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Asked by: Adam Arreak Lightstone MLA for Iqaluit-Manirajak

Asked of: Hon. Patterk Netser

Minister responsible for the Nunavut Housing Corporation

Number: 46–5(2) NHC Capital Carry Forward 2019

Date: June 7, 2019

Written Question:

Purpose:

The response to my initial question confirmed that the Nunavut Housing Corporation is in fact sitting on a substantial amount of capital funds which increased from \$74 million in 2016 to \$126 million in 2018.

I do not understand how the Nunavut Housing Corporation continues to carry over millions of dollars in unspent capital funds while Nunavut faces a severe housing shortage. For this reason, I would like to request additional information on the current funding in each capital project.

1. Provide the capital budget appropriated April 1, 2018 for each of the following projects for the 2018-19 fiscal year:

- a. NHC 01 - Fire Damage Replacement - **\$3,900,000**
- b. NHC 02 - Homeownership programs – Nunavut **\$4,000,000**
- c. NHC 05 - Modernization and Improvement/Retrofit – GN Funds (public housing) **\$10,632,000**

- d. NHC 06 - Staff Housing Units **\$5,000,000**
 - e. NHC 09 - Homeownership Programs – Heating Oil Tank Replacement Program **\$500,000**
 - f. NHC 10 - Modernization and Improvement/Retrofit – Staff Housing **\$500,000**
 - g. NHC 11 - Mobile Equipment **\$1,064,000**
 - h. NHC 12 - Senior and Disabled Persons Preventative Maintenance Program **\$116,000**
 - i. NHC 13 - Public Housing Units **\$42,955,000**
 - j. NHC 14 - LHO Workshop, Warehouse & Administrative Offices **\$1,380,000**
2. Provide the capital expenditures incurred during April 1, 2018 to March 31, 2019 for each of the following projects:
- a. NHC 01 - Fire Damage Replacement **\$872,000**
 - b. NHC 02 - Homeownership programs – Nunavut **\$4,126,000**
 - c. NHC 05 - Modernization and Improvement/Retrofit – GN Funds (public housing) **\$17,152,000**
 - d. NHC 06 - Staff Housing Units **\$10,850,000**
 - e. NHC 09 - Homeownership Programs – Heating Oil Tank Replacement Program **\$258,000**
 - f. NHC 10 - Modernization and Improvement/Retrofit – Staff Housing **\$268,000**
 - g. NHC 11 - Mobile Equipment **\$1,110,000**
 - h. NHC 12 - Senior and Disabled Persons Preventative Maintenance Program **\$12,000**
 - i. NHC 13 - Public Housing Units **\$49,991,000**
 - j. NHC 14 - LHO Workshop, Warehouse & Administrative Offices **\$4,915,000**
3. Provide the amount carry forward from March 31, 2019 to April 1, 2019 for each of the following projects:
- a. NHC 01 - Fire Damage Replacement **\$12,913,000**
 - b. NHC 02 - Homeownership programs – Nunavut **\$4,308,000**
 - c. NHC 05 - Modernization and Improvement/Retrofit – GN Funds (public housing) **\$7,685,000**
 - d. NHC 06 - Staff Housing Units **\$8,625,000**
 - e. NHC 09 - Homeownership Programs – Heating Oil Tank Replacement Program **\$483,000**
 - f. NHC 10 - Modernization and Improvement/Retrofit – Staff Housing **\$1,803,000**
 - g. NHC 11 - Mobile Equipment **-(15,000)**
 - h. NHC 12 - Senior and Disabled Persons Preventative Maintenance Program **\$130,000**
 - i. NHC 13 - Public Housing Units **\$68,776,000**
 - j. NHC 14 - LHO Workshop, Warehouse & Administrative Offices **\$2,011,000**

See answers in **bolded above – Detailed answers are found in Table G:*

NHC Response

The Nunavut Housing Corporation (NHC) welcomes this opportunity to explain how its method of capital project delivery often results in funding being carried forward to future years as projects are being completed. It is worth noting from the outset, the level of NHC carry-over is shrinking. This is going to be ongoing trend in coming years barring another unexpected one-time funding announcement in the near future. As Nunavut's largest residential property owner and stewards of approximately 30% of the GN's capital assets the NHC receives substantial funding for capital projects from both the Federal and Nunavut governments. In recent years, the NHC has seen its level of unspent capital funding increase

mainly as a result of overall increased capital funding that has allowed the Corporation to construct much needed new housing across the territory.

