

Federal budget 2008: Three housing questions for Finance Minister Flaherty

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Will Minister Flaherty make a **down-payment** on the long overdue national housing program, as recommended by the United Nations?

Will the federal government **reverse** the 1996 scheme that locks in place an escalating series of housing cuts?

When federal Finance Minister Jim Flaherty rises in the House of Commons on Feb. 26 to deliver the 2008 federal budget speech, the millions of Canadians suffering from housing insecurity and homelessness will look for answers to three questions:

Will the federal government *renew and extend* the three major national housing and homelessness programs – all of which are due to expire in fiscal 2008?

Will Minister Flaherty make a *down-payment* on the long overdue national housing program, as recommended by the United Nations, along with many domestic authorities?

Will the federal government *reverse* the 1996 scheme that locks in place an escalating series of housing cuts that will quickly spiral into hundreds of millions of lost dollars annually?

This backgrounder from the Wellesley Institute, an independent policy and research institute that seeks to advance urban health, is being released in advance of the 2008 federal budget to highlight some key housing issues and solutions.

Three major federal programs due to expire in fiscal 2008

Canada is caught in a deep and persistent cycle of housing insecurity and homelessness. Officially, 1.5 million households (about 4.2 million women, men and children) are in “core housing need”¹ and perhaps 300,000 Canadians will experience homelessness over the course of the year². Housing insecurity has a large personal cost, leading directly to increased illness and premature death. It also disrupts communities and puts a brake on economic competitiveness, according to a growing number of business organizations³. Homelessness – the most visible sign of housing insecurity – also carries a high cost for taxpayers. One recent study estimated that homelessness costs Canadians between \$4.5 and \$6 billion annually⁴ – more than triple the dwindling amount that the federal government pays for affordable homes.

Housing insecurity has two dimensions – supply (enough homes of proper quality to meet the housing needs of Canadians) and affordability (housing costs that are affordable, especially for low, moderate and middle-income households) – and both are intertwined.

On the supply side in the recent years, residential construction has been booming – more than 200,000 new homes in 2002 and rising to an extremely strong 227,395 new homes in 2006⁵. However, most of those new homes are in the ownership market. One-in-three Canadian households are renters, including most low, moderate and even middle-income households. In 1990, about one-quarter of all housing starts were in the rental sector. By 2005, less than 10% were in the rental sector (which provides most of the housing for low and moderate-income Canadians). Canada used to have a national housing program to fund the construction of hundreds of thousands of good quality, truly affordable non-profit, co-operative, on-reserve

¹ Source: Canada Mortgage and Housing Corporation, 2001

² Source: Estimate from National Housing and Homelessness Network

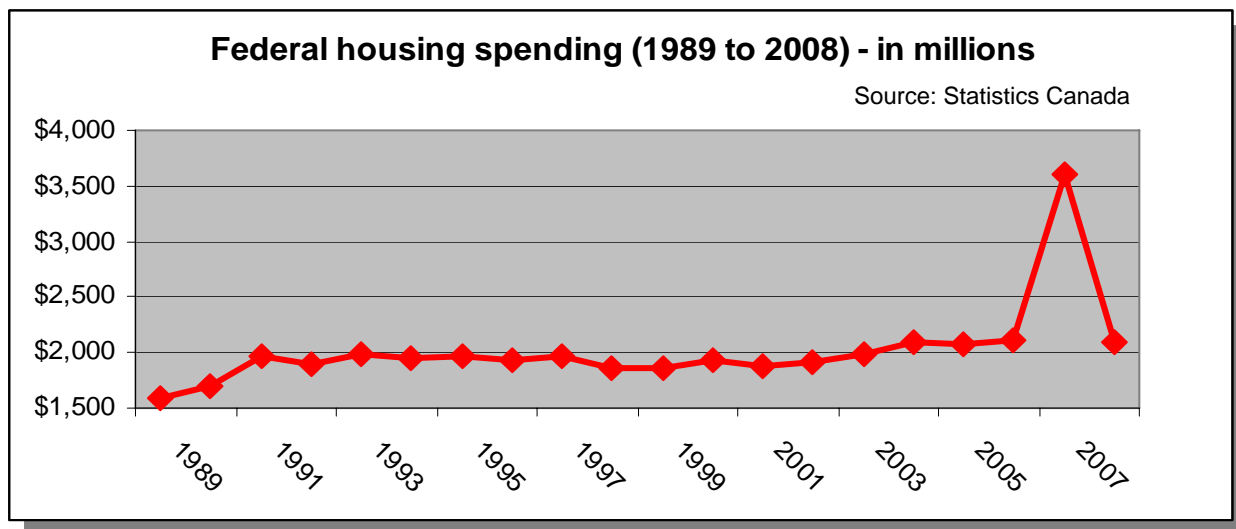
³ See for instance, Toronto Board of Trade, 2003; TD Economics, 2003; Toronto City Summit Alliance, 2003.

