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**REPORT 5, CANADIAN ARMED FORCES
HOUSING, OF THE FALL 2015 REPORTS OF
THE AUDITOR GENERAL OF CANADA**

**Report of the Standing Committee on
Public Accounts**

**Hon. Kevin Sorenson
Chair**

JUNE 2016

42nd PARLIAMENT, 1st SESSION

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

TENTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Chapter 5, Canadian Armed Forces Housing, of the Fall 2015 Report of the Auditor General of Canada and has agreed to report the following:

“REPORT 5—CANADIAN ARMED FORCES HOUSING,” 2015 FALL REPORTS OF THE AUDITOR GENERAL OF CANADA

INTRODUCTION

Canadian Armed Forces (CAF) members may relocate many times during the course of their careers.¹ According to the Office of the Auditor General of Canada (OAG), the Department of National Defence and the CAF (National Defence) support members by providing them with relocation benefits and, in some locations, a monthly allowance to compensate them for higher living costs, as well as by providing them with access to military housing.²

Prior to 1995, military housing was managed by individual base commanders for the Canadian Army and the Royal Canadian Navy, and by wing commanders for the Royal Canadian Air Force.³ According to the OAG, “the housing portfolio was considered dated and in poor condition.”⁴ In October 1995, the Canadian Forces Housing Agency (the Agency) was established as a provisional special operating agency⁵ of National Defence.⁶ In March 2004, the Treasury Board of Canada granted the Agency permanent status.⁷

According to the OAG, many parts of National Defence share the responsibilities for military housing.

- **Chief of Military Personnel:** Develops, approves, implements, and reviews National Defence’s military housing policy and standards.
- **Senior CAF commanders:** Define operational requirements and provide advice on military housing needs.
- **Assistant Deputy Minister (Infrastructure and Environment):** Oversees military housing, provides guidance and technical oversight on the management of the housing portfolio, and oversees the Agency.

1 Office of the Auditor General of Canada [OAG], “[Report 5 – Canadian Armed Forces Housing](#),” *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 1.

2 Ibid.

3 Ibid., p. 2.

4 Ibid.

5 Ibid. A special operating agency is an agency within a government department that has greater management flexibility in return for certain levels of performance and results.

6 OAG, “[Report 5 – Canadian Armed Forces Housing](#),” *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 2.

7 Ibid., p. 3.

- **Agency:** Ensures military housing units are maintained to a suitable standard, and develops and implements plans to meet the future housing needs of the CAF.⁸

In the *Fall 2015 Reports of the Auditor General of Canada*, the OAG released a performance audit that examined whether National Defence managed military housing in a manner that supported housing requirements, that was consistent with government regulations and policies, and that was cost-effective.⁹

The House of Commons Standing Committee on Public Accounts (the Committee) held a hearing on this audit on 22 March 2016.¹⁰ From the OAG, the Committee met with Michael Ferguson, Auditor General of Canada, and Gordon Stock, Principal. National Defence was represented by Bill Jones, Senior Associate Deputy Minister; Jaime W. Pitfield, Assistant Deputy Minister, Infrastructure and Environment; Dominique Francoeur, Chief Executive Officer, Canadian Forces Housing Agency; and, Major-General Derek Joyce, Deputy Commander, Military Personnel Command.¹¹

MILITARY HOUSING REQUIREMENTS

The Agency received its status as a permanent special operating agency on the condition that National Defence follow established government policy on Crown-owned housing.¹²

The OAG examined National Defence policy and practices to determine whether they were consistent with applicable regulations and government policy, and used to support decisions on military housing.¹³

In its audit, the OAG noted that National Defence last updated its Living Accommodation policy in 2007, but it had been under review since 2009.¹⁴ According to the OAG:

- This policy states that National Defence can provide military housing only in locations where there is an operational requirement, or where the private housing market cannot meet the needs of CAF members.
- The policy states that the affordability of housing, when it arises, should be addressed through compensation. Housing should not provide an

8 Ibid.

9 Ibid.

10 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 22 March 2016, [Meeting 6](#).

