

SHB *notification*

Subject: Pooling of Capital Reserves

- Legislation/Regulation
 Operational

Release 03-13

The *Social Housing Reform Act, 2000* established the Social Housing Services Corporation (SHSC). The Social Housing Services Corporation is a statutory body, which has the sole authority to manage the pooling of capital reserve funds for prescribed housing providers.

In 1999, the Provincial Auditor recommended that housing providers be required to pool their capital reserve funds and invest in a broader range of investment vehicles, in order to increase their returns.

SHSC set up SHSC Financial Inc. to manage mutual funds for providers' pooled capital reserves. In January 2003, four funds were opened in which providers may invest: money market, short-term bond, regular bond, and Canadian equity. (Further information about the funds is available through SHSC's website at www.shscorp.ca; fund performance is published in the mutual fund section of major newspapers.)

Housing providers' responsibility

Clause 93(2)(f) of the *Social Housing Reform Act, 2000*, requires "the housing provider's participation in a system for the pooling for capital reserves for investment purposes." Subsection 26.2. of O. Reg. 339/01 states that prescribed housing providers "shall participate in a system for pooling capital reserves for investment purposes and shall follow such investment policies (...) as may be established by the Social Housing Services Corporation."

Although the Act contemplated requiring funds to be transferred immediately, **SHSC Financial Inc. has set December 31, 2003 as the deadline for housing providers to invest their capital reserves.** SHSC Financial Inc. is currently contacting all prescribed providers who have not yet invested to remind them of this deadline and develop a plan for investing by the end of the year.

It is in the interests of all housing providers and Service Managers that capital reserve funds are invested as early as possible, both to maximize returns and to minimize costs.

The situations of providers whose funds were locked into investments such as Guaranteed Investment Certificates *before February 2003* will be reviewed on a case-by-case basis by the portfolio advisors of Phillips, Hager and North; providers will be expected to transfer all funds unless doing so would result in a loss or financial penalty. Any funds

locked-in *after February 2003* must be transferred by December 31, 2003, regardless of whether a loss or penalty would be incurred.

Prescribed housing providers that do not invest their capital reserve funds with SHSC Financial Inc. are in breach of legislation. Service Managers have a broad range of remedies available to them under the *Social Housing Reform Act, 2000*. As such, Service Managers may take the any the following actions:

- Clause 116. (1) 1. of the *Act*, may discontinue or suspend the subsidy payments required to be made to the housing provider;
- Clause 116. (1) 2. of the *Act*, reduce subsidy payments to the non-compliant housing provider;
- Clause 116. (1) 4. of the *Act*, the service manager may perform any of the duties and exercise any of the powers of the housing provider under the *Act*.

Service Managers are responsible for monitoring housing providers' compliance with the *Social Housing Reform Act, 2000*, and its regulations. Participation by housing providers in the capital reserve investment pool managed by SHSC will form part of the post-transfer assessments of service managers conducted by the Ministry.

Action required

With the **December 31, 2003 deadline** for investment approaching, Service Managers should be contacting providers to urge them to invest their capital reserves in the Social Housing Investment Funds soon. Service managers must also ensure that housing providers are not entering into any agreements outside of the funds established by the SHSC. SHSC can provide Service Managers with up-to-date lists of which providers in their service areas have invested. Contact Rosabelle Gonzales at the SHSC at 416-594-9325, ext. 20, or email rgonzales@shscorp.ca.



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