Transforming the Non-Market Housing System in Ontario

How the Distinctions Between Public Housing and Co-operative Housing Are Breaking Down

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1. Introduction

In Canada, the federal, provincial, and municipal governments, individually and collaboratively, have established polices and programs associated with building and maintaining non-market housing that is affordable for low-income earners. By “non-market,” we mean housing that is neither bought nor sold, but can only be occupied; the households living in them simply pay a charge to the agency that serves as the landlord (the government, a non-profit group, or a co-operative).

Three different models of non-market housing have emerged over the past 50 years—public, co-operative, and non-profit. Recent efforts by the federal and provincial governments to simplify the different policies and programs have transformed the non-market housing system and blurred the distinctive nature of the non-market housing models. Legislative and policy reforms to the non-market housing system have resulted in major changes to co-operative housing, while, at the same time, co-operative housing has started to influence organizational aspects of other non-market housing models. The reforms are not yet complete, but our research, which is based on a sample of non-market housing organizations in Ontario, shows that the blending of the administrative practices is making the co-operative housing model less distinct from the other forms. The line between public and social housing is disappearing, and in the future it may result in only one non-market housing model in Canada.

2. Non-market housing in Canada

The private sector’s inability to provide affordable housing for low-income earners gave rise to the government’s increased role in non-market housing. The advantages of non-market housing over private market rentals include the fact that rents rise only to meet increased operating costs and tenants have secure tenure in good-quality housing at a reasonable charge.

Public housing was the original form of non-market housing. Beginning in the 1940s, the different levels of government began to share responsibility for financing and managing public housing projects of varying scales across Canada. However, by the 1960s, although some smaller public housing projects were considered successful, most larger public housing projects were deemed to be too unwieldy to maintain and too expensive to build. Many public housing projects across North America were characterized as urban ghettos with above-average rates of crime and other social problems.

Governments in both Canada and the United States started to reconsider their commitment to providing non-market housing. The National Housing Act in Canada was amended in 1973 to encourage the production of other forms of non-market housing and to decrease the government’s direct administration in public housing. The new models of non-market housing arose as partnerships between the state and community-based non-profit organizations. The state provided financing and participated in the formulation of different policies,
while the non-profit organizations developed and administered the housing. Since the Second World War, about 600,000 units of non-market housing have been built in Canada, currently representing about 5% of the housing market. About 45% (representing 274,000 households) of all non-market housing in Canada is located in Ontario, which makes that province’s policies and practices influential across the country.

3. Co-operative housing

Many co-operative organizations entered into operating agreements with one level of government or another. The agreement outlined the financial and reporting responsibilities of the individual organizations, and the funding they would receive from the federal government (if built before 1985), provincial government, or municipality. Under these arrangements, co-operative housing projects flourished as vibrant member-controlled communities.

Over the past 30 years, the co-operative housing model has become one of the more successful ways of providing affordable housing for low-income earners. According to the Co-operative Housing Federation of Canada, since 1973, 91,209 co-operative housing units have been built in Canada, with 44,187 (48%) of the units in the province of Ontario.

Beginning in 1973, co-operatives received guaranteed lower mortgage rates from the federal government housing agency, Canada Mortgage Housing Corporation (CMHC). Half of the current co-operatives have been built since 1985, and for those developments, funding normally comes from the provincial government. The finances of these organizations are overseen by the provincial government, and the co-operatives have a voice in decisions that affect their homes and community through the board of directors and through participation in committees that develop the organization’s bylaws. The community meets to reach agreement democratically on decisions that are perceived as being in the members’ best interests.

Co-operatives normally have an income mix, meaning that one household may be receiving a government subsidy while its neighbour may be paying market rent. Members have security of tenure, so they can live in the community as long as they wish, provided that they follow community-established bylaws and pay the community-established charge. Until recently, the tenant selection process was coordinated by the co-operative, in the form of a waiting list for both subsidized and non-subsidized units, and the selection of new members had to be approved by the board of directors.

4. Public housing

The public housing model is significantly different from the co-operative housing model. About 84,000 households currently live in public housing in Ontario and this form of housing is funded, owned, and administered by the government or its designate. The sole source of funding is the rent-geared-to-income subsidy, and any development costs are absorbed within the larger government budget (although some older housing projects continue to receive a form of bridge subsidy from the province, based on original federal commitments to financing the housing projects; these subsidies are primarily used for mortgage costs).