11 Ibid., 0845.

12 OAG, "[Report 5 – Canadian Armed Forces Housing](#)," *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 4.

13 Ibid., p.5.

14 Ibid.

entitlement or benefit to members, and all members should have equitable access to suitable housing.

- The policy is supplemented by National Defence's Living Accommodation Instruction. This instruction defines the standards that apply to military housing, notably livable space and number of rooms, as well as the rules that govern how and which members can access and occupy housing.¹⁵

The OAG found that National Defence's policy was generally consistent with government policy. However, the OAG found that National Defence did not comply with two key aspects of its own policy.¹⁶ From his testimony to the Committee, Michael Ferguson, Auditor General of Canada, stated the following:

We found that the department had not determined who among members of the [CAF] should be receiving housing, what form this housing should take, and where it should be located. We also found that National Defence did not comply with key aspects of its military housing policy. This policy states that National Defence can provide housing only in locations where there is an operational requirement, or where the private housing market cannot meet the needs of military members. We found that National Defence did not consider whether the private market could meet the housing needs of [CAF] members in some locations, although it had market analyses that showed members' needs could be met in some urban locations like Halifax [Nova Scotia] and Valcartier [Quebec].¹⁷

The OAG's report also noted that National Defence was constrained in the application of its policy regarding the affordability of housing. The policy states that military housing must be allocated on a first-come, first served basis and that affordability of housing should be ensured through compensation.¹⁸ However, according to the OAG, when National Defence offers military housing, it must also comply with the [Queen's Regulations and Orders: Volume VI – Appendix 4.1 Charges for Family Housing Regulations](#) which were issued in 2001 under the authority of the [National Defence Act](#) and take precedence over the governmental and departmental policies. For example, these regulations include a potential limit on the amount of rent charged as a percentage of family's gross income, and contain provisions intended to make military housing more affordable to junior ranks.¹⁹

In the audit, the OAG also noted that the Agency had market analysis that indicated that its rental rates were below those of the private sector in such location as Bagotville (Quebec), Edmonton (Alberta), and Winnipeg (Manitoba)—which can create inequities between military housing and private housing occupants.²⁰ When asked how rental rates

15 Ibid.

16 Ibid.

17 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 22 March 2016, [Meeting 6](#), 0845.

18 OAG, "[Report 5 – Canadian Armed Forces Housing](#)," *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, *Ibid.*, p. 7.

19 *Ibid.*, p. 7.

20 *Ibid.*, pp. 7–8.

were assessed, Dominique Francoeur, Chief Executive Officer, Canadian Forces Housing Agency, explained that until 2013, they were appraised by the Canada Mortgage and Housing Corporation (CMHC); since then, after CMHC discontinued this service, the Agency determined rental rates by applying the consumer price index to the existing CMHC rates.²¹ Questioned about the possibility that military housing rental rates below those of the private sector could be considered a [taxable benefit](#) by the Canada Revenue Agency, Mr. Ferguson responded:

[I]t wasn't something we specifically looked at. Certainly there is always a risk when an employer is providing a benefit to an employee that there could be a taxable benefit. But I couldn't give you an opinion on whether there's an issue here or not, because as you well know the *Income Tax Act* is quite complex and you would have to go through all of that. It wasn't part of what we looked at in the audit and I really wouldn't be able to give you an opinion on it.²²

The OAG recommended that National Defence complete the review of its military housing policy and clearly define its operational requirements for military housing.²³ National Defence responded that in September 2015, the departmental stakeholders were directed to complete the review of the operational requirements for military housing by the fall of 2016.²⁴

In its action plan, National Defence wrote that in the Spring of 2017, it will complete its review of the operational requirements, and begin a policy that “will aim to align the overall housing strategy, through the Queen’s Regulations and Orders (QR&O), with the operational requirement and will result in a review and/or revision of QR&O, Defence Administrative Order and Directive (DAOD) and the DND living Accommodation Instruction.”²⁵ According to National Defence, QR&O changes will require Minister of National Defence approval, and changes to the QR&O appendix, integral to the policy, will require a Treasury Board submission. National Defence will produce a revised accommodation policy by the Fall of 2018.²⁶

The Committee recommends:

Recommendation 1

That the Department of National Defence provide the House of Commons Standing Committee on Public Accounts with its new operational requirements for military housing by 30 June 2017, and its revised accommodation policy by 31 December 2018.

