



# Northwest Territories Housing Corporation

Public Housing and  
Homeownership Programs

February 2008



Office of the Auditor General of Canada  
Bureau du vérificateur général du Canada

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Auditor General of Canada  
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The Honourable Paul Delorey  
Speaker  
Northwest Territories Legislative Assembly  
P.O. Box 1320  
Yellowknife, Northwest Territories  
X1A 2L9

Dear Mr. Speaker:

With regard to motion No. 17–15(4) passed in the Legislative Assembly on 2 March 2006, I have the pleasure of enclosing my report on the audit of the Northwest Territories Housing Corporation.

Yours sincerely,

Sheila Fraser, FCA

Ottawa, 15 February 2008



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# Northwest Territories Housing Corporation

## Public Housing and Homeownership Programs

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### Main Points

#### What we examined

The Northwest Territories Housing Corporation is a territorial corporation whose mandate is to ensure a sufficient supply of affordable, adequate, and suitable housing to meet the needs of Northwest Territories (NWT) residents. The Corporation has 117 employees and its budget for 2007–08 is about \$112 million. Its public housing program is delivered by 23 community-based local housing organizations (LHOs) under agreements with the Corporation. Its homeownership programs are delivered by the Corporation's five district offices.

We examined whether the Corporation manages the delivery of its public housing and homeownership programs and ensures the adequate maintenance of its public housing assets in accordance with its policies and procedures and with due regard to economy. We also examined whether the Corporation carries out effective planning and risk management and whether it adequately measures the performance of its public housing and homeownership programs and reports on their results.

We undertook a performance audit of the Corporation at the request of the NWT Legislative Assembly.

#### Why it's important

Safe, secure, and affordable housing is a significant factor in a community's stability and the social and economic well-being of its residents. Inadequate and overcrowded housing contributes to a multitude of health and social problems and higher costs to governments and society as a whole.

A household is considered in "core need" of housing assistance if it has one or more housing problems related to affordability, suitability, or adequacy that its income is insufficient to resolve. The Corporation considers housing to be affordable when it costs 30 percent or less of the household's gross income; adequate when its physical condition and basic facilities provide a healthy and safe environment; and suitable when it has an appropriate number of bedrooms for the number of people in the household.

The NWT Community Housing Needs Survey in 2004 reported that 16 percent of all NWT households (or 2,260 households) were in “core need” of housing assistance, compared with the national rate of 14 percent (based on 2001 Census data). However, if Yellowknife and the regional centres of Inuvik, Hay River, and Fort Smith are removed from the survey results, the remaining 30 smaller NWT communities have 30 percent of households in core need.

The Corporation’s housing programs and public housing assets represent a significant ongoing investment by the NWT Government in helping to ensure that its residents have reasonable access to affordable housing that is adequate for their needs.

### **What we found**

- The Corporation does not monitor the activities of LHOs sufficiently to determine whether they follow its policies and procedures when evaluating applicants for public housing and allocating rental units. Our review of a sample of applications showed that 21 out of 74 applicants had not been assessed properly. Nor does the Corporation adequately monitor the inspection of rental units and the rating of their condition by LHOs. In addition, the Corporation needs to work with those LHOs that are having difficulty collecting rent from their tenants, or that have accumulated deficits, and help them resolve their difficulties.
- The Corporation does not evaluate its homeownership programs on a regular basis to ensure that they are achieving their stated objectives in a cost-effective manner. The Corporation has also had difficulty collecting mortgage payments—in January 2007 it reported that 81 percent of its mortgages were in arrears. The Corporation also does not carry out regular monitoring of its district offices to determine whether they allocate homeownership assistance in accordance with its policies and procedures.
- The Corporation does not have a strategic plan in place that clearly describes how it plans to meet the housing needs of all NWT residents over the long term. Further, the Corporation needs to ensure that it identifies and mitigates all significant risks it faces. Improvements can also be made in the Corporation’s measurement of performance and reporting on results to provide a more comprehensive and balanced assessment of its performance. It also needs to report regularly on progress toward its target for reducing the number of NWT households in core need of housing assistance.



## Introduction

1. The Northwest Territories Housing Corporation is a territorial corporation reporting to the NWT Legislative Assembly through the responsible Minister. Its new mandate, which was approved by the NWT Executive Council in 2006, is to ensure, where appropriate and necessary, that there is a sufficient supply of affordable, adequate, and suitable housing to meet the housing needs of NWT residents.
2. The Corporation's goals are to
  - increase the supply of housing to meet the housing needs of NWT residents;
  - acquire and develop sufficient land to provide housing in all NWT communities;
  - provide clients with access to homeownership programs and services, including training and education to help prepare clients for homeownership;
  - secure and protect its housing assets;
  - improve the long-term sustainability and energy efficiency of the NWT's housing; and
  - strengthen its rent and mortgage collection policies and procedures.
3. The cost of living in the NWT varies significantly between communities. The Corporation sets the Core Need Income Threshold (CNIT) for each community—that is, the income needed by a household to own and operate a home or rent in the private market without government assistance. Households whose gross income falls below the CNIT limit can apply for housing assistance under the Corporation's public housing and homeownership programs.
4. A household is considered in “core need” of housing assistance if it has one or more housing problems related to affordability, suitability, or adequacy that its income is insufficient to resolve. The Corporation considers housing to be affordable when it costs 30 percent or less of the household's gross income; adequate when its physical condition and basic facilities provide a healthy and safe environment; and suitable when it has an appropriate number of bedrooms for the number of people in the household.
5. The NWT Community Housing Needs Survey in 2004 reported that 16 percent of all NWT households (or 2,260 households) were in core need of housing assistance, compared with the national rate of

14 percent (based on 2001 Census data). However, if Yellowknife and the regional centres of Inuvik, Hay River, and Fort Smith are removed from the survey results, the remaining 30 smaller NWT communities have 30 percent of households in core need.

6. The Corporation's existing public housing portfolio includes about 2,400 rental units (including 280 units leased from private owners) for families, senior citizens, singles, and persons with disabilities. The rental units are managed by 23 community-based local housing organizations (LHOs) under agreements with the Corporation.