Unlike co-operatives, the scale of public housing developments can vary according to the geographical...
location in the province. For instance, some housing projects in Northern Ontario consist of fewer than 100 units, while some projects in Toronto have more than 1,500 units. Since all residents of public housing projects pay rent according to their income level, there is no income mixing. Tenants are selected from a centralized waiting list, and each family must qualify for the subsidy. In most public housing projects, residents adhere to policies established by managers who are distant from the issues faced by the community.

5. Key differences

While co-operatives have different levels of resident involvement in their decision-making; in public housing the residents normally do not have a direct say in how their community is maintained. The governance of public housing differs from co-operatives in that the board of directors is part of a government agency that administers and manages the public housing stock. All board members are government appointees and are neither independent of the government nor accountable to the residents. Furthermore, residents traditionally had no direct say in the development and management of their community.

Another key difference is the existence of a legislated capital reserve fund for co-operative communities, which allows individual communities to decide on their capital priorities. Provincial co-operatives, however, must follow a list of predetermined priorities. The capital reserve fund comes from various sources, including the bridge subsidy and rents. Because of this fund, co-operatives have been able to keep their properties clean and in good repair. Public housing has no capital reserve fund for individual housing projects and communities must vie for access to funds for capital projects. The property manager and the government’s housing agency ultimately decide what the priorities will be.

Although governments have always controlled the operations of public housing projects, their involvement in co-operative housing was less intrusive and limited to that of funder and overseer. The main relationship between co-operatives and government was that co-operatives were required to submit an annual financial report confirming that all agreements and obligations were being met.

6. Devolution and downloading

In the mid-1990s federal and provincial governments began to reconsider their role in non-market housing. The first major change, in 1993, was the federal government’s withdrawal from the direct financing of non-market housing by downloading responsibility to the provinces.

Then, in Ontario, after the 1995 election that brought the Conservatives to power, the provincial government placed a freeze on building new non-market housing, most of which was co-operative housing, and introduced reforms ostensibly designed to encourage private-sector developers and landlords to build new affordable housing. The private sector failed to respond.

In 1998 the province initiated legislation to transfer responsibility for non-market housing to municipalities. Introduced in 2000, that legislation, known as the Social Housing Reform Act (SHRA), proposed the most far-reaching reforms to occur to housing policy in Canada since the advent of non-market housing. The SHRA effectively removed the provincial government from non-market housing by transferring all responsibilities to municipalities.

According to the provincial government, the objective of the SHRA was to make the non-market housing system more efficient by simplifying the various housing policies and practices. However, the SHRA also changed the funding relationships and the reporting structure for the non-market housing models. The legislation even contained a provision allowing the privatization of the public housing properties under specific conditions.

In January 2001, devolution became a reality and reluctant municipal governments, referred to as service managers, replaced the federal and provincial governments as the primary stakeholders for non-market housing. The SHRA replaced 56 provincial local housing authorities with 47 municipal local housing corporations.

The new corporations operate as agencies of a municipal government, which is the sole shareholder in each corporation. In many cases, these new local housing corporations are part of the same service division overseeing welfare. Additionally, the funding and some administration of co-operatives are now part of the same agency involved in managing public housing.

Each local housing corporation is responsible for creating and implementing new policies and practices within the guidelines of the SHRA. A board of directors appointed by the municipal government oversees the operations of the local housing corporations, and approves the different priorities that can affect the lives of the individual households, including co-operatives. The local housing corporation’s professional management serves as the board’s representatives in the daily operations of the projects.
7. How the models are changing

Because of these legislative changes, the line distinguishing co-operative and public housing is beginning to disappear, and a blending of the models is occurring within certain areas of administration and management.

Contracting out services

The escalating costs associated with managing a housing property, in addition to the increased need for affordable housing in Ontario, has made non-market housing organizations look for innovative ways of dealing with unstable government funding. To reduce costs, a number of services that were previously handled by staff have been contracted out to the private sector, including maintenance, security, property management, and administrative tasks such as rent collection.

While co-operatives have long used this approach, until recently, it was rare in public housing. However, since the devolution of housing to the municipalities, there has been a noticeable increase to the number of functions contracted out by local housing corporations.

