



County of Wellington

Social Services Department – Housing Services

DIRECTIVE

Directive Number: 2016-01

Effective Date: May 27, 2016

This directive has been developed by the County of Wellington in its role as Consolidated Municipal Service Manager (CMSM) and applies to housing providers funded under the following social housing programmes:

<input checked="" type="checkbox"/>	Provincially Reformed Non-Profit Housing Programmes (MNP, PNP & OCHAP) 6(A)
<input checked="" type="checkbox"/>	Provincially Reformed Co-operative Housing Programmes (Co-ops) 6(B)
<input checked="" type="checkbox"/>	Municipal Non-Profit Housing Programme (Section 56.1 Pre-1986) 6(C)
<input type="checkbox"/>	Public Housing Programme – County of Wellington 1(A)
<input checked="" type="checkbox"/>	Federal Non-Profit Housing Programme (Section 95 Pre-1986) 5

SUBJECT: Capital Guide 2016

LEGISLATIVE REFERENCES: Housing Services Act, 2011 (HSA) S. 75(b)

POLICY REFERENCES: N/A

DIRECTIVE REFERENCES: Directive 2014-09: Extraordinary Capital Funding
Directive 2013-16: Multi-year Financial Plans

ATTACHED: Capital Guide 2016

BACKGROUND:

The County of Wellington, as CMSM, is committed to helping Housing Providers manage their capital reserve funds in a proactive, ongoing and useful manner.

HSA, Ontario Regulation 367/11 S.98 states:

“A housing provider may use amounts from a capital reserve only for expenditures for the construction or renovation of, or substantial repairs to, the Part VII housing provided for which the capital reserve is maintained, including reasonable expenditures for planning and budgeting for construction, renovation or repairs.”

For federal housing providers, Canada Mortgage and Housing Corporation issued a reference guide, “The Replacement Reserve: A Guide for Use” in April 1998 to provide direction on the appropriate use of Replacement Reserve funds.

In June 2015, the County of Wellington CMSM provided a draft Capital Guide to HSA Part VII and federal housing providers. Housing providers were asked to review the draft guide and to provide the CMSM with comments and suggestions for improvement.

The attached Capital Guide outlines the Housing Division's position and administrative approach on capital planning, purchasing and reporting on the community assets managed by the housing providers.

DIRECTION:

Effective immediately, the attached Capital Guide will be used by housing providers to:

1. Identify which expenditures are to be considered a capital cost
2. Communicate CMSM expectations for capital planning and purchasing
3. Provide direction on reporting of capital expenses
4. Replace the CMHC "The Replacement Reserve: A Guide for Use" with the County of Wellington's Capital Guide

Please add the attached "Capital Guide 2016" to your Social Housing Administration binder for easy reference.

APPLICATION:

Housing providers are expected to review and update their capital planning, spending and investment practices to be in compliance with the attached Capital Guide.

The County of Wellington as CMSM will use the Capital Guide as a primary resource for monitoring housing provider compliance with capital planning, purchasing and reporting in the following situations:

1. Upon request for CMSM approval of capital expenditures (federal providers)
2. In the review of the annual multi-year financial plans required in Directive 2013-16 and any subsequent amendment to Directive 2013-16
3. During Operational Reviews
4. Upon any request for Extraordinary Capital Funding, as set out in Directive 2014-09 and any subsequent amendment to Directive 2014-09
5. In consideration of any future repair and/or retrofit funding opportunities
6. Any other situation where the CMSM determines that monitoring compliance with the Capital Guide to be appropriate

Please contact your Housing Advisor if you have any questions related to this directive or to the Capital Guide.



Ryan Pettipiere
Director of Housing



County of Wellington
Social Services Department
Housing Services

CAPITAL GUIDE 2016



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INTRODUCTION

Purpose of this Guide

This Capital Guide was developed to establish and communicate best practices for Housing Providers and to provide explanation on the following key elements:

- 1) Capital Reserve planning
- 2) Difference between operating and capital expenditures
- 3) Capital Reserve budgeting
- 4) Capital Reserve purchasing practices, and
- 5) Reporting of Capital Reserve expenditures.

What is the Capital Reserve Fund?

The Capital Reserve Fund is a supply of money maintained by the Housing Provider to cover the repair and replacement costs of capital components.