7. The Corporation's housing programs and operations depend on government funding and compete for that funding with the programs of other government organizations. The Corporation also receives significant funding from the Canada Mortgage and Housing Corporation (CMHC) for the operation and maintenance of the portion of its public housing portfolio that was transferred to it from CMHC under the Social Housing Agreement in 1998. However, the funding from CMHC will decline annually and will end in 2038, when the Social Housing Agreement expires.

8. According to the Corporation's 2007–08 budget, its operating and capital expenditures—funded by the Government, CMHC, and other external revenue sources—totalled \$111.5 million. Exhibit 1 contains a breakdown of the major uses and sources of funds provided to the Corporation.

#### **Focus of the audit**

9. The Auditor General decided to undertake a performance audit of the Northwest Territories Housing Corporation in response to a motion passed by the NWT Legislative Assembly in March 2006.

10. Considering the concerns expressed in the motion, we examined whether the Corporation manages the delivery of its public housing and homeownership programs and ensures the adequate maintenance of its public housing assets in accordance with its policies and procedures and with due regard to economy. We also examined whether the Corporation's planning, risk management, and performance measurement and reporting processes are being carried out effectively in order to assist it in achieving its mandate and report on its results.

11. We carried out our audit work at the Corporation's headquarters in Yellowknife, at three of its district offices, and at five LHOs. Further details about this audit are found in **About the Audit** at the end of this report.

**Exhibit 1 The Corporation's major uses and sources of funds (in millions of dollars)**

<b>Uses of funds</b>	
Social rental housing programs	\$ 40.6
Capital acquisition plan	36.5
Operations	14.5
Debt repayment	12.2
Homeownership/rental repair programs	6.7
Market housing program	1.0
<b>Total</b>	<b>\$ 111.5</b>
<b>Sources of funds</b>	
Government of the Northwest Territories	\$ 83.7
Canada Mortgage and Housing Corporation	17.2
Other external sources	6.2
Local housing organizations rent revenue	4.4
<b>Total</b>	<b>\$ 111.5</b>

Source: Northwest Territories Housing Corporation

## Observations and Recommendations

### Managing the public housing program

12. The Corporation's public housing program is delivered by 23 community-based local housing organizations (LHOs) under agreements that outline the roles and responsibilities of both the Corporation and the LHO. Each LHO has a board of directors and a management and staff who are responsible for the day-to-day activities associated with the delivery of the program in its community.

13. The Corporation is responsible for regular monitoring and annual assessment of LHO operations to ensure that its public housing program is being delivered in accordance with its policies and procedures and in a cost-effective manner.

### Monitoring of local housing organizations' (LHOs) allocations of public housing units needs to improve

14. The Corporation's policies and procedures state that the allocation of public housing units shall be based on an applicant's housing needs relative to other applicants; households in greatest core need should receive assistance first. The agreements require LHOs to follow the

Corporation's policies and procedures in allocating public housing units and to retain sufficient documentation in their files to support their allocation decisions. We therefore expected the Corporation to regularly monitor whether the LHOs are allocating its public housing units in accordance with its policies and procedures. We found that it does not regularly monitor whether the LHOs assess applications properly in their decisions on the allocation of housing units.

15. Prospective tenants complete a Rental Housing Applicant Form used by LHO staff to assign points based on an assessment of their housing needs, household income, any social factors related to housing (such as family violence, disability needs, or health issues) and whether they have any amounts owing for rental arrears or property damage (which may disqualify a tenant for assistance). The total points awarded by the staff at the LHO determine the prospective tenant's position on the waiting list for the appropriate type of housing unit.

16. We drew a sample of 74 applications by prospective tenants at the five LHOs we visited; 64 of the applicants had obtained a rental unit and 10 had not. Our review of the 74 applications found that 53 (or 72 percent) had been properly assessed by the LHO in accordance with the Corporation's policies and procedures. The 21 other applications (or 28 percent), all successful, had not been properly assessed. We found that LHOs

- did not point-rate 14 applicants—including 2 who, under normal circumstances, should not have qualified for housing assistance because of a household income above the CNIT limit and rental arrears owing—and did not document the reasons for the decisions in the files;
- delayed allocation of housing to 2 qualified applicants after under-assessing their point-ratings; and
- gave priority to 5 applicants who qualified but who had received fewer points than other qualified applicants, and did not document the reasons for the decisions in the files.

17. We note that the Corporation has made no provision for an independent appeal by applicants who feel they have been treated unfairly by LHOs in the public housing allocation process. We encourage the Corporation to consider implementing such a process.

18. **Recommendation.** The Corporation should regularly monitor the LHOs to ensure that they consistently point-rate all applicants as part of assessing an applicant's eligibility and relative priority for

housing assistance. It should also ensure that LHOs provide adequate documentation in the files to support their allocation decisions.

*Management's response.* The Corporation agrees that point-rating should be conducted consistently, the appropriate documentation including exceptions should be provided in client files to support allocation decisions and we should be regularly monitoring the process.

**The Corporation does not adequately monitor LHOs' inspections of public housing units and rating of condition**

19. The Corporation is responsible for the prudent management and stewardship of its public housing portfolio, which represents a significant ongoing investment by the Government. We expected that it would therefore regularly monitor and report on the condition of its public housing stock to obtain information for purposes of decision making and accountability to stakeholders.

20. Under their agreements with the Corporation, LHOs are required to perform annual property inspections of housing units and to rate and report on their condition, in accordance with the Corporation's Maintenance Management Program (MMP). They are also required to use the Corporation's Maintenance Management Operations System (MMOS) to regularly report their housing maintenance activities to the Corporation. The Corporation may assist in the inspections upon the request of the LHOs.

21. The objectives of the MMP are to provide housing that is safe and secure and to protect and maintain the Corporation's housing assets through regular maintenance and repairs. The condition ratings are intended to help LHOs assess the physical condition and functional performance of the housing units and develop annual maintenance and repair budgets and work programs. Without annual property inspections and regular repair and maintenance of its public housing stock, the Corporation is at risk of legal liability for health and safety issues, and may face higher maintenance and repair costs in the future.

22. To calculate the annual funding it provides to LHOs for repair and maintenance of its public housing portfolio, the Corporation uses a formula that multiplies a fixed amount by the number and type of housing units (such as detached, duplex, multiplex or apartment). The LHOs are expected to allocate the funds according to the needs identified in the annual property inspection and condition rating process.