Operating and capital revenue

The sources of revenue for non-market housing include rent, the RGI subsidy, and the bridge subsidy. Co-operatives still receive the bridge subsidy, commonly associated with the federal commitments that remained in place until the expiration of the operating agreements. The key change to the sources of revenue is that the municipality is now the primary funder for the non-market housing organizations.

All non-market organizations need money for capital projects such as major maintenance and rehabilitation. This is a particular concern, since many of the properties are more than 30 years old. According to several co-operative communities, the RGI subsidy is stable and is used for the operating budget, but once the current operating agreements expire, the continuation of the bridge subsidy to support capital projects is uncertain. According to a long-time advocate of co-operative housing, “public housing organizations access a central fund for capital improvements and development; co-ops may have to try to access the same source for capital improvements.” The implication is that there will be less money for individual properties. Furthermore, should they have to depend on the same fund as public housing and other non-market housing developments, co-operatives may lose control over capital planning, because the priorities will be governed by the policies of the central fund. In effect, the process that establishes the priorities for housing co-operatives will be similar to that found in public housing.

With the devolution of non-market housing to municipal governments, all non-market housing organizations must adjust their budgeting and reporting practices to continue receiving funding from the municipality. However, since no municipality’s tax base can support the increased costs of the non-market housing system, co-operatives may have to increase the rents or housing changes from non-subsidized units to make up for the shortfall of government funding.

Centralized waiting lists

In 1996 the provincial government mandated a central waiting list (or “co-ordinated access list”) of individuals eligible to receive a subsidy and live in non-market housing. The SHRA stated that each local housing corporation must establish a centralized waiting list of tenants eligible for the rent-gearied-to-income subsidy and apply it to all forms of non-market housing. That is, all non-market housing organizations, including co-operatives, must accept individuals from the same waiting list in order to continue receiving the rent-gearied-to-income subsidy. By forcing the co-operatives to use the centralized waiting list, the responsibility of tenant selection has shifted outside the individual community and the board’s role in member selection has become largely symbolic.

Some co-operatives are considering the option of forgoing future subsidies and opting instead for an increase to units based on market rents. However, this option is not realistic without compromising the principle of

Distinct no more?

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of affordability upon which the housing co-operative movement was founded.

**Establishing market rents**

Public housing projects are 100% low-income and all residents must be eligible to receive a RGI subsidy, thereby making it impossible to have a mixed-income community. One of the changes occurring in public housing has been the adoption of a rent cap, or maximum rent, based on equivalent market units. This means that should a household’s income increase over time, the rent will not exceed market levels. The rent cap is intended to encourage households to remain in the community, even if their income increases. The change in public housing toward allowing mixed-income households is a shift in attitude by the government and makes public housing similar to housing co-operatives, which have always been mixed-income communities. For a variety of reasons, however, many local housing corporations outside of Toronto have not approved rent caps for the projects that they administer.

The rent cap in public housing is based on an annual rent survey conducted by the Canada Mortgage and Housing Corporation (CMHC). In the past, non-market housing organizations determined rents using the immediate neighbourhood as a frame of reference. However, given the increased dependence on revenue from market units, co-operatives are now using the CMHC rent survey as the basis for establishing market rents. The survey is seen as a way of justifying higher rents or housing charges. According to one individual associated with a co-operative, “the CMHC survey often recommends higher rent levels than we are comfortable with. We don’t normally use the CMHC survey, but our need for revenue is growing from year to year.”

**Resident participation**

Resident participation in decision-making in the various non-market housing models ranges from minimal involvement in public housing to full member involvement in co-operatives. Over the past 10 years, many local housing corporations have recognized the benefits of involving residents in decision-making. Although residents are not given the opportunity to be as involved as they would be in co-operative housing, the changes are noticeable. According to one public housing official:

The increases in resident involvement over the past 10 years in the public housing… is a recognition that local resident involvement is the best way to ensure that the communities are well maintained and that the needs of the residents are accounted for. For the public housing residents, the best way to ensure that their needs are addressed is to participate in anything available to them.

**8. Blending of the models**

Housing co-operatives still retain areas of distinctiveness, despite the legislative and policy changes—for example, control over the housing charges for non-subsidized units; control over creating their own by-laws; discretion over the administrative practices such as hiring staff; and capital planning. However, there are two areas where a shift of the co-operative model towards public housing is occurring.