Although it may appear that the Corporation is slow to spend capital funding in the context of Nunavut's housing shortage, the NHC has been steadily increasing the supply of housing in both the public and staff housing programs. The NHC aims to complete capital projects in a timely manner while maintaining high standards for the quality of work completed and acting in a fiscally prudent manner.

In fact, the NHC's capital funding carried forward from the 2018-19 fiscal year decreased by over \$19 Million as the Corporation spent more on projects during the year than was provided through new funding. The level of unspent capital funding the NHC maintains from year to year will fluctuate based on three key drivers:

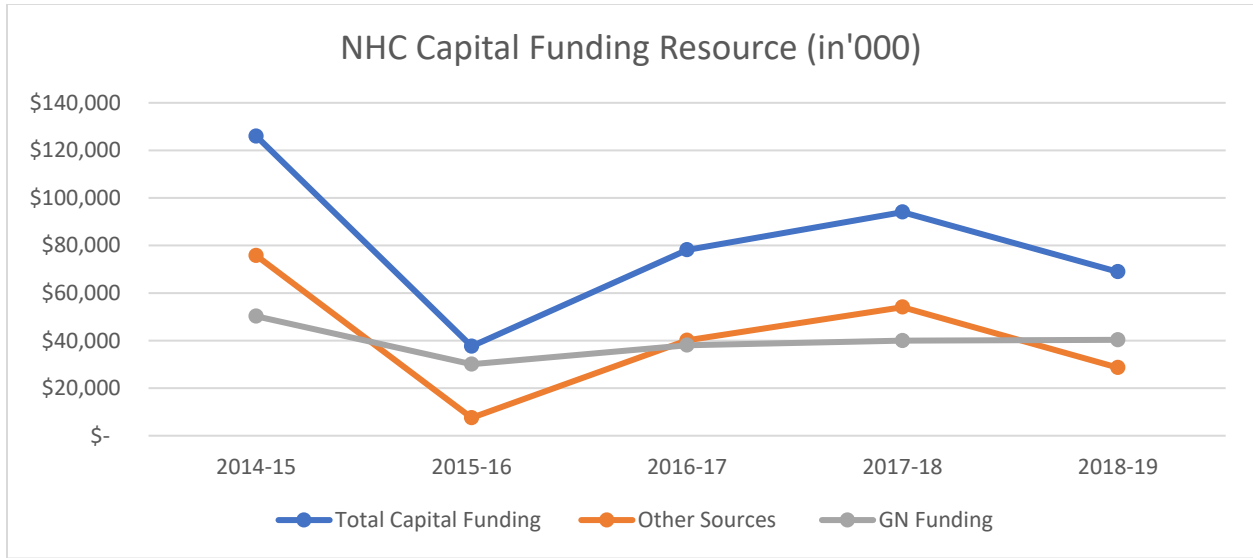
- 1) Variations in the level of funding received
- 2) Timing of funding announcements and receipt of funds
- 3) NHC's project management capacity and strategy

Another critical factor that causes the seemingly large amount of carry-over is the difference in funding model compared to other GN departments. NHC's process differs from the regular submission for approval and funding allocation based on GN department's 5-year plan. Due to the nature of housing delivery and construction, the NHC receives the block funding, then begins project planning, land acquisition, building design and construction afterwards. Whereas GN departments usually plan the project first and predict the cash flow then submit for GN approval. Upon approval, the departments can quickly start designing phase with portion of the budget loaded throughout the life time of the project.