**23.** The Corporation does not monitor the condition of its public housing portfolio on a regular basis. We found that, of the 64 public housing units in our sample that had been allocated to successful applicants, only 41 units or 64 percent had an up-to-date condition rating (that is, based on a property inspection performed within the last fiscal year). However, we did not physically inspect the housing units ourselves to confirm the appropriateness of the condition ratings, nor had the Corporation done so. We were also told by the Corporation that not all of the LHOs have access to the Corporation's MMOS to report on their repair and maintenance activities.

**24.** A report dated October 2006 was the Corporation's first report on the condition of its entire public housing portfolio, by individual unit. However, the report does not indicate the dates of the property inspections by LHOs that determined the condition ratings. Furthermore, our review of the report found that two communities had given all of their public housing units the same condition rating, which raises some question about the validity of the ratings.

**25. Recommendation.** The Corporation should

- improve its monitoring to ensure that the LHOs perform the annual property inspections and report the condition ratings of the housing units to the Corporation on a timely basis;
- perform random property inspections to confirm the appropriateness of the condition ratings reported by the LHOs;
- ensure that all LHOs have access to the Corporation's Maintenance Management Operations System (MMOS) and that they use the system to report regularly on their maintenance activities; and
- regularly report on the condition of its public housing portfolio.

*Management's response.* The Corporation agrees that regular monitoring and reporting on the condition of the public housing portfolio is a key management responsibility. We have since 2006 formalized mandatory yearly condition rating inspections and reporting for the Public Housing portfolio and will continue to monitor LHO performance on the proper completion and timely submission of annual condition ratings.

*The Corporation agrees with the recommendation to perform random property inspections to confirm the appropriateness of condition ratings. The Corporation will provide training to LHOs based on the results of random inspections, as appropriate.*

*The Corporation, in consultation with LHOs, will undertake a review of the MMOS to determine its effectiveness as a consistent planning, scheduling, budgeting, and expenditures monitoring tool for maintenance activities.*

**The Corporation needs to improve its monitoring of the LHOs' financial reporting against plans and assist those LHOs that have accumulated deficits**

26. The successful delivery of the Corporation's public housing program depends, among other things, on the overall cost-effectiveness and ongoing financial viability of the LHOs. We therefore expected the Corporation to establish LHO funding levels and budgets on a reasonable basis, monitor LHOs' actual operating expenditures against these budgets and, where necessary, work with LHOs and establish a plan to address any ongoing operating deficits.

27. The funding that the Corporation provides to LHOs for their operations takes into account the number of housing units each LHO is responsible for managing; the previous year's operating results; the cost of living in the community; and the anticipated increase in utility costs, property taxes, and leases. The Corporation separates the funding of LHO operations into a controllable budget (for administration, and repair and maintenance activities) and a non-controllable budget (for utility costs, property taxes, and leases). Under their agreements, the LHOs may retain any surpluses in the controllable budget but also have to cover any deficits. The Corporation will cover any deficits in the LHOs' non-controllable budget, up to a reasonable amount agreed upon by both parties. Any surpluses in the non-controllable budget must be repaid to the Corporation. In addition, under their agreements the LHOs must also provide the Corporation regularly with various operating reports and annually with a copy of their audited financial statements.

28. Our analysis of LHO financial statements showed that in 2006–07, actual operating costs differed among LHOs, from \$9,200 per housing unit at the lowest to \$34,000 per unit at the highest.

29. We found that the Corporation regularly compares the operating results of LHOs against their budgets but does not obtain explanations from them for any significant variances. We also noted that the Corporation obtained financial statements from the 23 LHOs as of 31 March 2007 (15 of which had been audited at the time of our audit) and that 12 of the LHOs had accumulated deficits. While the Corporation states that it works closely with LHOs in such circumstances to help them develop a plan for recovering their deficits and bringing their future expenditures into line with their funding

levels, we found that such a plan had been developed in only one case out of twelve.

**30. Recommendation.** The Corporation should

- obtain explanations from LHOs for any significant variances from budget and ensure that LHOs take any necessary corrective action on a timely basis;
- ensure that it receives audited financial statements from LHOs on a timely basis; and
- work with LHOs that have accumulated deficits to help them develop a plan for recovering their deficit and bringing their future expenditures into line with their funding levels.

*Management's response.* The Corporation undertakes a comprehensive approach in developing LHO budgets and establishing maximum rental rates on an annual basis. This process considers the number of units, cost differentials in remote communities due to geographical considerations and we distribute fixed operating costs over the number of units under administration in each community. These factors result in higher operating costs in more remote communities, particularly those with a limited number of units under administration.

The Corporation agrees that reporting from LHOs should provide explanations for any significant variances from budget and the Corporation should work with the LHO to ensure proper analysis is completed on these variances. This information will be used to support the annual funding levels for the LHOs and will also be used to help the LHOs take the necessary actions to ensure deficits are not incurred in future years.

The Corporation requires audited financial statements from the LHOs on a timely basis. The time frame for completion of these audits is included in the "Terms of Reference" for the LHO audits but there are circumstances where the availability of auditors to undertake this work in a timely basis is limited.

The Corporation has committed to working with all LHOs, particularly those that are in an accumulated deficit position, to ensure that their future expenditures do not exceed their budget. The Corporation will continue to promote sound fiscal management at the LHO level and will monitor their operations and provide the necessary support to work towards achieving this goal.

**Action is needed by the Corporation to improve the collection of rents by the LHOs**

**31.** Effective 1 April 2006, the Department of Education, Culture and Employment (ECE) assumed responsibility for the administration



of the Public Housing Rental Subsidy Program and for providing funding to the LHOs for the delivery of the Corporation's public housing program (although the Corporation remains responsible for calculating the funding that each LHO will receive from ECE). Applicants who have been allocated a public housing unit by an LHO must apply to ECE to determine the amount they are entitled to receive as a subsidy. The difference between the market rent and the subsidy is the assessed rent that the applicant is to pay directly to the LHO.

