



Chief Review Services

SURVEY OF PROGRESS AND  
MANAGEMENT PRACTICES

CANADIAN FORCES HOUSING AGENCY  
HEALTH, SAFETY AND  
SECURITY REPAIR PROGRAM

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## **SYNOPSIS**

*This report presents the results of an independent survey of progress and management practices relative to the Health, Safety, Security and Repair Program (HSSRP) being undertaken by the Canadian Forces Housing Agency (CFHA). The Program is intended to address essential maintenance work required for Defence Married Quarters. It was substantially driven by Quality of Life and safety issues. The study was performed by KPMG, under contract with the DND Chief Review Services.*

*The study found that delivery mechanisms for the Repair Program were functioning well and that a good deal of progress had been made over the past four years. Repair costs were found to be reasonably in line with Canadian averages. At the same time, and consistent with industry practice, a recommendation was made that significant investments in the maintenance/repair of individual housing units be tracked. At the time of the study, there were about 18,000 housing units in the CFHA inventory.*

*The most pressing concern raised by the study is that there are risks associated with the major expenditures of the Program and the uncertainties as to the future size of the housing inventory. The DND/CF has, for example, expressed a preference for ensuring that the private sector be engaged in the provision of housing. In view of difficulties in forecasting the end state of the inventory of Crown-owned housing, and the \$591M which may ultimately be expended on the HSSRP (not including the regular routine maintenance costs), this study has recommended additional oversight of the Program's planning assumptions and progress.*

*Through the business planning process for fiscal year 2002/03, the Deputy Minister and Chief of the Defence Staff referred to a Rationalization Framework developed by the CFHA and directed that all potential alternatives be examined to provide affordable accommodation options.*

*The DND/CF Accommodation Board, co-chaired by the ADM (Human Resources – Military) and the ADM (Infrastructure and Environment), is giving attention to governance and planning issues with respect to CF housing. A meeting of the Board was convened in January 2003 and included attendance of the three Environmental Chiefs of Staff. The Board recognized the need to put more clarity around a contemporary view and definition of the "Military Community", including attention to operational requirements for military housing. This will assist work to finalize a Housing Rationalization Framework and to complete site-by-site assessments of housing solutions across the country. These assessments will include attention to opportunities for private sector participation in the delivery of these solutions. This is also expected to ensure the availability of a longer-term frame of reference to guide investment decisions, including any further major outlays for the HRRSP.*

*ADM(IE) has also indicated that the current development of a planned maintenance module of the Housing Management System, scheduled for completion in 2004/05, will allow rapid and accessible unit-specific identification and planning.*

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## **BACKGROUND**

1. DND/CF owns approximately 18,000 houses across Canada. These houses are used primarily as married quarters (MQs) to accommodate military families. Over the past 50 years the overall condition of this housing portfolio has deteriorated.
2. As a response to the Standing Committee on National Defence and Veterans Affairs (SCONDVA) hearings on CF personnel Quality of Life (QOL), DND established a program to coordinate the implementation of several QOL issues, including initiatives related to accommodation. Starting in 1997, QOL funds were provided to the Canadian Forces Housing Agency (CFHA) to be used to improve the living conditions of occupants. CFHA set as a planning objective to repair and maintain houses nationally to a minimum standard, giving first priority to repairs required to rectify or prevent health, safety and security risks to occupants. Initial expectations were that CFHA could fund resolution of the maintenance legacy using income from housing rentals — this proved to be unrealistic. Hence, supplementary QOL funding was made available for this purpose. CFHA housing repair activities are hereinafter referred to as the Health, Safety and Security Repairs Program (HSSRP).
3. In response to a request from the Chief Executive Officer (CEO) of the CFHA, the Chief Review Services (CRS) engaged KPMG to undertake an independent “survey” of the progress of, and management practices associated with, the HSSRP.

## **PURPOSE**

4. The purpose of the KPMG survey was to determine:
  - a. HSSRP work performed to date, as well as expenditures incurred;
  - b. the repair work remaining and the funding estimated to complete the HSSRP;
  - c. the appropriateness of the management processes/mechanisms in place to achieve the HSSRP objective; and
  - d. accountability for assigned Quality of Life funding.