Funding Level Variation

The Nunavut Housing Corporation (NHC) NHC's overall capital funding is directly correlated to levels of Federal funding. Federal funding has historically, and continues to, fluctuate widely; while the GN portion of NHC's funding has remained relatively flat, at around \$40 million a year as per over the past 5 years. This means the total NHC capital funding level is difficult to predict until the actual funding has been announced. Historically, the Federal Government has provided a variety of one time funding programs, announced in different years and different amounts. Table A below provides a snap-shot of 5 year NHC capital funding status:

Table A:



Funding Allocation Schedule

Compared to regular the GN capital planning procedure for the departments, the NHC’s operation model must reflect the federal funding arrangement. The GN capital planning procedure is to apply for approval for the project first; upon approval, the departments are allocated funds throughout the lifetime of the project. In contrast, the NHC receives all funding to complete a project as a block prior to the project commencing as projects are not started until related funding has been approved This means NHC will always have 1 to 2 years delay upon receipt of the funding.

The charts below (*Table B & C*) use a typical 3-year project as an example to show the difference between regular GN capital project vs NHC capital project:

Table B:

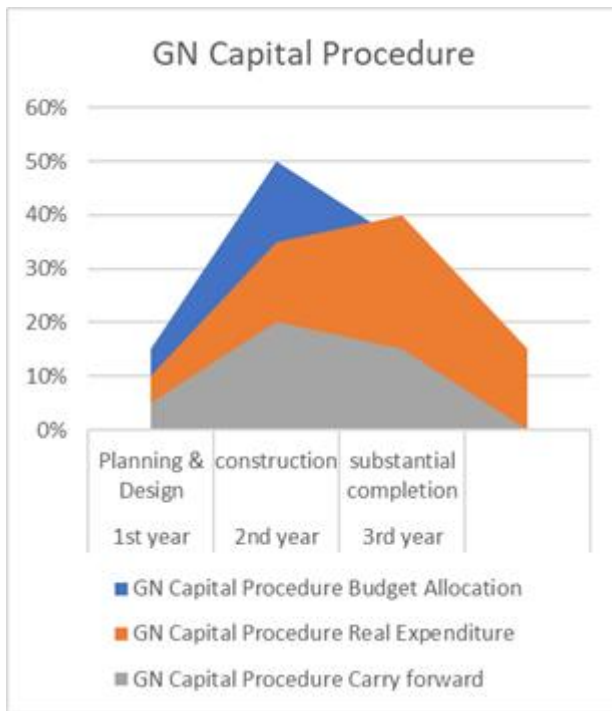
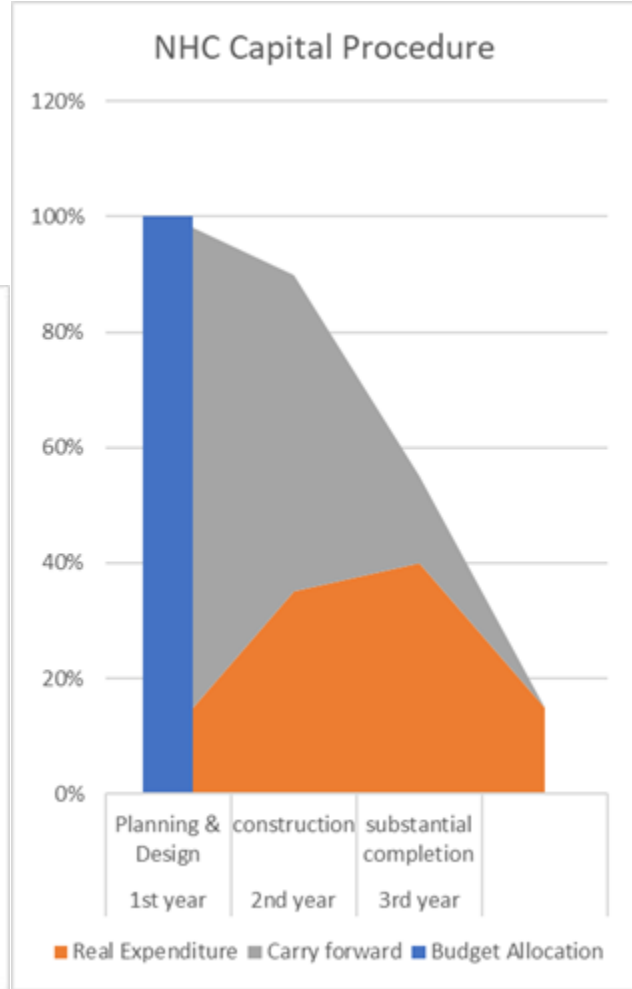


Table C:



NHC Operation Strategy

The nature of NHC’s unpredictable funding level leads to a cautious planning decision. The NHC only plans capital projects based on predictable amount.

