
Update on Prior Years' Report Items

In 2004, the Commission adopted a new basis of accounting for investment gains and losses and the carrying value of investments. The funded ratio at 31 December 2004 under the old basis of accounting would have been 82.9%. The change in accounting policy does not affect the revised funding target of 2015.

The Commission indicated that it would be premature at this time to predict where its financial position will be at the end of 2006. The financial position of the Commission will very likely be impacted, in the short-term, by recommendations of the soon to be announced Statutory Review Committee. In addition, the adoption of market value accounting for investments means that the Commission's results will be more volatile as they are subject to the full impact of actual market returns over time. As the Commission indicated in its previous update, the Commission's ability to achieve its funding target is dependent on the continued support and participation of all stakeholders in improving the workers' compensation system in the Province.

The Commission also indicated that it will be developing a new strategic plan in 2006 that will identify new financial and operational targets. The new plan will incorporate the financial obligations arising from the Statutory Review Committee recommendations accepted by Government.

3.2.18 Newfoundland and Labrador Housing Corporation Non-Profit Rental Social Housing Units (2003 Annual Report, Part 2.32)

Introduction

In 2003, we performed a review of the Non-Profit Rental Social Housing Program of the Newfoundland and Labrador Housing Corporation. The objectives of the review were to assess whether the Corporation:

- monitored the condition of the non-profit rental social housing portfolio;
 - determined and carried out an appropriate maintenance program;
 - had addressed the long-term capital needs for the non-profit rental social housing portfolio, including required expenditures, planned expenditures, funding sources for the planned expenditures and capital work priorities; and
 - had addressed the current demand for housing.
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Conclusions from our 2003 review

As a result of our review, we concluded the following:

- The Corporation's non-profit rental social housing units were in need of significant repairs. At 31 January 2003, 3,004 (52%) of the Corporation's 5,756 non-profit rental social housing units were in excess of 25 years old. In 2001, the Corporation prepared a preliminary cost estimate totaling \$76.7 million relating to modernization and improvements of these units. Although the Corporation was undertaking a detailed review of each building to determine a more accurate cost estimate and when the funding will be required, at 31 January 2003, 66% of the buildings had not been reviewed. As a result of the reviews completed, the Corporation had identified that in excess of \$29 million would need to be spent on these properties. The Corporation had also determined that, of this \$29 million, \$13 million was rated as critical and in need of immediate attention. While Corporation officials had discussed funding requirements with the Provincial Government, no source was identified to fund the required repairs.
- The Corporation did not have a preventative maintenance program in place to identify and correct deficiencies before they become larger problems. The Corporation had a budget for repairs and maintenance which annually averages \$8.2 million; however, the majority of maintenance work was directed to critical repairs on a day-to-day basis.
- The Corporation did not have a complete long-term plan in place which addresses the nature, amount, timing and funding source of future capital expenditures. Furthermore, although the Corporation did have a budget for modernization and improvements averaging \$3.6 million per year, based on the information that the Corporation had gathered relating to required capital costs, this funding was considered to be inadequate.
- The Corporation had indicated that it was experiencing a high demand for one and two bedroom units while the need for four and five bedroom units had declined. This demand is the result of demographic changes such as an aging population, more single parents and fewer children per household. As a result, vacancies in four and five bedroom units were becoming increasingly difficult to fill without over-housing the prospective tenants. At 11 December 2002, 2,026 units or 35% of the 5,756 rental units were occupied by families smaller than the unit's capacity.

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Update

In October 2005, we contacted the Corporation requesting an update as to any further progress on implementing our recommendations. The information provided by the Corporation in response to our request is outlined below.

2003 Recommendation

The Corporation should complete detailed condition reports on all of its non-profit rental social housing units to develop a long-term capital plan which outlines the nature, amount, time and source of funding.