**32.** The LHOs rely on the funding they receive and the rents they collect from tenants to fund their operations. The Corporation's funding model provides for a 10 percent allowance to LHOs for uncollectible rents. The LHOs are expected to collect 90 percent of the assessed rents from tenants and are responsible for making up any deficit in that amount. The total assessed rent for the Corporation's public housing portfolio for the year ended 31 March 2007 was \$6.1 million, up \$1.2 million from the previous year. Of the \$6.1 million in assessed rents, the amount considered uncollectible by the LHOs was \$1.1 million, up \$ 0.5 million from 2006.

**33.** We expected the Corporation to regularly monitor the LHOs' collection of assessed rents from tenants and, where necessary, to take appropriate action to help LHOs improve their collection rates. We found that the LHOs averaged a collection rate of about 82 percent for the year ended 31 March 2007, compared with about 88 percent the year before. We also found for the year ended 31 March 2007 that the collection rate varied among LHOs from 100 percent to 6 percent. Exhibit 2, taken from LHO financial statements, shows the differences in rent collection rates.

**Exhibit 2 Differences in LHO rent collection rates**

Rental collection rate	Number of local housing organizations (LHOs)	
	2007	2006
90 percent and above	10	10
80 to 89 percent	4	6
70 to 79 percent	3	2
50 to 69 percent	3	4
Below 50 percent	3	1
<b>Total LHOs</b>	<b>23</b>	<b>23</b>

34. Given that 13 of the 23 LHOs are currently collecting less than 90 percent of the assessed rent, the Corporation may be required to provide additional funding to ensure that those LHOs are able to continue delivering the public housing program.

35. **Recommendation.** The Corporation should

- review rent collection by each LHO that is having difficulty collecting 90 percent of its assessed rent and determine the likely causes of non-payment by tenants; and
- develop an action plan jointly with each affected LHO to improve the collection of assessed rents.

*Management's response.* The Corporation agrees with the recommendation and has committed to work with the LHOs to collect their assessed rents, to determine why tenants are not paying their rent, and to develop an action plan to improve collections.

**The Corporation needs to establish and implement a strategy for monitoring and assessing LHO operations**

36. Under the agreements with LHOs, the Corporation and LHOs are responsible for conducting annual assessments of the LHOs' operations and for developing training and work plans where required.

37. We found that the Corporation does not have a strategy for carrying out the type of annual assessment required by the agreements.

38. We noted that the Corporation established an internal audit function in 2002 and by 31 March 2007, it had completed audits of 19 LHOs, focusing mainly on the adequacy of their management and accounting controls. We found, however, that the Corporation has no formal process to follow up on the issues identified by the internal audits and ensure that they are addressed on a timely basis by the LHOs.

39. **Recommendation.** The Corporation should

- establish and implement a strategy for monitoring and annually assessing the LHOs' operations, as required under the agreements; and
- establish a formal process to follow up on any significant problems and issues identified by the assessments and internal audit reports and ensure that they are addressed on a timely basis, including providing any necessary training and support to the LHOs.

*Management's response.* The Corporation agrees with this recommendation. As outlined in "Universal Partnership Agreements" (UPA) between the Corporation and LHOs, both parties are to act as partners in conducting annual assessments of the social housing operations to determine operational and program effectiveness and to ensure compliance with established principles, program guidelines, and standards.

Based on the completion of these assessments on a timely basis, the parties will jointly develop a training work plan with the intention being to build capacity at the community level.

## Managing the homeownership program

### Evaluation of homeownership programs is not performed on a regular basis

40. The Government is promoting homeownership as an important means of encouraging greater self-reliance on the part of NWT residents. However, especially in the smaller and more remote NWT communities, many NWT residents have low incomes and cannot afford to pay market costs of buying or building a house or to pay the ongoing operating and maintenance costs. In response, the Corporation has established many different homeownership assistance programs over the years to help NWT residents acquire and maintain their own homes.

41. Consistent with best practices, we expected the Corporation to evaluate its homeownership programs on a regular basis to determine whether they are cost-effective and meeting the housing needs of NWT residents.

42. Program evaluation is an established tool that allows managers to study the strengths and weaknesses of their programs, how well they meet expectations, and whether they are cost-effective. It can also assist in providing reliable and credible information on program performance for reporting and accountability purposes. The review and evaluation of existing programs has always been a part of managing in government.

43. We found that the Corporation does not evaluate its homeownership programs on a regular basis. In 2005, the Corporation conducted a detailed review of its existing homeownership programs as part of the consolidation and simplification of its homeownership programs into four new, distinct programs under its new homeownership program structure, Housing Choices.

44. **Recommendation.** The Corporation should evaluate its homeownership programs on a regular basis to ensure that they are achieving their stated objectives in a cost-effective manner.

*Management's response.* The Corporation agrees with this recommendation. As part of the plan to implement the Housing Choices homeownership program structure introduced in 2007, an evaluation has been scheduled following the first year of delivery. This evaluation will be conducted by officials at the Corporation in conjunction with program evaluation training expected to be offered through the Financial Management Board Secretariat and the University of Melbourne in 2008.

A permanent review body, the Housing Choices Program Review Committee, has been established to monitor and evaluate the programs on an ongoing basis.

The Corporation has conducted detailed program reviews in the past, including a thorough examination of existing programs during the creation of Housing Choices and we are currently participating in an evaluation of Phase I and II of the Affordable Housing Initiative in conjunction with our federal and provincial housing partners.

#### **The Corporation needs to improve the collection of its mortgages receivable**

45. The Corporation has experienced problems with the collection of mortgages issued under its homeownership programs, despite sending reminder letters to delinquent homeowners on a regular basis.

46. In January 2007, the Corporation reported to the Minister that 374 of its 460 mortgages, or 81 percent, were in arrears. In its 2007 financial statements, the Corporation reported that of the \$16.5 million in mortgages receivable (net of subsidies), \$14.6 million—more than 88 percent—was impaired and probably not collectible. This compares with \$13.3 million of \$17.1 million in 2006, or almost 78 percent.

47. In addition, the Corporation reported to the Minister in December 2006 that homeownership programs had been delivered on Indian Affairs Branch lands without any effective means to secure repayment of the homeownership loan through repossession in the event of a default. The Corporation has been working with the NWT Municipal and Community Affairs and with Indian and Northern Affairs Canada to develop alternatives to current practices in order to ensure that its future mortgages are appropriately secured.