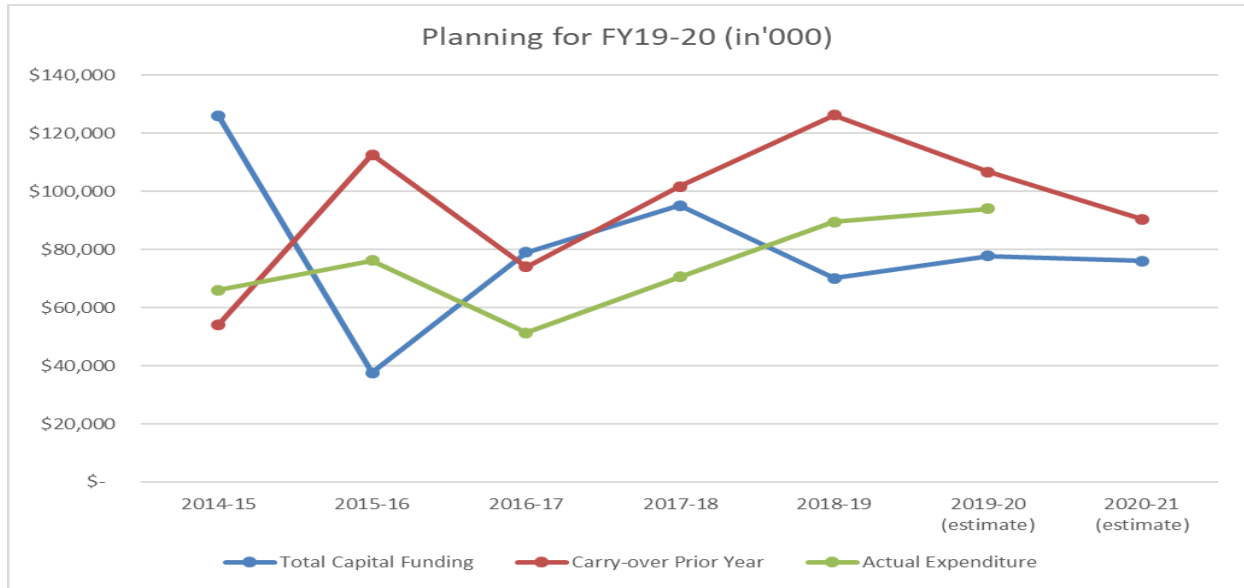
The timing of the funding deposit leads to a one to two year delay to reflect the budget impact on the actual spending.

It is also worth mentioning, with a scale of \$80 million spending a year and \$701 million worth of asset, the NHC also keeps a considerable amount of funding in a contingency fund for any unexpected event. The chart below (*Table D*) is real time data showing how the NHC is carefully managing the budget to ensure the corporation remains in a healthy financial condition.

The unpredictable nature of NHC’s capital funding level from the Federal government makes it challenging for the Corporation to maintain sufficient capacity to quickly respond to large injections of Federal funding. The NHC only maintains sufficient human resources to manage and plans capital projects based on predictable funding levels. When new sources of Federal funding are announced, the NHC’s project management capacity is stretched until temporary positions can be created and filled. This affects delivery of all capital projects as the same staff is tasked with managing both GN and Federally funded projects. The NHC prudently budgets for contingencies in ongoing projects and aims to maintain some reserves to respond to unexpected events that could affect existing assets.