⁴ Gordon Laird, 2007. *Homelessness in a Growth Economy*. Calgary: Sheldon Chumir Foundation for Ethics in Leadership. Available at <http://www.chumirethicsfoundation.ca/files/pdf/SHELTER.pdf>

⁵ Source: Canada Mortgage and Housing Corporation, 2006

Aboriginal housing and urban/rural native housing. In the early 1980s before the start of federal funding cuts, more than 20,000 affordable homes were built each year. After new funding for federal social housing was cancelled in 1993, the number of new affordable homes funded annually dropped to about 1,000 and has remained at that level until 2006, when it edged up slightly as the new funding patchwork delivered new units⁶.

In the decade starting in 1980, an annual average of 11 out of every 100 new homes in Canada were truly affordable; over the past decade, the annual average has slipped to less than one new truly affordable home for every one hundred new homes built.



The relative lack of new truly affordable homes underlines the urgent need for the federal government to renew and enhance its Affordable Housing Program, which was launched with the signing of the federal-provincial-territorial Affordable Housing Framework Agreement in 2001, and given a major boost when Parliament authorized an additional \$1.6 billion in 2005. While the 2005 funding led to a one-year spike in federal housing spending, the promise that the federal government made in 2001 to add an additional \$1 billion has yet to be realized as housing spending has been mostly flat-lined since the early 1990s.

Budget watch #1:

With federal affordable housing dollars due to expire in fiscal 2008, will Finance Minister Flaherty announce new dollars to help fund new truly affordable homes?

Still on the supply side, much of Canada’s 12.5 million residential dwellings are in buildings that are older than 30 years, including much of the government-owned and managed public housing stock that provides a home to many of the poorest households in the country. This housing is aging and deteriorating. The federal government’s Residential Rehabilitation Assistance Program

⁶ Source: Canada Mortgage and Housing Corporation, 2006

has for many decades provided lower-income homeowners and landlords with the funding they need to bring their housing up to a proper standard. RRAP was ramped up in 1999 and has provided practical assistance to improve more than 150,000 homes since then. In 2006, the federal government announced a two-year extension of RRAP at \$128 million annually. This funding is due to expire in fiscal 2008.

Budget watch #2:

With federal housing rehabilitation dollars due to expire in fiscal 2008, will Finance Minister Flaherty announce new dollars to renew and enhance RRAP?

Also in 2006, the federal government announced a two-year extension of its national homelessness strategy, which provides funding for services and transitional housing in 61 communities across the country at \$135 million annually. This funding will expire in fiscal 2008.

Budget watch #3:

With federal homelessness dollars due to expire in fiscal 2008, will Finance Minister Flaherty announce new dollars to renew and enhance the national homelessness program?

On the affordability front, housing costs for both tenants and owners have outpaced inflation during the years 1997 to 2005⁷. Renters have annual incomes that are, on average, half of the incomes of owner households and the gap between the two is growing wider⁸. For renters, the housing affordability gap – the gap between average market rent and the rent that a median household can afford to pay – moved into the negative range in 2003 and has been growing wider since then⁹. For owners, rapidly escalating housing prices have led to deteriorating affordability in every part of the country¹⁰.