48. As part of the redesign and consolidation of its homeownership programs under its new mandate, the Corporation has proposed the introduction of new home-refinancing options to improve the collection of its existing and future mortgages receivable. We noted that the Corporation has received strong support from the NWT

Standing Committee on Social Programs for these plans to address its mortgages in arrears.

**49. Recommendation.** The Corporation should take appropriate steps to ensure that its mortgages receivable are collected on a timely basis.

*Management's response.* The Corporation agrees with the recommendation and has recently implemented a new "Mortgage Collection Initiative," which raises the profile and the priority for mortgage collections. Under this initiative, homeowners are offered opportunities to resolve their mortgage arrears and still allow them to remain in a Corporation homeownership program.

#### **Improved monitoring of compliance with policies and procedures is needed**

**50.** The Corporation's homeownership programs are available to NWT residents whose gross household income falls below the Core Need Income Threshold for their community. To be eligible, an applicant must also have been a resident in the NWT for five consecutive years and a resident in the community for at least one year. Further, they must not owe any amounts to the Corporation, including any rental arrears owed to LHOs. The Corporation's five district offices are responsible for assessing applications and, based on their assessments, for allocating homeownership assistance.

**51.** Consistent with best practices, we expected the Corporation to monitor regularly whether the district offices are complying with its policies and procedures for the allocation of homeownership assistance to eligible NWT residents.

**52.** We found that the Corporation does not carry out regular monitoring of the district offices, nor does its internal audits examine sufficiently whether district offices follow established policies and procedures in allocating homeownership assistance.

**53.** We drew a sample of 28 applications for homeownership assistance at three district offices. Our sample included 12 applicants who had obtained homeownership assistance and 16 applicants who had not. We found that the district offices had properly assessed 22 of the applications we reviewed (or 79 percent); the 6 other applications (or 21 percent), all successful, had not been point-rated as required by the Corporation.

**54. Recommendation.** The Corporation should monitor the district offices regularly to ensure that in allocating homeownership assistance

to eligible NWT residents they comply with the Corporation's policies and procedures, including consistent use of the point-rating tool in assessing applications for assistance.

**Management's response.** *The Corporation agrees with this recommendation and commits to building upon existing processes and approaches for review and monitoring of district office operations and program delivery. As an example, the Corporation has conducted several compliance audits to ensure program allocation policies are adhered to by district operations. It is anticipated that the Corporation will increase its focus on compliance audits at the district level and take steps to improve support to district offices.*

## Planning and reporting

55. An organization uses strategic planning, risk management, and performance measurement and reporting processes to determine its strategic direction, goals, and expected results; to identify the key risks facing it and develop strategies to address these risks; and to measure and report on its progress in achieving its goals and results.

### **The Corporation does not have a strategic plan to meet housing needs of all NWT residents**

56. The NWT Community Housing Needs Survey in 2004 reported that 16 percent of all NWT households (or 2,260 households) were in core need of housing assistance. The Corporation states in its 2007–2010 Business Plan that it remains committed to ensuring that housing is developed to meet the needs of all NWT residents.

57. In July 2006, the Premier of the Northwest Territories asked the President of the Corporation to develop a strategic plan that incorporates all of the various elements of housing together into a comprehensive northern housing strategy, and that describes the changes made in the Corporation's programs and services to reflect its new mandate.

58. We found that the Corporation does not have a strategic plan in place to achieve its vision of meeting NWT residents' housing needs over the long term. We note that the Corporation started to establish a strategic planning process during the period of our audit but had not yet completed its strategic plan. The Corporation has informed us that it plans to finalize its strategic plan in early 2008.

59. **Recommendation.** The Corporation should finalize its strategic plan as soon as possible and should ensure that in its plan it describes clearly how it will

- meet the housing needs of all NWT residents over the long term;

- incorporate all of the various elements of housing together into a comprehensive northern housing strategy; and
- describe the changes made in existing programs and services to reflect its new mandate.

**Management's response.** *The Corporation agrees with this recommendation. While, in the past, the Corporation has conducted long-term planning through the business planning process, it is currently undertaking a strategic planning process that includes traditional strategic planning activities, a strengthened capital planning process, and a long-term needs assessment using data on current and forecasted need. This process is being driven primarily by input from residents and stakeholders through a public consultation process on the Corporation's mandate held in 2006.*

*The Corporation has developed a four-year Framework for Action that will be released to the public in early 2008. The Framework for Action will*

- *renew and focus the time and money spent on housing initiatives,*
- *inform and engage members of the public and partners at all levels of government to become better informed of housing initiatives in order to assist them in their involvement, and*
- *build on the Corporation's mandate to ensure that there is an adequate supply of affordable housing in all communities.*

### **The Corporation needs to identify significant risks and develop action plans to manage them**

**60.** We noted that the Corporation has identified in its 2007–2010 Business Plan several external and internal risks that could impact its ability to achieve its goals and expected results. The identified external risks include the limited availability of suitable building lots with land tenure for new home construction in many NWT communities; a shortage of skilled construction labour in the NWT; rising energy costs; the ability of new clients to assume the responsibilities of homeownership and to meet their financial obligations; and the long-term quality and sustainability of the public housing stock, given the decline in its related funding from CMHC. The internal risks identified relate to the Corporation's human resources and information technology functions.

**61.** We noted, however, that the Corporation did not identify other significant risks that could impact its ability to achieve its goals and expected results. Examples include whether the LHOs and district offices are complying with the Corporation's policies and procedures

to ensure that NWT residents are being treated in a fair and equitable manner, and whether the Corporation's public housing stock is being adequately maintained by the LHOs to protect the Corporation's investment and ensure that NWT residents have access to affordable housing that is adequate for their needs.

**62.** In our opinion, the Corporation also did not adequately explain how it plans to address each of the significant risks it has identified in its business plan. For example, it provided little information on how it plans to address the declining funding from CMHC in order to maintain the long-term quality and sustainability of its public housing stock, or how it plans to improve its rental and mortgage collection rates to ensure that all NWT residents are treated in a fair and equitable basis.

**63. Recommendation.** The Corporation should

- identify, assess, and rank the significant risks it faces;
- develop specific strategies and action plans that clearly describe in sufficient detail how it will address the risks identified; and
- measure, monitor, and report regularly on the risks to ensure that it is addressing them appropriately and on a timely basis.

