



Chief Review Services

DND
ACCOMMODATION/HOUSING ISSUES
And
CANADIAN FORCES HOUSING AGENCY
(CFHA)

May 2001

7053-50 (CRS)



SYNOPSIS

This report presents the results of a strategic-level review of mandate and governance issues affecting the Canadian Forces Housing Agency (CFHA). The review was conducted in response to a request for independent advice to assist management decision-making. The Deputy Minister and Chief of the Defence Staff have subsequently directed actions to ensure progress toward establishing the CFHA as a departmental Special Operating Agency.

The principal observations of the independent review pertain to the need for the following:

- a) articulation and communication of a vision for the accommodation of Canadian Forces members and their families;*
- b) definition and confirmation of current and forecast housing;*
- c) formulation of innovative delivery strategies; and*
- d) implementation of oversight mechanisms as well as clarification of the accountability regime relative to the CFHA.*

The recommended way ahead reflects the view that, in the longer term, the DND/CF should extract itself from owning, operating and maintaining a large inventory of housing. This does not preclude the DND/CF having direct control over a limited amount of housing as a demonstrated operational requirement.

A draft report on this review was distributed to members of the Defence Management Committee in February 2001. Subsequently, the Assistant Deputy Ministers with respective responsibilities for Military Human Resource Management (ADM(HR-Mil)) and the Canadian Forces Housing Agency (ADM(IE)), provided a coordinated response to the draft. This response stressed the importance of: a DND Accommodation Vision which includes a clear statement of goals and objectives; a similarly clear delineation of agreed authorities, roles and responsibilities relative to those involved in achieving the stated goals and objectives; and, recognition that there would be costs associated with transition. Additionally, the Chief of the Land Staff (CLS) cited a paper prepared by his organization stating a strong preference for reliance on the private sector to eventually meet all accommodation needs of CF members.

As part of their annual review of business plans, the Deputy Minister and Chief of the Defence Staff issued direction in March 2001, requiring that the following actions be taken to ensure that issues facing the CFHA move forward in the current fiscal year:

- a) early reconstitution of the CFHA Management Advisory Board (MAB) with membership to include a senior realty expert from the private sector;*

- b) *strengthening of the Board's mandate, particularly with respect to strategic long-term military housing planning and the transitioning of DND/CF housing to the private sector "as aggressively as practicable";*
- c) *the MAB proceeding with finalization of the CFHA policy framework to facilitate the attainment of status as a Special Operating Agency (SOA); and*
- d) *by the end of the calendar year, preparation of a submission to establish the CFHA as a full departmental SOA. (This independent review report is to be taken into account in this respect).*

Note: This strategic level review was conducted with sufficient rigour and objectivity that there can be reasonable confidence in the reported conclusions and advice. The principal intent was to provide objective input into the decision-making process. However, the matters addressed were not subject to the rigorous tests and validation as would be associated with an internal audit.

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DND ACCOMMODATION/HOUSING ISSUES AND CANADIAN FORCES HOUSING AGENCY – FINAL MAY 2001

BACKGROUND

1. In 1994, the Office of the Auditor General's audit of Infrastructure Management expressed concerns with respect to married quarters, including fragmented management, the lack of a developed rationale for requirements, deferred maintenance, significant operating losses and deficiencies in information for decision-making. DND responded that an initiative had begun to create a special operating agency (SOA) to improve the management of married quarters.

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xxxx Subsequently, the Canadian Forces Housing Agency (CFHA) was created as a provisional agency. It was anticipated that DND would seek full agency status in 1996; outstanding issues to be resolved included mandate, objectives and authority delegations. Full responsibility for the management of Permanent Married Quarters was transferred to CFHA by 1997.

3. xx. Several factors have complicated this process, not the least of which include the need to develop attendant policy, a current statement of mandate as well as agreed, and appropriately substantiated, requirements. Also pertinent have been the deliberations of SCONDVA, recommendations regarding Quality of Life, and the development of a Health, Safety and Security Program (HSS) to bring DND-owned housing up to minimum standards. The HSS is being managed by the CFHA.

4. The Defence Management Committee requested an examination of the CFHA mandate.

CRS ROLE

5. CRS was requested to provide independent advice on mandate and governance matters affecting the CFHA. This report conveys the requested advice, as input to senior management, and giving attention to the strategic issues requiring resolution in order to advance the CF accommodation and housing portfolio. Our observations and advice pertain directly to the current initiative to finalize a CFHA mandate. Suggestions are also offered on how best to move forward. A separate report will capture the results of a CRS review of the HSS Program.