Deteriorating affordability is leading to a host of concerns: Over-crowding (two or more households crammed into a dwelling unit intended for just one; longer line-ups at foodbanks for households unable to pay the rent and feed the kids; longer commutes (with increased environmental concerns and more congestion) as households seek less expensive homes farther from urban core areas; and, a rise in evictions for those households unable to carry the costs.

Renter households have been particularly hard hit on the affordability side. From 1990 to 2005, the median household income fell from \$29,600 to \$29,000 in real dollars¹¹, even though over that same fifteen years, the costs of rents rose, along with other necessities including energy,

⁷ Source: Statistics Canada, Survey of Housing Spending

⁸ Source: Statistics Canada, Survey of Labour and Income Dynamics

⁹ Source: Wellesley Institute calculation based on Statistics Canada SLID and CMHC rental market reports

¹⁰ See, for instance, RBC Economics, *Housing Affordability*, January 2008

¹¹ Source: Statistics Canada, Survey of Labour and Income Dynamics

medicine and transportation. The affordability squeeze is a major factor in generating housing insecurity and homelessness.

Long overdue national housing program

On October 22, 2007, the United Nations' Special Rapporteur on the Right to Adequate Housing, Miloon Kothari, concluded his fact-finding mission to Canada with these observations¹²:

“Everywhere that I visited in Canada, I met people who are homeless and living in inadequate and insecure housing conditions. On this mission I heard of hundreds of people who have died¹³, as a direct result of Canada’s nation-wide housing crisis. In its most recent periodic review of Canada’s compliance with the International Covenant on Economic, Social and Cultural Rights, the United Nations used strong language to label housing and homelessness and inadequate housing as a “national emergency”. Everything that I witnessed on this mission confirms the deep and devastating impact of this national crisis on the lives of women, youth, children and men.

“Canada has ratified numerous international human rights instruments that not only recognize the right to housing, but also create an obligation on the Government to take steps for the progressive realization of these human rights with the maximum of its available resources. In recent review by United Nations’ authorities, including – most recently – the May 2006 period review of Canada’s compliance with the International Covenant on Economic, Social and Cultural Rights, Canada’s continuing failure to incorporate these international legal standards into Canadian domestic law has been noted with growing concern.”

His first two recommendations echoed the recommendations from other UN authorities, and also from Canadian housing and homelessness experts and advocates:

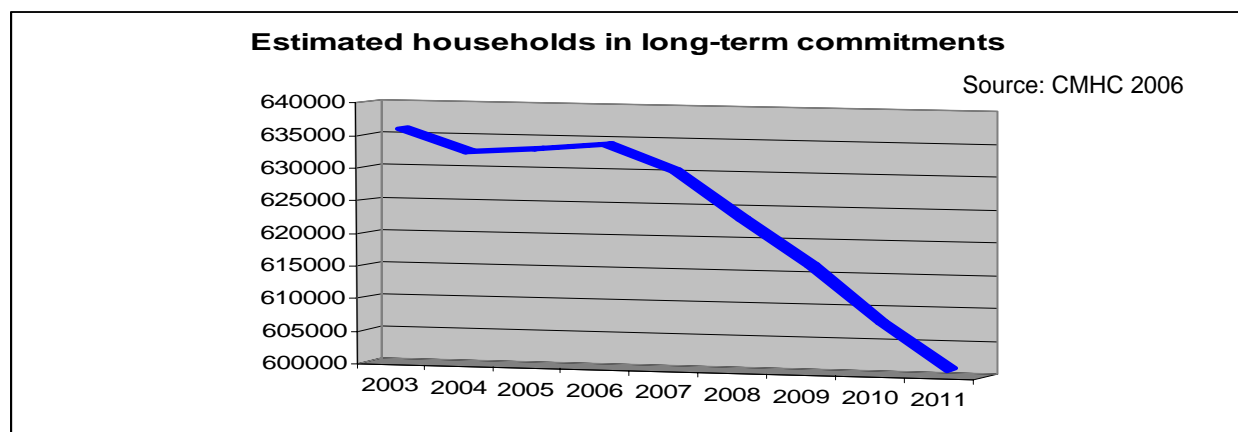
“The Federal Government needs to commit funding and programmes to realize a comprehensive national housing strategy, and to co-ordinate actions among the provinces and territories, to meet Canada’s housing rights obligations. Canada needs to once again embark on a large scale building of social housing units across the country.”