*Management's response.* The Corporation agrees that there is a need to strengthen our risk management activities. However, given the size of the organization and the limited resources available, we intend to focus our efforts on an annual environmental scan with management to consider the main factors that impact our core business activities.

#### **Performance measurement and reporting can be improved**

**64.** We expected the Corporation to have identified specific and appropriate performance measures to assess its progress toward achieving its goals and expected results. We also expected the Corporation to provide reports with complete, accurate, and balanced information on its performance for accountability purposes.

**65.** The Corporation prepares an annual results report as part of the Government's annual business planning and results reporting cycle. The purpose of the results report is to report on the achievement of the goals and expected results contained in the previous year's business plan and to account for the use of public resources.

**66.** We reviewed the Corporation's 2005–2006 Results Report for the period 1 April 2005 to 31 March 2006. We found that it reported against the specific performance measures identified and on the



progress made toward the goals and expected results set out by the Corporation in the previous year's business plan.

**67.** We noted, however, that the Corporation could improve its results report by identifying more specific measures of performance that focus on outcomes (longer-term indicators of progress) rather than specific outputs. For example, it could report on whether the overall housing situation in the NWT is improving; whether the percentage of clients reporting satisfaction with the quality of the Corporation's programs and services is increasing or remaining stable; whether homeownership in the NWT is increasing; whether the overall condition of the Corporation's public housing is being maintained; and whether the Corporation's rental and mortgage collection rates are improving. This would require data from prior periods to identify any emerging trends in performance over a longer period.

**68.** Identifying performance measures that focus on outcomes can be challenging, particularly when an organization's goals are broad and it is difficult to attribute change to the organization's actions. However, we encourage the Corporation to identify and report against specific measures of performance that focus on outcomes, in order to provide its stakeholders with a more comprehensive and meaningful understanding of the progress it is making in achieving its mandate over the longer term.

**69.** We also noted that the specific performance measures the Corporation has identified focus on outputs or outcomes related to the delivery of its programs and services. It has not identified specific measures of its efficiency and the performance of internal support functions, such as the average cost per housing unit of construction and maintenance programs; controllable administration costs as a percentage of program delivery costs, for both LHOs and the Corporation; and employee training, retention, and satisfaction levels.

**70.** In addition, we noted the following two inconsistencies between the performance measures identified in the Corporation's 2005–2008 Business Plan and the performance measures reported against in its 2005–2006 Results Report:

- In its Business Plan the Corporation stated a target of increasing the loan guarantees provided to private developers by \$5 million. In its Results Report it noted that it had over \$11 million in loan guarantees, but it did not explain the increase over the planned target.

- In its Business Plan, the Corporation set a target of improving rent collection to 91 percent. Its Results Report did not report against that target, even though its agreements with LHOs specifically address its expectations for the collection of rents from tenants.

**71. Recommendation.** The Corporation should improve its performance measurement and reporting by

- identifying performance measures that include an appropriate balance between outputs, outcomes, and efficiency measures in order to provide a more comprehensive and balanced assessment of its performance; and
- eliminating inconsistencies between its business plan and results report in measuring and reporting on the achievement of its targets and expected results.

*Management's response.* The Corporation agrees with this recommendation. Future performance measurement will be coordinated through the Corporation's Framework for Action 2008–2011, which includes output and outcome measures. Additionally, it will continue to meet the results reporting requirements of the Government of the NWT through the business planning process. Commencing with the 16th Legislative Assembly, the Government's business planning process will adopt a four-year planning cycle, requiring annual progress updates.

**The Corporation needs to report whether it is reducing core need households**

**72.** The Corporation uses the NWT Community Housing Needs Survey, performed every four years by the NWT Bureau of Statistics, as its primary tool to measure its success in reducing the percentage of NWT households in core need of housing assistance—one of its stated objectives.

**73.** In its 2005–2006 Results Report, the Corporation noted its target of decreasing from 30 percent to 25 percent the percentage of NWT households in core need of housing assistance in non-market communities (all communities except Yellowknife, Hay River, Fort Smith, and Inuvik). The Corporation also reported that new information on NWT households in core need would not be available until 2009 (when the 2008 NWT Community Housing Needs Survey is reported), at which time it anticipates that new construction and improvements to existing units will allow it to meet its target.

74. Until the new housing survey results are available, the Corporation could set specific targets and report on the total number and cost of new housing units that will be built and existing housing units that will be repaired or renovated annually.

75. For example, the Corporation's 2007–2010 Business Plan indicates that it aims to build 530 new energy-efficient, low-cost housing units over the next three years, beginning in 2006–07. This is part of the Government's Affordable Housing Initiative to reduce the percentage of NWT households in core need of housing assistance. The 530 new housing units are being funded by a one-time \$50-million payment from the federal government's Northern Housing Trust, matched by the Government. The allocation of the units among the NWT communities is based on the NWT 2004 Community Housing Needs Survey and consultations between the Corporation and the communities. This type of information could be used in its annual results report.

76. **Recommendation.** Until new information is available from the NWT Bureau of Statistics on the number and percentage of NWT residents in core need of housing assistance, the Corporation should regularly report on its construction of new housing units and its repair and renovation of existing units, as a way to report on its progress in reducing the number of NWT households in core need of housing assistance.

*Management's response.* The Corporation has committed, through Framework for Action 2008–2011, to table a full report on the success of the Affordable Housing Initiative following the completion of 2008–2009 construction. This report will include information such as the number and type of units constructed in each community and the associated capital investment. The Corporation commits to further regular reporting of progress to the Legislative Assembly through the business planning process.

## Conclusion

77. We have concluded that the Corporation lacks sufficient assurance that its public housing and homeownership programs are being delivered and its public housing units are being adequately maintained in accordance with its policies and procedures and with due regard to economy. We have also concluded that improvements are required in the Corporation's planning, risk management, performance measurement and reporting, and program evaluation processes to assist it in achieving its mandate and report on its results.