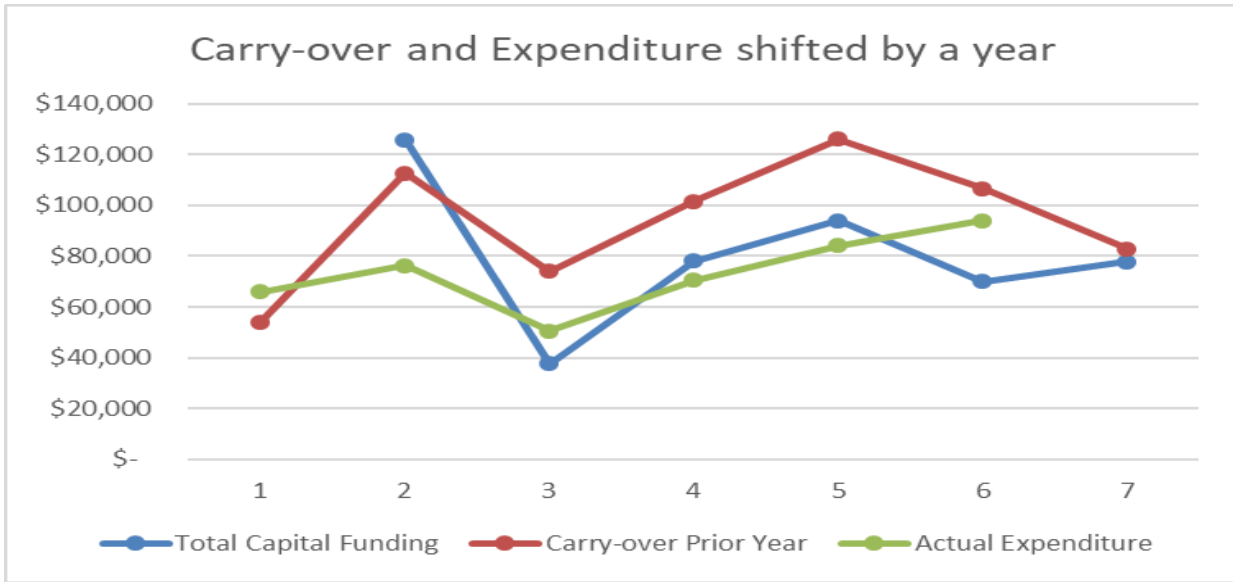
The chart below (Table D) is real time data showing how the NHC is carefully managing the budget to ensure the corporation remains in a healthy financial condition.

Table D:



	2014-15	2015-16	2016-17	2017-18	2018-19	19-20 (estima)	21 (estim)
Total Capital Funding	\$ 125,975	\$ 37,612	\$ 78,975	\$ 95,163	\$ 70,047	\$ 77,802	\$ 76,107
Carry-over Prior Year	\$ 54,126	\$ 112,705	\$ 74,046	\$ 101,649	\$ 126,225	\$ 106,718	\$ 90,520
Actual Expenditure	\$ 66,020	\$ 76,271	\$ 51,372	\$ 70,587	\$ 89,554	\$ 94,000	

Table D above; illustrates clearly that the amount of carry-over is shrinking. This is going to be ongoing trend for the next couple years for Nunavut Housing Corporation unless there will be another unexpected one-time funding announcement in the near future.