In this Guide, the terms 'Capital Reserve' and 'Capital Reserve Fund' apply to the Capital Reserve Fund as referenced under the Housing Services Act, 2011 and the Replacement Reserve Fund as referenced in federal Operating Agreements.

What is a Capital Component?

Capital components are major property equipment and systems that are permanent in nature. For a full list of capital components, please see the Appendix. This list should be used as an initial point of reference to help determine if a cost qualifies as a capital expense.

Housing Provider Capital Reserve Requirements

The Housing Services Act, 2011 (HSA) O. Reg. 367/11, Section 98 (Capital Reserves) sets out rules for contributing to, investing and using Capital Reserves for Housing Providers that were transferred from the province to the Consolidated Municipal Service Manager (CMSM).

Housing Providers with federal Operating Agreements must adhere to the clauses in these agreements that set out how Capital funds are to be expensed, approved and managed.

CAPITAL PLANNING

Extending the Life of Capital Components

A good Capital Plan does not guarantee that sufficient funds will be available to meet demands. Housing Providers can take the following actions to preserve existing capital funds:



Multi-year Financial Plans

A Capital Plan is a management tool designed to support the following activities:

- 1) Budgeting for the cost of future repair and replacement of capital items
- 2) Making good decisions about the investment of Capital Reserve Funds
- 3) Gaining an improved understanding of the physical condition of building(s), and
- 4) Ensuring that building(s) are maintained in a state fit for occupation by residents.

Capital planning takes a long-term strategic view of the major physical needs of a building. An appropriate Capital Plan will identify major repairs and replacements over a set period of time, usually five years, and allow Housing Providers to plan, budget and pay for these large expenditures. The high cost and complex technical nature of some capital projects are the main reasons why planning steps must be taken.

When developing or revising a Capital Plan, the Housing Provider should engage in strategic planning to establish goals, isolate issues, identify opportunities and prepare finances. This approach is fundamental to the creation of effective plans that are easy to monitor and implement.

While Capital Plans can change from year to year, it is important that they be based on a thorough understanding of the financial position of the organization as well as the need, cost and timing of anticipated building component renewals as estimated by the Board, staff and technical reports.

The Service Manager requires Housing Providers to submit an integrated one-year Capital Budget and five-year Capital Plan as part of their annual financial reporting requirements.

Submission and review of Capital Plans must comply with **Directive 2013-16: Multi-year Financial Plans** and any amending directives.

Building Condition Assessment (BCA) & Technical Reports

A Building Condition Assessment (BCA) provides a “snapshot in time” of the current physical condition of building components and estimates cost and timing for the repair or replacement of these components. Preparation of a BCA normally involves a detailed audit of major building systems and capital records by a qualified building specialist.

A BCA can help the Housing Provider to determine when to carry out repairs or retrofits based on present and expected future condition. A BCA should be completed every 5 years and referenced at least annually when drafting capital budgets and capital plans.

Based on the complexity, scale and technical nature of major components, the Housing Provider should engage with consultants to determine the condition of the component and confirm the need for replacement, repairs or restoration. Some of these components are:

- Elevators
- Roofs
- Windows
- Structural
- HVAC
- Parking Areas

When to Replace Capital Components

Capital components should be replaced when one or more of the following occur:

- 1) They pose a risk to health and safety
- 2) They no longer perform as intended

- 3) They are no longer cost-effective to maintain
- 4) A third-party professional has recommended need for replacement, or
- 5) Changes in local by-laws, Ontario Building Code, or applicable regulations.

Housing Providers should continually monitor the condition of capital components to enable effective replacement scheduling and ensure Capital Reserve Funds can meet future demands.

Health and safety replacements and repairs are a priority and must be carried out as soon as reasonably possible once the Housing Provider has become aware of the issue.

Available rebates and incentives should also be considered in the capital planning process as these can influence the timing of replacements. In some cases, this may result in a component being replaced before reaching the end of its operating life.