## **OVERALL ASSESSMENT**

5. The survey found that, after four years of operation (e.g., fiscal years 1998/99 through 2001/02), the CFHA has expended \$219M on essential upgrades to bring approximately 30 per cent of married quarters to a minimum maintenance standard. Upgrades have addressed such requirements as wiring, doors and windows, furnaces, roofs, insulation and siding. Base/local-level management of repair delivery was found to be effective. In view of current estimates, per unit costs will ultimately average about \$4,444 over eight years, a figure which is reasonably in line with the Canadian average.

6. CFHA management practices, with respect to the HSSRP, have been progressively strengthened. A notable area requiring improvement is that maintenance investment decisions and costs are not being identified to specific housing units — rather, they are tracked by expenditure category. This contrasts with practice in other housing agencies (e.g., CMHC).

7. Anticipated total repair costs have been revised upward by approximately \$100M, bringing the total expenditure (actual plus estimated) to over \$591M. If the current ratio of funding is applied, approximately 34 per cent of this total will be funded through rental income, the remaining 66 per cent required/provided annually through incremental departmental allocations. A concern in this respect, however, is that there has not been a stable target end-state for the DND/CF housing portfolio. Directly pertinent is DM/CDS direction that an aggressive transition to private-sector solutions be pursued.

8. In view of the size of the Program, and particularly the risks regarding assumptions as to the future disposition of the portfolio, oversight, progress reporting and approval mechanisms require much greater rigour. The principles applied to major projects delivered through the Defence Management System provide a reasonable benchmark. In the current circumstance, it is difficult to assess the management and accountability framework as sound.

## **FINDINGS**

### **Repair Work Accomplished To-Date**

9. CFHA repair and maintenance activities have focused on necessary repair activities to meet health, safety and security standards, as well as ensuring the integrity of the building structures. The first four years of operation involved essential upgrades, bringing approximately 30 per cent of the married quarter housing portfolio up to a minimum maintenance standard.

10. During the first four years of the HSSRP, repair activities were completed for the following fundamental areas/components:

- a. electrical upgrades - 30.5 per cent of the MQ housing portfolio;
- b. doors and windows - 53.5 and 41.2 per cent of the portfolio, respectively;
- c. furnaces - 28 per cent of the portfolio;
- d. roofs - 27.9 per cent of the portfolio; and
- e. insulation and siding - 30.2 per cent of the portfolio.

11. Total repair costs over this period for all CFHA locations were approximately \$219M, an average of \$55M a year.

## **Repair Work Remaining**

12. CFHA 2000-2001 Business plans estimated that an additional \$271M was needed to complete repairs to meet minimum maintenance standards. CFHA estimated in FY 2001/02 that the requirement had increased to \$372M, the increase being attributed to the maturity and accuracy of the estimate of needs process and a further deterioration of an aging housing portfolio. When the cost for the remaining repairs (\$372M), is added to the costs of repairs completed (\$219M), the total cost of the HSSRP will be \$591M.

13. The average cost per unit for health, safety and security repairs to date is approximately \$12,173. The costs of repair work still required will average \$23,381 per unit over a program delivery period of four years. This brings the total estimated average cost to \$35,554 per unit over eight years, or an average of \$4,444 a unit per year — which compares favourably with a benchmark of \$3,500 per unit for Canada as a whole, which was calculated using Statistics Canada estimates of cost for homeowner and rental dwelling repairs and renovations. The differential can likely be accounted for by the serious state of disrepair of military housing, as assessed by CFHA in 1996.

14. The repairs remaining for the CFHA portfolio will involve a variety of areas including work which is fundamental to bringing the units up to standard — for example, foundation walls and basements, windows and doors, insulation, interior light fixtures, heating systems and floors.

## **CFHA Management Processes to Achieve HSSRP Objectives**

15. Overall, the KPMG assessment found that CFHA is actively and effectively developing its management and administrative mechanisms for financial and management controls and that it is continuing to build and improve its program and service delivery capacities with attention to probity, economy and efficiency.