During the 1970s and 1980s, Canada had a vibrant national housing program that was applauded around the world. Federal funding cuts starting in 1984 led to a decision in 1993 to cancel all funding for new affordable homes. In 1996, the federal government announced plans to download most federal housing programs to the provinces and territories. In 1998, the federal government amended the *National Housing Act* to start the commercialization of Canada Mortgage and Housing Corporation, the federal government’s housing agency.

¹² Miloon Kothari, 2007. *Preliminary Observations of the Special Rapporteur*. Available on-line at <http://www2.ohchr.org/english/issues/housing/index.htm>

¹³ As far back as 1999 the UN Human Rights Committee after reviewing Canada’s State report expressed concern that “... homelessness has led to serious health problems and even to death. The Committee recommends that the State Party takes positive measures to address this serious problem...”

The limited patchwork of short-term funding that has been announced since 2001 doesn't replace the dollars that were lost in the 1980s and 1990s. Those cuts have led to a steady decrease in the number of households that are being assisted under federal housing programs; dropping from slightly more than 635,000 households in 2003 to a projected 600,000 households in 2011¹⁴.



Canada is the only major country in the world without a national housing strategy. We have fallen behind many of our economic partners when it comes to ensuring that everyone – especially those with the lowest incomes – have a decent place to call home. Canada has slightly more than 12.5 million dwellings, with 630,000 (5%) subsidized under various federal programs¹⁵. The percentage of social housing in Canada is among the lowest of our partners in the developed world. In Netherlands, 40% of all housing is social housing; 22% in the United Kingdom and Sweden; 14% in Germany, France and Ireland; 10% in Finland; and, 6% in Australia. Only United States, with 2% of its overall housing stock in social housing, has a lower percentage than Canada¹⁶.

The national housing cuts came at a time when our economy was robust and growing. Canada's Gross Domestic Product was slightly more than \$1.4 trillion in 2006 – a big increase from the half a trillion dollars twenty years ago¹⁷. The robust private economy has been picking up steam since a slight economic slowdown in the early 1990s. In each of the past ten years, the annual growth in the GDP has been about \$58 billion. The benefits of the booming economy have not been shared equally among all sectors. Corporate profits have grown considerably in recent years, from \$160 billion in 1999 to \$250 billion in 2005, but the percentage of corporate profits paid to income tax has dropped from 25% in 1999 to 21% in 2005¹⁸.

The public share of the economy has been shrinking. Federal spending as a percentage of the GDP dropped from 20% in 1991 to just over 13% in 2007¹⁹. A critical subset is the amount of social spending (for health, education, housing and related initiatives) as a percentage of GDP.

¹⁴ Source: Canada Mortgage and Housing Corporation Corporate Plan Summary 2007 to 2011

¹⁵ Sources: Statistics Canada, Canada Mortgage and Housing Corporation, 2006

¹⁶ Source: J. David Hulchanski, University of Toronto Centre for Urban and Community Studies, 2005

¹⁷ Source: Statistics Canada, 2006

¹⁸ Source: Statistics Canada, 1999 to 2005

¹⁹ Government of Canada, Budget 2007

Ranked against other developed countries, Canada fares poorly. A 15-country survey in 2005 placed Canada close to the bottom of Organization of Economic Co-operation and Development countries at 23.3% of GDP²⁰. The United States ranked higher, at 24.5%²¹.

Budget watch #4:

Will Finance Minister Flaherty announce new dollars in Budget 2008 to make a down-payment on a long overdue national housing program?