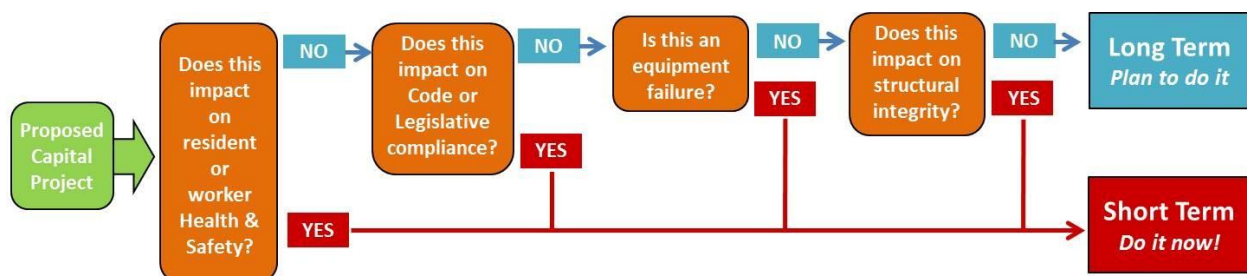
What to Replace Capital Components with

Capital components should be replaced with ones of equivalent quality, performance and expected useful life unless it can be demonstrated that a higher quality replacement is more cost-effective due to lower maintenance or operating costs and/or longer expected useful life. In these cases, a cost-benefit analysis demonstrating cost effectiveness of the higher quality replacement must be carried out and presented to both the Board of Directors and Service Manager.

Prioritizing Capital Projects

Comparing project options and prioritizing them is important to any capital planning process. A good capital planning strategy includes actions that, when taken together, result in the lowest total cost.

The following diagram and set of criteria can be used to help determine the order in which capital projects should occur:



Other Capital Planning Considerations

Lifecycle Cost	The total cost of constructing, operating, maintaining and renewing an asset throughout its service life. Future costs must be expressed as present values and adjusted for inflation.
Project Timing	Large capital expenditures should be scheduled to account for the remaining useful life of components as well as future cash-flows and Capital Reserve Fund levels.
Project Integration	Where possible, capital projects should be coordinated across different jobs and properties. Example: roofs and eaves may be done together, using one tender and one contractor.
Rebates & Incentives	The timing of replacements in the existing multi-year plan may be changed where the opportunity for financial rebates and incentives reduces costs in a significant way.

CAPITAL PURCHASING

Capital Expenditures Defined

Housing Providers must make charges against their Capital Reserve Fund only for the major repair, upgrade, retrofit or replacement of original or existing building components. In order to qualify as a capital expenditure, the item should meet the definition of a capital item using the following guidelines:

- 1) Be a tangible asset having a useful life of 10 years or more.
- 2) Be the betterment of a tangible asset where the useful life of the asset is extended.
- 3) If a repair, the cost of the repair does not exceed the purchase price of replacement.
- 4) The repair, replacement or upgrade measurably improves the energy efficiency of the property.

These capital item definitions must be consistently applied when assessing capital requirements. When classifying capital expenditures, emphasis needs to be placed on the purpose and outcome.

Expenses for the following items must always be charged to the Capital Reserve Fund:

- 1) Replacement of original or existing building and site components.
- 2) Major repairs and retrofits to original or existing building and site components.

- 3) Upgrades to existing building and site components, such as Fire Safety upgrades.
- 4) BCAs, reserve fund studies, energy audits and other consultant/technical reports.

Maintenance activities should not be recorded as capital repairs.

Housing Providers should contact the Service Manager when planning or incurring capital costs that are absent from the annual Capital Budget. The Service Manager will monitor all capital expenditures as part of the Annual Information Return (AIR) and Financial Statement review process.

Spending Limits

The thresholds below are generally acceptable spending limits for determining if a single item qualifies as a capital expense. Mass replacement of lesser priced items (eg. windows) also follow these thresholds.

If the expenditure is...	the expenditure is considered...
under \$2,000	Operating
over \$2,000	Capital

Unless otherwise directed by the Service Manager:

- Separate invoices cannot generally be grouped or combined to create a single expense for qualification as a capital expenditure.
- Invoices for capital expenditures cannot be separated to create individual expenditures for qualification as an operating expense.

Contact your Housing Advisor if there is uncertainty regarding expense qualification.