Action Taken

The Corporation indicated that as of the end of October 2005, condition reports have been completed on 68% of the portfolio. Efforts are continuing on dedicating more resources towards this process and the Corporation is investigating implementation of hand-held computer technology to make the data gathering and entry more efficient. The Corporation has set this activity as a key strategic issue in its Strategic Plan and the current objectives are to have 85% of the portfolio inspected by March 2007 and 100% of the portfolio completed by March 2008.

The Corporation also indicated the financial restraints related to funding a long-term capital plan continue to be challenge. The Corporation realizes this is a priority area and is taking advantage of all funding opportunities which arise, such as the Phase I Affordable Housing Agreement which will allow the Corporation to direct \$8.0 million over a four year period to modernize a portion of its portfolio.

2003 Recommendation

The Corporation should implement a preventative maintenance program.

Action Taken

The Corporation indicated that an internal review of preventative maintenance was completed in January 2005. This review revealed that a significant amount of preventative work is being done in all regions. The Regional Offices have now been instructed to record and track all preventative maintenance expenditures in the appropriate work category of the Corporate Financial Systems. The Corporation's goal is to

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implement a formalized preventative maintenance program by March, 2007 with the direction of a newly formed Facilities Management Group.

2003 Recommendation

The Corporation should develop a long-term housing accommodation plan to address the effect of demographic changes.

Action Taken

The Corporation indicated that it agrees that under ideal conditions, unit and family size should be a compatible match. The Corporation, however, also feels that this match should be made in a fiscally responsible manner. To that end, as a part of its operational planning cycle for 2004-05 and 2005-06, the Corporation has emphasized the reduction of over housing in the non-profit rental social housing portfolio. The initiative focuses on opportunities arising from the normal movement of tenants into and out of the portfolio. The movement of “empty nesters” to one bedroom rent supplement units is being encouraged on a regional basis and in particular in those regions that have significant demand for two bedroom units. Unfortunately, the present demographic trend and indeed the Corporation's waiting list indicates very little demand in all parts of the Province for units with more than two bedrooms of which the Corporation has many.

The Corporation also indicated that in the past, the costs associated with the redesign and renovation of larger housing units to make them into smaller units have prevented the Corporation from undertaking any such projects. In September 2005, the Corporation began a major pilot retrofit on a vacant building located on Froude Avenue in St. John's. The project will result in eight three-bedroom units being redeveloped into eight energy efficient two-bedroom units, four of which will be handicapped accessible. The creation of the two-bedroom dwellings, as well as the fully accessible ground floor units, will address the two greatest needs indicated by current applicant and tenant demographics. Funding for this conversion is being provided under the Canada-Newfoundland Affordable Housing Agreement (Phase 1).

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Finally, the Corporation indicated that in the fall of 2005 it was asked by the federal government (CMHC) to prepare a list of priority projects which may qualify for funding from a potential federal government budget surplus. The \$12.3 million list prepared by the Corporation focuses on projects that would address priority needs indicated by current demographics, such as seniors, persons with disabilities and/or requiring supportive services.

Department of Innovation, Trade and Rural Development

3.2.19 Strategic Enterprise Development Fund (2003 Annual Report, Part 2.27)

Introduction

In our 2003 report, we provided an update on an equity investment in CHC Composites Inc. that was part of a 1999 report on the Strategic Enterprise Development Fund. When we first reviewed this transaction in 1999, we found that:

- Although the former Department of Development and Rural Renewal, through Enterprise Newfoundland and Labrador Corporation, was responsible for the disbursement of the funds, it had very little to do with the assessment, approval and monitoring of the project. Instead, the Department of Finance was responsible for monitoring of this investment.
 - It was evident from our review that the project was pre-approved before the Board of Enterprise Newfoundland and Labrador Corporation or either of the departments became involved.
 - The approval of this investment was not subject to the policies and procedures established for other equity investments. Thorough assessments were not performed, verification of business plan assertions was limited, and monitoring was inadequate.
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