**78.** The Corporation needs to strengthen its monitoring and assessment processes to ensure that the LHOs are allocating the public housing units and district offices are allocating ownership assistance to eligible NWT residents in accordance with the Corporation's policies and procedures, that its public housing portfolio is being adequately maintained and protected, and that its public housing program is being delivered in a cost-effective manner. It also needs to work with those LHOs that have accumulated deficits to help them bring their expenditures into line with funding levels.

## About the Audit

### Objectives

The objectives of our audit were to determine whether the Corporation's

- public housing and homeownership programs are being delivered, and its public housing assets are being adequately maintained, in accordance with the Corporation's policies and procedures and with due regard to economy; and
- planning, risk management, and performance measurement and reporting processes are being carried out effectively in order to assist it in achieving its mandate and report on its results.

### Scope and approach

We examined the management and delivery of the Corporation's public housing and homeownership programs, and the planning, risk management, and performance measurement and reporting systems and practices of the Corporation.

We interviewed management and staff at the Corporation's headquarters and at the district offices and LHOs we visited, and reviewed documents, to obtain information about the systems, and policies and procedures in place to manage and deliver the Corporation's public housing and homeownership programs.

We also selected samples for testing, from 2005 to 2007, of 74 application files made by prospective tenants at 5 LHOs, and 28 application files for homeownership assistance at 3 district offices, to determine whether the LHOs and district offices were complying with the Corporation's policies and procedures.

### Criteria

We expected the Corporation to

- monitor and assess whether the LHOs are complying with the Corporation's policies and procedures for the allocation and maintenance of its public housing units, are operating in a cost-effective manner, and are collecting the assessed rents from tenants on a timely basis;
- monitor and report on the condition of its public housing portfolio;
- evaluate whether its homeownership programs are meeting the housing needs of NWT residents in a cost-effective manner;
- monitor whether the district offices are complying with the Corporation's policies and procedures for the allocation of homeownership assistance to eligible NWT residents and are collecting the mortgages receivable on a timely basis; and
- have strategic planning, risk management, and performance measurement and reporting processes in place to assist it in meeting the housing needs of all NWT residents and report on its results.

**Audit work completed**

Audit work for this report was substantially completed on 16 November 2007.

**Audit team**

Assistant Auditor General: Andrew Lennox

Principals: Roger Simpson, Guy LeGras

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## Appendix List of recommendations

The following is a list of recommendations found in this report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<b>Managing the public housing program</b>	
<p><b>18.</b> The Corporation should regularly monitor the LHOs to ensure that they consistently point-rate all applicants as part of assessing an applicant's eligibility and relative priority for housing assistance. It should also ensure that LHOs provide adequate documentation in the files to support their allocation decisions. (14–17)</p>	<p>The Corporation agrees that point-rating should be conducted consistently, the appropriate documentation including exceptions should be provided in client files to support allocation decisions and we should be regularly monitoring the process.</p>
<p><b>25.</b> The Corporation should</p> <ul style="list-style-type: none"> <li>• improve its monitoring to ensure that the LHOs perform the annual property inspections and report the condition ratings of the housing units to the Corporation on a timely basis;</li> <li>• perform random property inspections to confirm the appropriateness of the condition ratings reported by the LHOs;</li> <li>• ensure that all LHOs have access to the Corporation's Maintenance Management Operations System (MMOS) and that they use the system to report regularly on their maintenance activities; and</li> <li>• regularly report on the condition of its public housing portfolio.</li> </ul> <p>(19–24)</p>	<p>The Corporation agrees that regular monitoring and reporting on the condition of the public housing portfolio is a key management responsibility. We have since 2006 formalized mandatory yearly condition rating inspections and reporting for the public housing portfolio and will continue to monitor LHO performance on the proper completion and timely submission of annual condition ratings.</p> <p>The Corporation agrees with the recommendation to perform random property inspections to confirm the appropriateness of condition ratings. The Corporation will provide training to LHOs based on the results of random inspections, as appropriate.</p> <p>The Corporation, in consultation with LHOs, will undertake a review of the MMOS to determine its effectiveness as a consistent planning, scheduling, budgeting, and expenditures monitoring tool for maintenance activities.</p>

Recommendation	Response
<p><b>30.</b> The Corporation should</p> <ul style="list-style-type: none"> <li>• obtain explanations from LHOs for any significant variances from budget and ensure that LHOs take any necessary corrective action on a timely basis;</li> <li>• ensure that it receives audited financial statements from LHOs on a timely basis; and</li> <li>• work with LHOs that have accumulated deficits to help them develop a plan for recovering their deficit and bringing their future expenditures into line with their funding levels.</li> </ul> <p>(26–29)</p>	<p>The Corporation undertakes a comprehensive approach in developing LHO budgets and establishing maximum rental rates on an annual basis. This process considers the number of units, cost differentials in remote communities due to geographical considerations and we distribute fixed operating costs over the number of units under administration in each community. These factors result in higher operating costs in more remote communities, particularly those with a limited number of units under administration.</p> <p>The Corporation agrees that reporting from LHOs should provide explanations for any significant variances from budget and the Corporation should work with the LHO to ensure proper analysis is completed on these variances. This information will be used to support the annual funding levels for the LHOs and will also be used to help the LHOs take the necessary actions to ensure deficits are not incurred in future years.</p> <p>The Corporation requires audited financial statements from the LHOs on a timely basis. The time frame for completion of these audits is included in the “Terms of Reference” for the LHO audits but there are circumstances where the availability of auditors to undertake this work in a timely basis is limited.</p> <p>The Corporation has committed to working with all LHOs, particularly those that are in an accumulated deficit position, to ensure that their future expenditures do not exceed their budget. The Corporation will continue to promote sound fiscal management at the LHO level and will monitor their operations and provide the necessary support to work towards achieving this goal.</p>
<p><b>35.</b> The Corporation should</p> <ul style="list-style-type: none"> <li>• review rent collection by each LHO that is having difficulty collecting 90 percent of its assessed rent and determine the likely causes of non-payment by tenants; and</li> <li>• develop an action plan jointly with each affected LHO to improve the collection of assessed rents.</li> </ul> <p>(31–34)</p>	<p>The Corporation agrees with the recommendation and has committed to work with the LHOs to collect their assessed rents, to determine why tenants are not paying their rent, and to develop an action plan to improve collections.</p>