21 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 22 March 2016, [Meeting 6](#), 1030.

22 Ibid.

23 OAG, “[Report 5 – Canadian Armed Forces Housing](#),” *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 8.

24 Ibid.

25 National Defence, Departmental Action Plan provided to the Committee on 18 March 2016, p. 1.

26 Ibid.

MILITARY HOUSING MANAGEMENT

The OAG examined whether the Agency had developed adequate plans that defined the work, time, and resources needed to meet National Defence's military housing requirements.²⁷

"In 2002, National Defence outlined its vision for providing housing to CAF members in *Accommodation in Support of the Canadian Forces: A Vision for 2020*, which includes the goal of bringing the military housing portfolio up to contemporary standards."²⁸ The OAG found that National Defence did not have an adequate and approved long-term plan to improve the condition of the portfolio, bring it up to contemporary standards, and help it better meet CAF members' needs.²⁹

The Agency had developed site planning documents for each base and wing. According to the OAG, in several locations such as Borden (Ontario), Edmonton (Alberta), Shilo (Manitoba), and Valcartier (Quebec), the Agency documented a gap between the housing needs of members caused by changes in household sizes and types, and the military housing units available to meet those needs. However, the OAG found that these site planning documents did not identify when units would be built or what resources would be needed, and no actions were taken to meet these needs.³⁰

When questioned about how National Defence would address this situation, Bill Jones, Senior Associate Deputy Minister, National Defence, responded as follows:

The issue is that we need to do a better job to define our requirements, the number of units we need, the type of units, the location, and so forth. Once we have that information, once the policy has been set, then we will be able to put in place a more appropriate and specific management plan.³¹

The Agency also used condition assessment information from a national database to set priorities for its annual spending plan on housing units. However, the OAG noted that the information was not always reliable, and that the information had not been updated since October 2014 because of software problems.³²

The OAG recommended that the Agency regularly capture and update its condition assessment information to ensure that it is accurate and available to inform decisions.³³

27 OAG, "[Report 5 – Canadian Armed Forces Housing](#)," *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 9.

28 *Ibid.*, p. 8.

29 *Ibid.*, p. 10.

30 *Ibid.*

31 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 22 March 2016, [Meeting 6](#), 0915.

32 OAG, "[Report 5 – Canadian Armed Forces Housing](#)," *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 10.

33 *Ibid.*, p. 11.

National Defence responded that the Agency configured the condition assessment functionality within its recently upgraded Housing Agency Management Information System and transferred the housing asset condition data from the old system. The Agency will complete system training and roll-out to regional offices by 31 March 2016.³⁴ In its action plan, National Defence wrote that it will complete the design and implementation of its system by the Spring of 2016.³⁵

Mr. Ferguson also encouraged the Agency to put in place a quality management process for the Housing Agency Management Information System:

[T]his is something that we've seen in a lot of audits—that many times when new systems are put in place and we come along later and we do an audit, we find that the data that are put in aren't very good. I would encourage the agency to make sure that not only do they have this new system and not only have they populated the data in the system at the beginning of the system, but also that they have a good quality management process in place to make sure the information they are maintaining in that system is of sufficient quality and can be used to manage the program adequately.³⁶

The Committee recommends:

Recommendation 2

That, by 30 June 2016, the Department of National Defence provide the House of Commons Standing Committee on Public Accounts with a progress report on the upgraded Housing Agency Management Information System's first three months after the roll-out to regional offices, along with a report explaining the quality management process that will be implemented to ensure that its data is accurate, timely, and reliable.