SITUATION APPRAISAL

6. The CFHA has faced considerable obstacles limiting its capacity to implement its current mandate to ensure access to suitable and affordable military housing on a financially self-sustainable basis. The term “suitable” has yet to be interpreted into a clear standard, and the CFHA is a landlord offering under-sized and under-maintained assets requiring short-term fixes and long-term investment strategies. Factors contributing to “affordability” (e.g., member compensation and rental rates) are largely outside of DND/CF control. Financial self-sustainability, while an important stretch goal, has not proven viable under conditions

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characterized by major expenditures to meet minimum health and safety standards, a requirement for capital investment, and rental revenues adversely affected by low appraisal values.

7. This is not to deny the progress made on the housing agenda. Significant accomplishments have been achieved with respect to the development of an Accommodation Policy, the perspectives offered by a broader Quality-of-Life view of housing issues, implementation of the HSS Program and the approval of the Post-Living Differential. However, there continue to be important questions warranting concerted attention. These involve a strategic vision, elaboration of policy, definition of current and forecast requirements, innovation in delivery strategies, change management strategies and governance/oversight mechanisms.

8. Accommodation Vision. The rationale for Crown-owned housing must be critically examined in the contemporary context. DND/CF accommodation policy states that housing is provided only when the private sector cannot do so. Quality of Life studies have indicated that seventy percent of members now live in private accommodation. This may be an expression of preference, or a reflection of the poor condition of Crown-owned housing. However, a clearly articulated vision will be required to address a continuing view, held by some, that the military community must be physically demonstrated through enclaves of housing and services. There is also a strong view that certain operational/contingency and transitional requirements warrant the retention of at least a limited inventory of Crown-controlled housing. Diverging views and tensions persist on the social and cultural dimensions. This has affected CFHA's capacity to understand and serve the needs of its clientele.

9. Accommodation Requirements. The DND/CF accommodation requirements, and the implications for housing demand (units, type and location), have not been sufficiently defined, substantiated and projected. Accordingly, there is little basis for the CFHA to gauge priorities and to guide investment strategies.

10. Delivery Strategies. The Accommodation Policy indicates that, in assessing the need for Crown-owned housing, the DND/CF will adhere to the principle of "filling the gap" between CF demand and private-sector supply. Key to defining this "gap", is an appreciation of the capacity of the private-sector to respond to changing demand. To date, CFHA Requirements Studies have taken a snapshot of private-sector housing availability/supply in various regions. However, these studies have not evaluated the capacity of the private sector to respond to demand stimuli, including a variety of possible Crown interventions. DND/CF efforts have been concentrated on operating/maintaining the existing housing inventory and not on proactively examining cost-effective private-sector involvement in meeting demand. New investment in the construction of Crown-owned housing is likely to cause concerns over the legitimacy of the requirement, the relevance of the CF owning housing on a national scale, and its affordability. More reliance on innovative engagement of the private-sector to supply accommodation/housing, offers opportunities to ease the financial and managerial burden on the Crown, in addition to leveraging a larger resource base to serve CF members.

11. Agency Self-Sufficiency. The Agency's current mandate contains vague wording on the notion of self-sustainability based solely on income derived from rental revenue. This is a worthy objective, however, neither the basis for financial self-sufficiency, nor the viability of the

basic tenet have been assessed. Rental revenue is affected by a number of variables, such as the poor condition of Crown-owned housing and the rental ceilings and abatements that will apply in given circumstances. Further, there are major capital investments required to bring current housing inventories to reasonable standards. CFHA estimates that it would cost \$700M to bring 10,000 PMQs (of the existing 19,000) to Health, Safety and Security standards. Earlier commitments that the Agency would become self-sustaining by 1997/98 did not anticipate current circumstances. Clearly, rental revenue will not cover expenditures associated with HSS and any necessary major renovations/renewal. Additionally, new funding would be required for any new construction plans. Finally, a funding formula based predominantly on rental revenue would bias delivery strategies against utilization of a full spectrum of alternatives for directly engaging the private sector or otherwise affecting demand through member compensation/allowances.

12. Summary. We have concluded that there are a number of fundamental premises that must be decided/clarified in order to establish a basis for successful functioning of the CF Housing Agency. These are discussed below. Also presented is a proposed Way Ahead.

STRATEGIC ISSUES REQUIRING RESOLUTION

13. Before a decision is made on a CFHA mandate, we believe that several questions that shape the housing/accommodation delivery solution must be addressed, as follows:

- a. Is there a Continued Requirement for Physically-Defined Military Community? DND has operated and maintained housing “enclaves” for 40 years, but the rationale needs to be re-visited in today’s marketplace as well as within the context of Strategy 2020. Are there reasons for owning, maintaining and operating DND housing, other than providing accommodations where the private sector cannot? For a segment of the military population, is “physically defined” military housing within a military community considered to be part of the social/family support system and a quality of life issue? The existing DND accommodation policy is not clear with respect to whether “physically defined military housing” is required. The impacts of reducing Crown housing inventories need to be understood and factored into an integrated quality of life package.
- b. What is the Continued Justification for Crown-Owned Housing? Given the proximity of most major bases to large urban housing areas, and the Post-Living Differential to compensate members in high cost-of-living areas, it can be argued that Crown-owned housing should be the exception. The private sector may be capable of providing housing for the majority of regions in the country, but needs to be engaged to assist DND in planning and developing acceptable solutions. The risks of placing more emphasis on the private sector should also be realistically assessed.
- c. How Affordable and Economically Sustainable is DND/Crown-Owned Housing? DND is asset rich but cash poor. DND-owned houses are small and require

expensive upgrades and municipal infrastructure improvements. Rental revenues are sufficient to cover day-to-day operating expenses, but are not sufficient to cover the necessary capital upgrades/replacements to sustain Crown-owned housing. Ensuring contemporary accommodations for members in Crown housing likely requires a costly capital investment plan, estimated by PMO QOL to be in excess of \$800M (excluding additional costs for municipal services and single quarters). Revenue from the sale of Crown real property to help finance construction is often problematic. A realistic assessment of the requirement for owning housing and the likelihood of a source of funding would be beneficial. To relieve this financial burden, innovative solutions for accommodation will be required, including increased use of the private sector in financing and providing housing.

- d. How does the Accommodation Vision affect the Delivery Structure and the development of the CFHA Mandate? The DND/CF has not articulated an accommodation vision. Accordingly, it is problematic to define appropriate delivery structures, processes, authorities and accountabilities. If the long-term vision foresees a very limited inventory of Crown-owned housing, the CFHA mandate may be short-term/transitional in nature and warranting further study in three years time.
- e. What is the Accountability Regime for DND Military Accommodation and Housing? The accountability regime for the CFHA has been unclear. This is understandable given the uncertainties, and changing environment, relative to its mandate and ultimate objectives. Accordingly, reporting relationships have been ill-defined and meaningful performance measures have not been developed. Operating agencies are intended to function as the delivery arm for the agency owner who sets, or endorses, policy, requirements and strategic direction. Normally, the agency would be relatively autonomous in terms of day-to-day operations and the observance of business principles. However, there has been confusion from the outset as to what DND/CF organization is the Agency owner.

CRS ADVICE ON THE WAY AHEAD

14. Our advice on the *Way Ahead* reflects on the criticality of a long-term vision for Accommodation and a strategy for realizing that vision. It also reflects a view that, in the long-term, the DND/CF should extract itself from owning, operating and maintaining a large inventory of Crown-owned housing. It would become the exception that the DND/CF would own housing, and perhaps the even greater exception that it would directly operate and maintain housing. This does not preclude the requirement for the DND/CF to have a limited amount of housing that may or may not be owned by the Crown, but would be available as a demonstrated operational requirement. We recognize that this approach is not without risk. However, it does recognize the central role of Quality of Life considerations, the need to reduce support costs, and the advantages of maintaining a flexible response to accommodation requirements.

15. The Way Ahead Steps include:
- a. Communicating a DND Long-Term Accommodation Vision.
 - b. Creating a DND/CF Accommodation and Housing Management Board charged with accomplishing the vision, including responsibility for:
 - (1) Strategic long-term accommodation (demand) and housing (supply) planning,
 - (2) Transitioning housing inventories and solutions to the private sector,
 - (3) Capital investment decisions related to new/existing housing, and disposals/revenue, and
 - (4) Communications with the military community.
 - c. The Board to include as members, ADM(IE), ADM(HR-Mil), an ECS representative, and a senior/expert private-sector realty advisor. It should be directly supported by a project management office (PMO) to help plan and effect the transition. Reporting directly to the Board, this PMO would, ideally, reside outside of the Agency. At a minimum, however, it should be a distinct group within the CFHA, having access to the Board which would set/endorse the vision, change agenda and associated milestones.
 - d. ADM(HR-Mil) to recommend to the Board, the number and type of military accommodation requirements, by region and year, taking into consideration defined standards and longer-term Force structure changes/planning assumptions.
 - e. Identifying and targeting, by the Board, the locations where the private sector can supply housing, in a time-sequenced manner. In the short-term (1-2 years), all current DND housing areas adjacent to large metropolitan areas would be targeted and negotiations commenced with private sector developers to replace/buy etc. In the medium-term (3-5 years), medium sized communities should be targeted. In the longer term, more isolated locations should be investigated for appropriate private/public sector solutions.
 - f. ADM (HR Mil) to identify options for providing additional private housing ownership incentives to members, examining them from a cost perspective, and reporting to the Board.