Recommendation	Response
<p><b>39.</b> The Corporation should</p> <ul style="list-style-type: none"> <li>• establish and implement a strategy for monitoring and annually assessing the LHOs’ operations, as required under the agreements; and</li> <li>• establish a formal process to follow up on any significant problems and issues identified by the assessments and internal audit reports and ensure that they are addressed on a timely basis, including providing any necessary training and support to the LHOs.</li> </ul> <p>(36–38)</p>	<p>The Corporation agrees with this recommendation. As outlined in “Universal Partnership Agreements” (UPA) between the Corporation and LHOs, both parties are to act as partners in conducting annual assessments of the social housing operations to determine operational and program effectiveness and to ensure compliance with established principles, program guidelines, and standards.</p> <p>Based on the completion of these assessments on a timely basis, the parties will jointly develop a training work plan with the intention being to build capacity at the community level.</p>
<p><b>Managing the homeownership program</b></p>	
<p><b>44.</b> The Corporation should evaluate its homeownership programs on a regular basis to ensure that they are achieving their stated objectives in a cost-effective manner. (40–43)</p>	<p>The Corporation agrees with this recommendation. As part of the plan to implement the Housing Choices homeownership program structure introduced in 2007, an evaluation has been scheduled following the first year of delivery. This evaluation will be conducted by officials at the Corporation in conjunction with program evaluation training expected to be offered through the Financial Management Board Secretariat and the University of Melbourne in 2008.</p> <p>A permanent review body, the Housing Choices Program Review Committee, has been established to monitor and evaluate the programs on an ongoing basis.</p> <p>The Corporation has conducted detailed program reviews in the past, including a thorough examination of existing programs during the creation of Housing Choices and we are currently participating in an evaluation of Phase I and II of the Affordable Housing Initiative in conjunction with our federal and provincial housing partners.</p>
<p><b>49.</b> The Corporation should take appropriate steps to ensure that its mortgages receivable are collected on a timely basis. (45–48)</p>	<p>The Corporation agrees with the recommendation and has recently implemented a new “Mortgage Collection Initiative,” which raises the profile and the priority for mortgage collections. Under this initiative, homeowners are offered opportunities to resolve their mortgage arrears and still allow them to remain in a Corporation homeownership program.</p>

Recommendation	Response
<p><b>54.</b> The Corporation should monitor the district offices regularly to ensure that in allocating homeownership assistance to eligible NWT residents they comply with the Corporation’s policies and procedures, including consistent use of the point-rating tool in assessing applications for assistance. (50–53)</p>	<p>The Corporation agrees with this recommendation and commits to building upon existing processes and approaches for review and monitoring of district office operations and program delivery. As an example, the Corporation has conducted several compliance audits to ensure program allocation policies are adhered to by district operations. It is anticipated that the Corporation will increase its focus on compliance audits at the district level and take steps to improve support to district offices.</p>
<p><b>Planning and reporting</b></p>	
<p><b>59.</b> The Corporation should finalize its strategic plan as soon as possible and should ensure that in its plan it describes clearly how it will meet</p> <ul style="list-style-type: none"> <li>• the housing needs of all NWT residents over the long term;</li> <li>• incorporate all of the various elements of housing together into a comprehensive northern housing strategy; and</li> <li>• describe the changes made in existing programs and services to reflect its new mandate.</li> </ul> <p>(56–58)</p>	<p>The Corporation agrees with this recommendation. While, in the past, the Corporation has conducted long-term planning through the business planning process, it is currently undertaking a strategic planning process that includes traditional strategic planning activities, a strengthened capital planning process, and a long-term needs assessment using data on current and forecasted need. This process is being driven primarily by input from residents and stakeholders through a public consultation process on the Corporation’s mandate held in 2006.</p> <p>The Corporation has developed a four-year Framework for Action that will be released to the public in early 2008. The Framework for Action will</p> <ul style="list-style-type: none"> <li>• renew and focus the time and money spent on housing initiatives,</li> <li>• inform and engage members of the public and partners at all levels of government to become better informed of housing initiatives in order to assist them in their involvement, and</li> <li>• build on the Corporation’s mandate to ensure that there is an adequate supply of affordable housing in all communities.</li> </ul>

Recommendation	Response
<p><b>63.</b> The Corporation should</p> <ul style="list-style-type: none"> <li>• identify, assess, and rank the significant risks it faces;</li> <li>• develop specific strategies and action plans that clearly describe in sufficient detail how it will address the risks identified; and</li> <li>• measure, monitor, and report regularly on the risks to ensure that it is addressing them appropriately and on a timely basis. (60–62)</li> </ul>	<p>The Corporation agrees that there is a need to strengthen our risk management activities. However, given the size of the organization and the limited resources available, we intend to focus our efforts on an annual environmental scan with management to consider the main factors that impact our core business activities.</p>
<p><b>71.</b> The Corporation should improve its performance measurement and reporting by</p> <ul style="list-style-type: none"> <li>• identifying performance measures that include an appropriate balance between outputs, outcomes, and efficiency measures in order to provide a more comprehensive and balanced assessment of its performance; and</li> <li>• eliminating inconsistencies between its business plan and results report in measuring and reporting on the achievement of its targets and expected results.</li> </ul>	<p>The Corporation agrees with this recommendation. Future performance measurement will be coordinated through the Corporation’s Framework for Action 2008–2011, which includes output and outcome measures. Additionally, it will continue to meet the results reporting requirements of the Government of the NWT through the business planning process. Commencing with the 16th Legislative Assembly, the Government’s business planning process will adopt a four-year planning cycle, requiring annual progress updates.</p>
<p>(64–70)</p> <p><b>76.</b> Until new information is available from the NWT Bureau of Statistics on the number and percentage of NWT residents in core need of housing assistance, the Corporation should regularly report on its construction of new housing units and its repair and renovation of existing units, as a way to report on its progress in reducing the number of NWT households in core need of housing assistance. (72–75)</p>	<p>The Corporation has committed, through Framework for Action 2008–2011, to table a full report on the success of the Affordable Housing Initiative following the completion of 2008–2009 construction. This report will include information such as the number and type of units constructed in each community and the associated capital investment. The Corporation commits to further regular reporting of progress to the Legislative Assembly through the business planning process.</p>