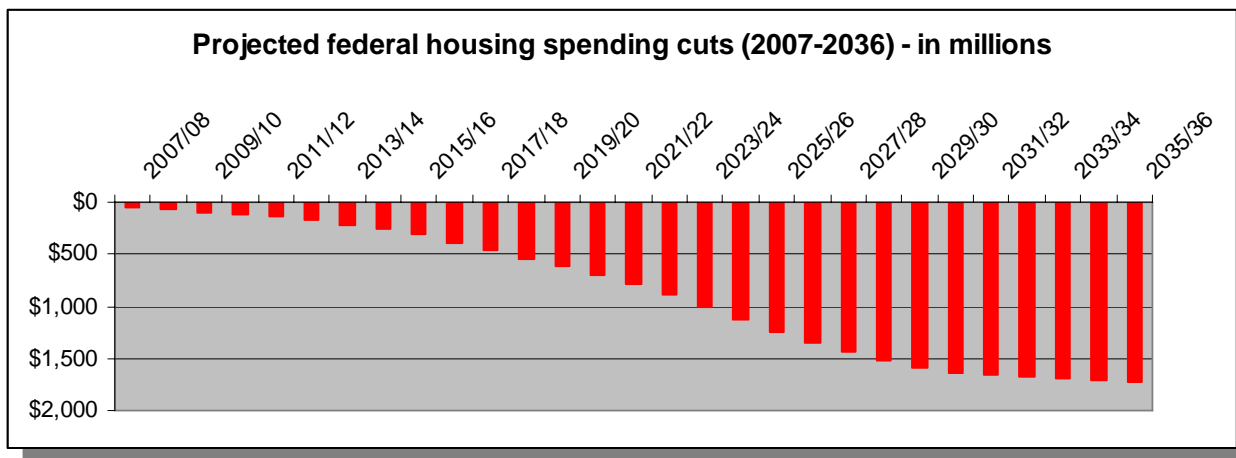
Maintaining the housing investment

The federal housing cuts and the decision to commercialize Canada Mortgage and Housing Corporation have led to an impressive growth in net income (profit) for the national housing agency. At a time of growing national housing need, and shrinking federal housing investments, CMHC reported that its net income was \$667 million in 2003 and its retained earnings were \$2.2 billion. CMHC projects that by 2011 its annual net income will have more than doubled to \$1.3 billion and its retained earnings will reach \$5.3 billion²². The net income and retained earnings at CMHC are climbing even as its housing investments are slated to drop.

Budget watch #5:

Will Finance Minister Flaherty announce plans to reinvest at least part of CMHC's net income and retained earnings into a new national housing program?

The decision by the federal government in 1996 to download most federal housing programs to the provinces and territories included a plan for locked-in housing cuts over the next three decades. The housing cuts will quickly grow to hundreds of millions of dollars annually.



²⁰ Note: The OECD social spending numbers include federal, provincial and other governmental spending, so the social spending percentage is higher than the total federal spending reported previously.

²¹ Source: OECD 2005, based on statistics for the year 2001

²² Source: Canada Mortgage and Housing Corporation Corporate Plan Summary 2007 to 2011

The annual housing cuts will come as the federal government “steps out” of its operating agreements covering the hundreds of thousands of affordable homes that were funded mainly during the 1970s and 1980s.

Budget watch #6:

Will Finance Minister Flaherty announce plans in Budget 2008 to maintain the investment in affordable homes by reversing the decision to lock-in a rapidly escalating series of federal housing funding cuts?

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- **Wellesley Institute National Housing Report Card**, February 2008
- **Ten Things You Should Know About Housing and Homelessness**, October 2007
- **Wellesley Institute Blueprint to End Homelessness in Toronto**, October 2006

Also on the Wellesley Institute web site:

- **Delivering Equity: Community-Based Models for Access and Integration in Ontario's Health System**, November 2007
- **Private Personal Care: Homes and the Hardest to House**, Enabling Grant Research Report, February 2008
- **The Inter-Agency Services Collaboration Project**, October 2007

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