- g. A DND/private sector Working Group (WG) to be established within the project management office, and assisted by private sector realty experts. This WG should report to the Board on options for private-sector involvement in providing the necessary housing supply at the various DND locations across Canada, each location to be studied on its own merits. Recommendations on disposal/sale of DND housing/real property and any net Crown funding requirements or revenues should also be reported to the Board.
- h. Tasking the project management office to identify and analyze the various options for the provision of real estate service delivery to military members (not to be confused with operating and maintaining housing). The merits of various accommodation service delivery options, including the provision of a single window for various accommodation and relocation services (e.g., search, rent/buy transactions, removal), should be presented to the Board.
- i. Development, by CFHA with ADM(IE) assistance, of housing condition assessments, suitability analyses and financial analyses of the housing and related infrastructure assets, to include by each site location:
 - (1) Size, age, and condition of assets,
 - (2) Estimated remaining economic life,
 - (3) Required maintenance and capital costs to upgrade assets to health and safety standards,
 - (4) Required capital costs to upgrade assets to DND contemporary accommodation standards,
 - (5) Projected future annual costs to maintain & repair housing units,
 - (6) Projected future annual costs to maintain & repair municipal services,
 - (7) Projected future annual PILT,
 - (8) Projected future annual CFHA overhead costs to manage housing,
 - (9) Estimated construction replacement cost for housing and infrastructure,
 - (10) Market value of property, and
 - (11) Disposal costs.
- j. Continuing with CFHA's existing operator/maintainer role over the next 1-2 years, or until the results of above have been agreed to and a strategic vision and Long-Term Plan are put in place. CFHA housing maintenance should be

limited to essential Health, Safety and Security requirements, as per provincial code. Demolition of existing surplus houses should continue according to a demolition plan as approved by the Management Board. Decisions concerning the sale of property and infrastructure should be considered only in conjunction with the development of a DND Real Property Housing Strategy.

- k. No formal revisions should be made to the CFHA mandate at this time. Rather, the Board should re-visit/investigate options for amendment of the CFHA mandate in two to three years time. Over time, and with increased private sector participation in the delivery of CF accommodation requirements, the workload for the CFHA, in its present form, will decrease. These options could include, but are not limited to, the following: operating and maintaining single quarters; one-stop real estate and relocation assistance to members, or dissolution of the CFHA entirely.
- l. The Board to ensure formulation of change management plans and ongoing communication with CFHA employees regarding strategies, their involvement, the potential impacts on them and measures to mitigate any negative impacts. As the change mandate evolves, and the mandate of the CFHA is affected, it will also be necessary to re-assess the reporting relationship of the Agency and its head.

MANAGEMENT RESPONSE

16. The ADM(HR-Mil) and ADM(IE) coordinated response (300000067-6-0 (Accn TL PMO QOL) 12 April 2001) was as follows:

- a. Accommodation Vision. ADM(HR-Mil) is in the process of developing Accommodation 2020, an accommodation vision to complement Defence Strategy 2020. It will be tabled with AFC/DMC prior to June 2001. There must be recognition that for the vision to be achieved, adequate resourcing will be critical.
- b. Accommodation Requirements. Housing requirements studies have provided a sound assessment of current CF need. It is agreed that these studies are insufficient for project approval purposes. There is still work to be done on housing requirement forecasts and program development.
- c. Delivery Strategies. It is agreed there is a need to better understand the private sector marketplace and financial and regulatory factors that impact on the private sector providing rental housing. The legitimacy of any future Crown intervention including the provision of Crown housing will be addressed by the transparency of the need assessment, the option analysis and the associated business case. There needs to be a general agreement about the level of need that is not being met by the private market and the goals and objectives of the Accommodation policy before we can reasonably explore and evaluate alternative forms of intervention.

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- l. PMO identify and analyse options for provision of single-window real estate service delivery to members. This analysis can be undertaken within the existing matrix of PMO QOL, CFHA and DCBA.
- m. Complete comprehensive housing asset assessment. Work is underway.
- n. Continue CFHA operator/maintainer role over next two years or until results of Strategic vision and Long-term Plan in place. The Board to ensure formulation of change management plans and communication with CFHA employees and military members.
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EXECUTIVE DIRECTION

17. The DM/CDS issued the following direction in March 2001 as part of the Business Planning approval process. "It is essential that we move forward on the issues facing CFHA this year. The following actions, inter alia, are required:

- a. Early reconstitution of the CFHA Management Advisory Board (MAB) with membership to include ADM(IE), ADM(HR), one or more ECS representatives and a senior realty expert from the private sector. The Board's mandate is to be strengthened, particularly with respect to responsibility for strategic long-term military housing planning and transitioning DND/CF housing to the private sector as aggressively as practicable.
- b. Under ADM(HR-Mil) leadership and with ADM(IE) support, the CFHA MAB is to proceed with the finalization of the CFHA policy framework to facilitate the attainment of status as a Special Operating Agency (SOA).
- c. XX
XX. It is essential that the CRS report on CFHA be taken into account in this regard."

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