The first is in the bridge subsidy for rehabilitation or capital improvements. At present, most federal and provincial co-operatives have been guaranteed the bridge subsidy because of pre-existing operating agreements. However, once the agreements expire, co-operatives will have to depend on the same funding source as other non-equity housing, because of the limited funds available at the municipal level.

The second area of change in co-operatives is related to the selection of low-income households. Housing co-operatives are expected to use the same central tenant selection list as the other models, thereby forgoing an important area of distinctiveness.

In two other areas, the models are becoming more similar, while retaining some differences. The first is in the practice of contracting out services. While the pattern of contracting out services is uniform, the approval process and the individuals involved differ. For public housing, the board of directors of the local housing corporation and the management of a particular development make the decisions about contracting out, and the residents are not involved. In housing co-operatives, the board of directors consists of residents, which means that the decisions are made in the interest of the community and not just to save money.

A second area of blending is the creation of a new accountability framework, stemming from the Social Housing Reform Act. The new framework has created an expectation that each non-market housing organization (regardless of the type) will report to the local housing corporation and will adhere to its directives and plans. In other words, the legislation has removed some control from each housing organization and has shifted it to the local housing corporation. A variation of this model existed previously for public housing; however, with the Social Housing Reform Act, it now exists for co-operatives as well.
Meanwhile, public housing is shifting in the direction of co-operative housing in two ways. The first is the use of rent caps. The rent cap began in 1992 as a pilot project in Toronto and was intended to encourage a greater mix of residents. Having a mixed-income public housing project is controversial. Many people believe that families should leave once they can afford to. As one official put it: “We are in the business of housing and not of community.” Others feel that mixed-income communities are more stable and effective in housing low-income people.

The second area is resident consultation and participation. Although consulting with residents of public housing on capital priorities has some similarities to the practice of co-operatives, the process is strictly consultative. Furthermore, since the public housing budget is centralized, decisions are made on behalf of the whole housing system, not for an individual community.

Three experimental programs in Toronto suggest that the government intends to increase the participation of residents of public housing and to draw that model even closer to the other forms of non-market housing.

First, in the Metro Toronto Local Housing Corporation, residents of public housing projects may now elect two tenants to the board of directors. With approximately 60,000 residents, the Metro Toronto Local Housing Corporation is the largest in Canada and one of the largest in North America.

The second is community-based budget planning. In this process, residents have some input into establishing capital priorities for all public housing projects.

The third experiment is even bolder and involves the conversion of a public housing project to a tenant-managed co-operative. Atkinson Housing Co-operative (formerly Alexandra Park) differs from other co-operatives in that it remains within the public sector, all of its residents receive a housing subsidy, and its managerial prerogatives are more limited than those of housing co-operatives in general. However, the tenants elect a board of directors that forms the legal governance of the organization.

The Atkinson experiment represents a major shift in the direction of public housing. Although it remains unique in Canada, it is being watched closely as there are indications that the Ontario government would like to introduce the model more widely. Should this occur, there would be minimal difference between the different non-market housing models.

Even if the Atkinson experiment is not replicated in other public housing projects, the blending pattern is still pronounced—government is more tightly regulating the finances of non-market housing organizations and reducing their freedom in decision-making; budgets are being reduced; the income mix is being flattened in co-operatives and enhanced in public housing, leading to greater homogeneity; tenant consultation is increasing in public housing; and external controls are reducing member impact in co-operative housing.

With the exception of the increased tenant consultation in public housing, the changes we have described can be attributed to the neo-conservative agenda of smaller governments offering reduced services, less government involvement in the direct provision of service, and the targeting of government expenditure to the neediest members of society instead of universal programs. Even tenant consultation can be viewed as a way to reduce costs. According to one source, “by converting into a co-operative the government can immediately save about 15% in administration costs.” In other words, even though this experiment can be interpreted as part of a tenant rights tradition, it is viewed as creating efficiencies that are associated with smaller, more efficient government.

Despite contradictory features in the blending pattern found in the non-market housing system in Ontario, the pattern is pronounced and there is reason to believe that the trends will continue.

Acknowledgements

The authors wish to thank the Kahanoff Foundation and the Social Sciences and Humanities Research Council of Canada (file number 842-2000-001) for supporting this research.
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