The OAG also recommended that, once National Defence has completed its policy review and clearly defined its operational requirements for military housing, it should develop adequate plans that identify the work, time, and resources needed to meet these requirements.³⁷ National Defence responded that it will have a long-term accommodation plan in place within a year after two conditions are met: the accommodation policy review is completed, and operational requirements for military housing are clearly defined and have received departmental approval.³⁸ In its action plan, National Defence wrote that it will have a long-term residential housing accommodation plan in place by the Fall of 2019.³⁹

34 Ibid.

35 National Defence, Departmental Action Plan provided to the Committee on 18 March 2016, p. 4.

36 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 22 March 2016, [Meeting 6](#), 1000.

37 OAG, "[Report 5 – Canadian Armed Forces Housing](#)," *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, *Ibid.*, p.11.

38 *Ibid.*

39 National Defence, Departmental Action Plan provided to the Committee on 18 March 2016, p. 2.

When the Committee inquired how it could assess any interim progress prior to 2019, Mr. Jones explained that once the information management system is brought up to speed, populated with good data, the Committee could inquire about its status, reliability, usefulness, etc.; then, as regards the plan update, the Committee could inquire if the Department has adequately identified military operational requirements, other key pillars, etc.⁴⁰

Mr. Ferguson stressed the importance of institutionalizing long-term commitments by saying:

What's important is to make sure that the commitment and the engagement that we've heard today from the department are at the institutional level rather than just being commitments and feelings of the individuals here. As we get into 2019 and then actually into implementation, before we can see what this plan is and how it's going to be implemented, that will be beyond my term as Auditor General. It may be beyond the term of some of the people sitting at the table today. Really, what's important is to make sure the organizations have institutionalized this, to make sure that the commitment is a commitment that exists, not because some people in the bureaucracy right now are committed to it, but because the organization is committed to it.⁴¹

The Committee recommends:

Recommendation 3

That the Department of National Defence formally institutionalize its commitment to develop its long-term accommodation plan by 31 December 2019, rather than solely charging this responsibility to its current office holders. This plan should clearly identify the work, time, and the resources required to meet the new operational requirements, and be provided to the Committee by 31 December 2019.

The OAG also examined documents and other information on funding and financial planning from the Agency and National Defence.⁴² According to the OAG, under the [Financial Administration Act](#) (FAA), the Agency cannot carry over rental revenues to future fiscal years. In addition, under the FAA and annual appropriation Acts, National Defence has parliamentary authority to spend its rental revenues only on operating costs, such as maintenance and repair for existing housing units.⁴³

The OAG found that National Defence did not commit a stable annual amount of capital funding to the Agency, but rather provided funding throughout the year.⁴⁴ The OAG noted that to alleviate the constraints associated with the amount and timing of capital

40 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 22 March 2016, [Meeting 6](#), 1025.

41 Ibid., 1010.

42 OAG, "[Report 5 – Canadian Armed Forces Housing](#)," *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 12.

43 Ibid.

44 Ibid.

funding, the Agency provided a portion of its rental revenues to National Defence in exchange for an equivalent amount of capital funding. However, according to the OAG, National Defence did not clearly define what its military housing costs were and which of these costs were to be covered by rental revenues, which reduces the transparency of the operating costs of military housing.⁴⁵ On these matters, Mr. Ferguson explained the following:

The Canadian Forces Housing Agency must use its rental revenues only for operations and maintenance. Capital funds received from the [D]epartment are used for major renovations and new construction. We found that the timing of receipt of the capital funding did not always match the construction cycle. For example, in January 2015 it received \$6 million of capital funding, but had just two months left in the fiscal year to spend these funds.⁴⁶

The OAG recommended that National Defence ensure that it uses resources dedicated to military housing effectively. In particular, it should clarify operating costs and track costs it expects to be covered by rental revenues, and allocate capital funds in a timely manner so that it can plan their use adequately.⁴⁷ In response, Mr. Jones told the Committee, that National Defence “is tracking costs as recommended by the Auditor General” and that the Department will be “providing the agency with confirmed capital funding at the beginning of each fiscal year which will allow them to plan ahead.”⁴⁸

Furthermore, National Defence stated that it “will compile a reconciliation at the end of every fiscal year that will report housing rental revenues received and expenditures incurred within National Defence related to and in support of military housing operations.”⁴⁹ Ms. Francoeur told the Committee that this reconciliation would be reported in the Agency’s annual report.⁵⁰ According to the Department’s action plan, the expected completion date for this commitment is no later than 30 days after the end of the previous fiscal year.⁵¹ In addition, “funding to the Agency will be allocated over a three-year planning period through the initial allocation letter signed by the Deputy Minister at the beginning of every year.”⁵² In its action plan, National Defence wrote that the three-year

45 Ibid., p. 13.

46 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 22 March 2016, [Meeting 6](#), 0850.