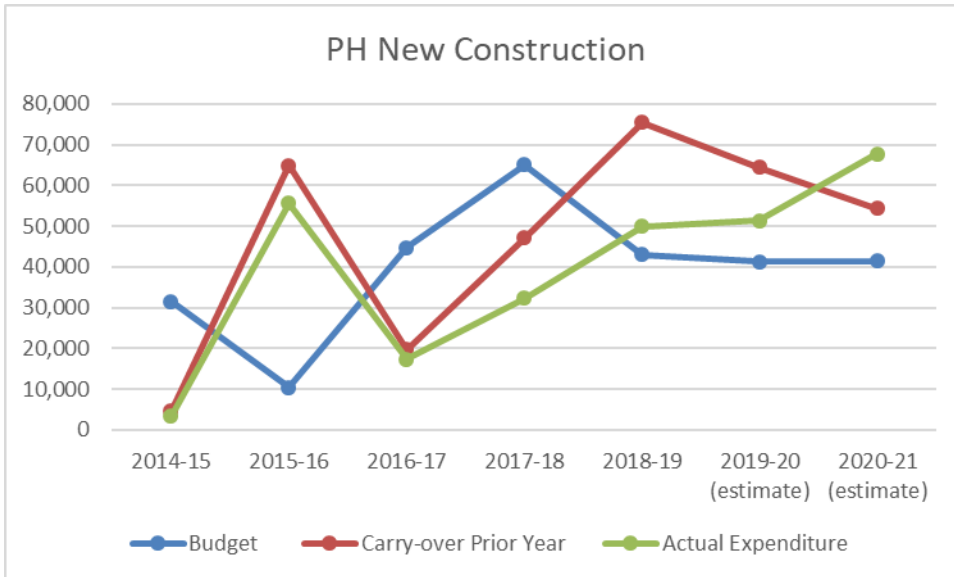


By moving the Carry-over and Actual Expenditure by a year, the chart below shows a matching pattern with the funding level that presents the 1-year lag symptom.

NHC Core Programs:

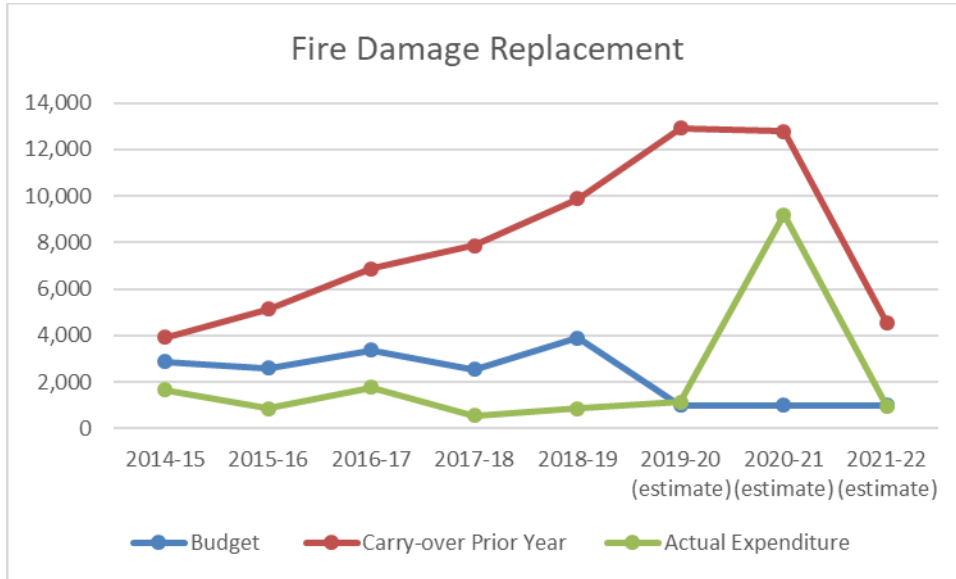
The following three are the main programs NHC delivers under capital projects. In addition to the factors mentioned above, the common operational challenges also play into the fact on the execution of the plans:

Table D:



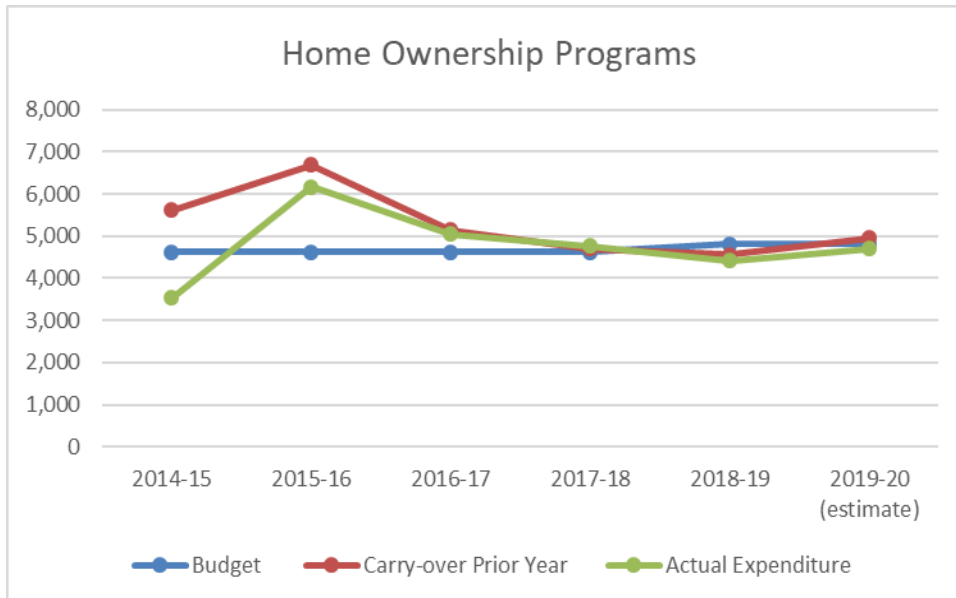
Key Challenges: Logistical issues, short building season and limited number of local building tradesmen.