16. An important feature of the CFHA housing data used for planning and operations is that these data are reported on the basis of a housing component framework, aggregated across housing units. Consequently, it is not readily possible to assess from these data how many individual houses are in fact below standard and how many have been brought up to standard, since the housing components data are not aggregated for individual housing units. It should be noted, however, that the data are available at CFHA for each housing unit, but further CFHA analysis needs to be done in order to evaluate and translate the data into a per cent of compliance to the maintenance standards. The normal practice of other housing agencies (e.g., Canada Mortgage and Housing Corporation, and the various provincial government housing agencies) is to compile their repair statistics based on a unit-by-unit analysis, rather than solely across units by repair component.

## Accountability for Results in QOL Funding Use

17. In March 2001, DM/CDS issued direction for transition of the DND/CF housing to the private sector as aggressively as practicable. As indicated by CFHA, the \$372M estimate still needed for repairs is based on a portfolio reduction from 18,000 housing units to 13,058 housing units over the next five years. This reduction reflects a continuing high level of vacancies (e.g., 4,502 units as at 4 December 2001). However, it is not clear that the currently estimated requirement of 13,058 housing units reflects the above DM/CDS direction and potential for changing housing patterns caused by the Post-Living Differential (PLD) initiative. The MQ end-state has ranged from a low of 8,000 units to a high of 13,058 units. Private sector options have not as yet been defined, and an approved target has not yet been established. This has major implications for the future design and resource requirements of the HSSRP.

18. Despite the expenditures involved (totalling \$591M), the HSSRP has not been subject to the rigour of challenge and oversight as would normally be applied to major programs within the DMS. While we are not necessarily advocating that the full DMS process be engaged, at a minimum, the following elements should be evident:

- a. requirements definition and justification;
- b. statement of project objectives and success/performance measures;
- c. project milestones;
- d. multi-year cash flows and funding sources; and
- e. progress reports to, as well as monitoring and oversight of by, a senior management committee.

19. The degree to which the HSSRP has contributed to better morale and occupant well-being has not been documented. While the HSSRP is making needed improvements to occupant health, safety and security, and to the condition of the portfolio, considerable resources are being devoted to houses without a clear profile of Quality of Life impacts and contemporary housing expectations. The objectives of the HSSRP, and its success criteria, have never been clearly stated.

20. Based on current assumptions, CFHA cannot generate enough revenue from housing operations to sustain the HSSRP. However, DND decisions for the HSSRP funding are made on an annual and incremental basis. This causes some implementation obstacles for CFHA when planning and contracting for repairs.

## RECOMMENDATIONS

21. We recommend that:
- a. ADM(HR-Mil) and ADM(IE), in consultation with DGSP and CEO CFHA, determine the management and accountability requirements for the HSSRP;
  - b. Consistent with the Accommodations Policy, ADM(HR-Mil) and ADM(IE), as chairs of the Accommodation Committee, undertake to ensure the definition of options and plans to effect DM/CDS direction of March 2001 regarding a transition of the housing portfolio to the private sector. Phased targets should be established to enable appropriate adjustments to, and rationale for, the HSSRP and to permit the CFHA to target repair dollars to highest and best use.
  - c. CFHA develop a reporting mechanism that provides profiles of the housing stock using individual houses as a measurement unit, and reporting on each house's state of repair against appropriate minimum housing standards.

## MANAGEMENT ACTION PLAN

22. a. ADM(HR-Mil), the CF Accommodation Authority, will be tabling the issue of Governance at the January 2003 meeting of the Accommodation Board. The intended outcome is clarification of the roles, responsibilities and authorities of all the stakeholders in the Governance Structure. ADM(IE) has responded that this Governance discussion is required and in conjunction with a new Rationalization Plan, should clarify roles and responsibilities of CFHA, and the ongoing management of the HSSRP.
- b. ADM(IE) states that, the Rationalization Plan that is currently under development and being proposed for departmental approval in Spring 2003, addresses the requirement to have an approved long-term strategy related to DND ownership of houses. Expenditure of HSSRP funds can then be linked to those units to be retained, thereby reducing risk to DND. Also, the Rationalization Plan is to fully address the overriding direction to incorporate private sector solutions on a site-by-site business case basis across the country.
- c. ADM(IE) has responded that the current development of a planned maintenance module of the Housing Management System, scheduled for completion in FY 2004-2005, will allow rapid and accessible specific unit identification and planning with respect to long-term requirements.