47 OAG, “[Report 5 – Canadian Armed Forces Housing](#),” *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 14.

48 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 22 March 2016, [Meeting 6](#), 0855.

49 OAG, “[Report 5 – Canadian Armed Forces Housing](#),” *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 14.

50 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 22 March 2016, [Meeting 6](#), 1045.

51 National Defence, Departmental Action Plan provided to the Committee on 18 March 2016, p. 5.

52 OAG, “[Report 5 – Canadian Armed Forces Housing](#),” *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 14.

notional allocations will be adjusted when National Defence completes its long-term accommodation plan and identifies resource requirements.⁵³

CONCLUSION

In its audit, the OAG found that “National Defence’s policy on military housing was consistent with government policy, but that National Defence did not comply with key aspects of its own policy.” For example, National Defence did not clearly define its operational requirements or consider how the private housing market could meet the needs of CAF members. The OAG also found that National Defence did not have adequate and approved plans to support the current and future needs of military housing and, because of constraints associated with the amount and timing of capital funding, could not spend its funds effectively to modernize its portfolio.⁵⁴

Throughout this study, the Committee was disappointed to learn that National Defence still had problems managing the housing of CAF members despite Canada’s long military history. However, the Committee was encouraged to learn that the Department had already taken corrective actions and made commitments to address the concerns identified in the OAG’s audit.

Specifically, in response to the OAG’s recommendations, the Department of National Defence has committed to reviewing its accommodation policy; developing a long-term accommodation plan; improving the quality of the Agency’s condition assessment information; compiling a reconciliation of its military housing rental revenues and expenditures at the end of every fiscal year; and, allocating capital funding to the Agency on a three-year planning period. In the coming years, the Committee will closely monitor the Department’s progress in fulfilling each of these commitments.

53 National Defence, Departmental Action Plan provided to the Committee on 18 March 2016, pp. 5-6.

54 OAG, [“Report 5 – Canadian Armed Forces Housing,”](#) *Fall 2015: Reports of the Auditor General of Canada*, Ottawa, 2015, p. 14.

SUMMARY OF RECOMMENDED ACTIONS AND ASSOCIATED DEADLINES

Table 1 – Summary of Recommended Actions and Associated Deadlines

Recommendation	Recommended Action	Deadline
Recommendation 1	The Department of National Defence needs to provide the Committee with its new operational requirements for military housing, and its revised accommodation policy.	30 June 2017 and 31 December 2018
Recommendation 2	The Department of National Defence needs to provide the Committee with a progress report on the upgraded Housing Agency Management System's first three months after the roll-out to regional offices, along with a report explaining the quality management process that will be implemented to ensure that its data is accurate, timely, and reliable.	30 June 2016
Recommendation 3	The Department of National Defence needs to formally institutionalize its commitment to develop its long-term accommodation plan rather than solely charging this responsibility to its current office holders. This plan should clearly identify the work, time, and the resources required to meet the new operational requirements.	31 December 2019

APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p>Department of National Defence</p> <p>Dominique Francoeur, Chief Executive Officer, Canadian Forces Housing Agency</p> <p>Bill Jones, Senior Associate Deputy Minister</p> <p>MGen Derek Joyce, Deputy Commander, Military Personnel Command</p> <p>Jaime W. Pitfield, Assistant Deputy Minister, Infrastructure and Environment</p>	2016/03/22	6
<p>Office of the Auditor General of Canada</p> <p>Michael Ferguson, Auditor General of Canada</p> <p>Gordon Stock, Principal</p>		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meeting No. 6, 8, 13](#)) is tabled.

Respectfully submitted,

Hon. Kevin Sorenson

Chair

