undertook a thorough study, completing its work in early 2002. Detailed talks between CMHC and CHF Canada followed and at the end of that year a new minister agreed to proceed with the agency, asking CMHC and CHF Canada to work out the remaining issues and conclude a first agreement. Over the course of 2003, CMHC and CHF Canada negotiated the business deal, coming to terms on

- the benefits expected from the agency arrangement;
- the agency's scope of services and authority;
- a comprehensive governance and accountability framework for the agency.

Detailed start-up, capital and operating budgets were produced in early 2004 and the final business case for the agency was submitted to the minister and the board of directors of CMHC. The business case concluded that improvements in the performance of the programs over the agency's expected 23-year lifetime would more than repay the cost of transferring the business.

Another new minister expressed his support for the agency and the board of CMHC approved a plan for the transfer of responsibility in three phases. A public announcement of the decision to proceed was made on May 13 and the agency incorporated on July 28. A highly qualified board of directors, led by Mr. Ray Hession, a former president of CMHC and federal deputy minister, was charged with overseeing the agency's development and operation. The board has worked diligently to put the required policies and processes in place to ensure the agency's effective governance and management, while CHF Canada has attended to the necessary operational planning, including finalizing the development of the agency's methods for managing the financial risks associated with the programs and designing a robust information system to support the agency's mandate.

**Eleven months on, talks with CMHC have not produced an agreement.**

Eleven months after the public announcement, CMHC has yet to execute the intended service agreement with the agency or even the start-up services agreement with CHF Canada. (The start-up work has proceeded nonetheless, at CHF Canada's risk and expense.)

The sources of delay are several:

- **There is no deadline.** In the absence of any deadlines or even target dates for achievement of an agreement and transfer of the first service to the agency, talks on key subjects, such as the indicators by which the agency's performance is to be judged, have proceeded in a dilatory fashion, failing to date to produce results.
- **CMHC has taken a compliance rather than a governance approach.** Instead of placing its confidence in the board appointed to govern the agency and holding it accountable, CMHC is itself scrutinizing everything in great detail, insisting that no agreement may be signed until it is satisfied with the business tools and processes the agency will adopt.
- **There is a lack of commitment to past decisions.** The business deal was hammered out over 2003 and early 2004, when the agency's scope of service, authority, governance and accountability framework and budget were documented.<sup>2</sup> Although it has not so far proposed changes to those agreements, CMHC is saying that the deal has yet to be struck.
- **There appears not to be a firm commitment to proceed.** CMHC continues to erect new hurdles the agency must jump before an agreement may be executed. It has delayed accepting the risk-rating model presented to it long ago and elaborated in detail through research undertaken from 2002 to 2004, only lately proposing that more research, following a different line of enquiry, be conducted.
- **There is a lack of acceptance that adopting new methods means change.** The agency model was accepted on the strength of the new methods proposed for managing the programs. As work proceeds to put in place the agency's working tools—a new risk-rating model, revamped reporting requirements for co-operatives and modern program guidelines—CMHC is insisting that the old ways be incorporated into the new.

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<sup>2</sup> The scope of service document was revised last summer to reflect the phased migration of services to the agency and the budgets have lately been updated.

- **CMHC has provided no funding to date for the agency start-up.** Although its financial exposure before the agency service agreement is signed is limited to \$500,000, CMHC has insisted on putting in place a complex agreement, now running to 25 pages, for the agency start-up work to be undertaken by CHF Canada. Seven months on the start-up agreement remains unsigned.

### **Action Requested**

Notwithstanding years of study, the strong support of five different ministers responsible for CMHC, a decision by the CMHC board to proceed and a public announcement, the date the agency will open its doors is still not known. CHF Canada is asking for the minister's support in setting an early deadline for execution of the CMHC-Agency agreement. A draft agreement is in front of CMHC now. With the will of both parties, the agreement could be ready for signing within three weeks.