Table E:



Key Challenges: Cost of re-building on small scale requires NHC to maximize economies of scale while meeting the needs of communities through allocation methodology.

Table F:



Key Challenges: High number of incomplete applications and limited staffing capacity at Programs office.

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Table G:

NHC Capital Carry Forwards														2016-2019											
														CFWD	Transfers	Capital	Capital	CFWD	Transfers	Capital	Capital	CFWD			
														2016 (000)	Appropriated 2016-17(000)	YTD Actuals 2016-17 (000)	2016-17(000)	2017-18	Appropriated 2017-18(000)	YTD Actuals 2017-18 (000)	2017-18 (000)	2018-19	Appropriated 2018-19(000)	YTD Actuals 2018-19 (000)	2018-19 (000)
NHC-01	Fire Damage Replacement													\$6,873	\$3,382	\$1,776	\$8,479	-\$600	\$2,558	\$552	\$9,885		\$3,900	\$872	\$12,913
NHC-02	Homeownership Programs - nunavut													\$4,324	\$4,000	\$4,800	\$3,524	\$1,249	\$4,000	\$4,150	\$4,623	-\$189	\$4,000	\$4,126	\$4,308
NHC-05	Modernization & Improvements/ Retrofit GN Funds - PH Federal Funding													\$12,791	\$6,342	\$4,241	\$14,892	\$5,260	\$6,342	\$13,881	\$12,613	\$490	\$6,342	\$12,211	\$7,234
														\$7,866	\$6,123	\$1,743			\$5,061	\$5,088	\$1,716	-\$614	\$4,290	\$4,941	\$451
NHC-06	Staff Housing Units													\$28,250	\$5,000	\$14,034	\$19,216		\$5,000	\$9,741	\$14,475		\$5,000	\$10,850	\$8,625
NHC-09	Homeownership Programs Heating Oil Tank Replacement													\$284	\$500	\$243	\$541	-\$536	\$500	\$264	\$241		\$500	\$258	\$483
NHC-10	Modenization & Improvements/ Retrofit Staff Housing													\$1,026	\$500	\$169	\$1,357		\$500	\$32	\$1,825	-\$254	\$500	\$268	\$1,803
NHC-11	Mobile Equipment													\$33	\$1,020	\$1,173	-\$120		\$1,049	\$1,051	-\$122	\$153	\$1,064	\$1,110	-\$15
NHC-12	Senior and Disabled Persons Preventative Maintenance													\$529	\$116	\$9	\$636	-\$713	\$116	\$13	\$26		\$116	\$12	\$130
NHC-13	Public Housing Federal Funding													\$16,076	\$12,500	\$12,403	\$16,173	-\$4,660	\$15,000	\$4,328	\$22,185	-\$200	\$17,500	\$5,323	\$34,162
														\$3,636	\$33,049	\$5,703	\$30,982		\$50,137	\$27,906	\$53,213	\$614	\$25,455	\$44,668	\$34,614
NHC-14	LHO Workshop, Warehousing and Administrative Offices													\$225	\$4,700	\$698	\$4,227		\$4,900	\$3,581	\$5,546		\$1,380	\$4,915	\$2,011
Totals														\$74,047	\$78,975	\$51,372	\$101,650	\$0	\$95,163	\$70,587	\$126,226		\$70,047	\$89,554	\$106,719
																	\$101,650				\$126,226				\$106,719