Capital Procurement & Contracting

For all capital projects, a Housing Provider must:

- Obtain a minimum of 3 written quotes, complete with detailed specifications, for any contract of work or service anticipated to cost between \$2,000 and \$14,999. An exception to this rule may be made for the purchase of appliances and flooring from a sector bulk purchasing program such as Best Deals (ONPHA) or Cost Cutters (Co-operative Housing Federation).
- Issue a public or invitational tender for contracts expected to cost \$15,000 or more.

- Ensure all quotes presented to the Board of Directors are directly comparable to one another in terms of scope of work, specification and quality.
- Base contract award decisions on pricing, project scheduling, additional fees, warranties, professional references, project experience and ability to meet insurance requirements, such as liability and WSIB.
- Ensure that there is a Board resolution authorizing the award of the contract to the selected bidder. Rationale must be given in the resolution for cases where the lowest bid/price is not accepted.

Use of Consultants

Independent consultants, such as engineers, should be engaged to manage capital projects where:

- 1) Scale, complexity and costs require expert opinion. eg. roofs, boilers, elevators.
- 2) Premature failure of existing building systems and components has occurred

Consulting contracts should always be awarded via an open, transparent and competitive bidding process.

Addressing Capital Funding Shortfalls

In the event that an emergency or urgent capital repair or replacement is expected to deplete the Capital Reserve Fund, Housing Providers may submit a request for one-time extraordinary capital funding from the Service Manager, in such a manner as prescribed by **Directive 2014-09: Extraordinary Capital Funding** or any amending directives.

Please refer to this Directive for full procedural details and contact your Housing Advisor for support should this situation occur.

CAPITAL REPORTING

Reporting Requirements

Unless otherwise instructed by the Service Manager:

- When reporting capital expenditures in the Annual Information Return (AIR) and audited financial statements, Housing Providers should record expenses according to building component coding found in the Appendix, where possible.

- Housing Providers must maintain a capital file for each fiscal year, listing values and details for all Capital Reserve Fund expenditures and, where possible, use component coding as per the Appendix.

The Service Manager will monitor compliance with this Capital Guide and review capital expenditures at any time and as part of an Operational Review process.

Rebates & HST Refunds

Where monies are refunded to Housing Providers from capital projects due to rebates or other incentives, these funds must be deposited back to the Capital Reserve Fund.

All HST refunds relating to capital expenditures must be paid back to the Capital Reserve Fund within one month of receipt of the HST rebate payment.

Capital costs should always be recorded as net of HST rebates.

Appendix: Standardized Lists of Capital Replacement Components

A – Substructure

A10	Foundations
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B – Exterior

B10	Superstructure
B2010	Exterior Walls
B2020	Exterior Windows

B2030	Exterior Doors
B30	Roofing

C - Interiors

C1020	Interior Doors
C1030	Fittings
C20	Stairs

C3010	Wall Finishes
C3020	Floor Finishes
C3030	Ceiling Finishes

D - Services

D1010	Elevators & Lifts
D2010	Plumbing Fixtures
D2020	Domestic Water Distribution
D2030	Sanitary Waste
D2040	Rain Water Drainage
D3022	Hot Water Boilers
D3023	Furnaces
D3024	Boiler Piping and Specialties
D3025	Primary HVAC Pumps
D3031	Chillers
D3034	Packaged Air Conditioning Units
D3041	Air Distribution Systems
D3043	Hydronic Distribution Systems
D3045	Exhaust Ventilation Systems

D3053	Unit Heaters
D3057	Radiant Heater Units
D3060	Controls and Instrumentation
D4010	Sprinklers
D4020	Standpipes
D4030	Fire Protection Specialties
D5010	Electrical Service and Distribution
D5021	Branch Wiring
D5022	Lighting Equipment
D5030	Communications and Security
D5037	Fire Alarm System
D5038	Security Systems
D5091	Exit & Emergency Light Systems
D5092	Emergency Power & Generation

E – Equipment and Furnishings

E1041	Residential Appliances
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E1042	Laundry Room Equipment
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G – Building Sitework

G20	Site Improvement
G2010	Roadways
G2020	Parking Lots
G2030	Pedestrian Paving
G2040	Site Development
G2050	Landscaping
G30	Site Mechanical Utilities

G3010	Water Supply
G3020	Sanitary Sewer
G3030	Storm Sewer
G3060	Fuel Distribution
G40	Site Electrical Utilities
G4010	Electrical Distribution
G4020	Site Lighting