Block Funding: Manitoba Housing's New Funding Model

Preamble

In early 2023, Manitoba Housing and Renewal Corporation (MHRC) was faced with dozens of expired or expiring operating agreements with non-profit social housing providers, which forced the provincial government and MHRC to consider new models for funding social housing providers. This led to the creation of the block funding pilot project. MHRC proposed a pilot project of $1.4 million that would be distributed to eligible providers with expired agreements. The pilot project was launched in May 2023, with the 1.4 million budgeted as an initial pitch to begin the process. This money was allocated over the 2023/2024 fiscal year to address funding gaps. In June 2023, the Manitoba Non-Profit Housing Association (MNPHA) hosted a webinar to provide MHRC staff an opportunity to better define the pilot project. Non-profit housing providers agreed that the proposed amount would be wholly insufficient to the level of financial need non-profit social housing providers are facing (Annable & Barghout, 2023).

Nearly a year later, on Friday, March 15th, 2024, the Province announced that they would be moving forward with a "new funding model" to "provide non-profit housing organizations with subsidies to help maintain affordable rents and up to 8,511 social and community housing units" (Province of Manitoba, 2024a). This new model is a solidified version of the 2023 pilot project—for all intents and purposes, it is block funding.

Introduction

This document will explore the perceived benefits and potential drawbacks of block funding as a funding model for social housing. We will first examine MHRC's pilot project and new model, then compare it to what we know of the existing funding model typically used by MHRC. Finally, we will review block funding in general for its viability as an option for financing social housing, examining its use for transitional housing units in Winnipeg, and make recommendations based on this analysis.

What is Block Funding?

Block funding is a model of delivering subsidy to organizations based on a fixed annual amount. It is said to be a more efficient, predictable funding system when compared to models based on formulas or per-capita grants. It allows providers the flexibility to decide where and how the money is allocated, as funding is allotted as a lump sum rather than carved out into specific amounts for expenses such as operational or administrative. Allocation is typically calculated by considering several criteria, which may include the number of clients served, complexity of needs, and previous years' operating costs (Department of Families, 2019).

For further reading, visit: https://www.investopedia.com/terms/b/block-grant.asp

What Model is Manitoba Housing Currently Using?

One of the main concerns with MHRC's current funding model is that there is not simply just one. MNPHA notes that there are approximately 70 different forms of active agreements between non-profit housing providers and the Province. There are legacy agreements, operating agreements, sponsor-managed agreements, and capital agreements. Consequently, it is nearly impossible to define the "current model," as what it really is, is decades of handshake agreements with no set model.

This inconsistency means it is difficult for providers to work collectively to determine what does and does not work. Obtaining sustainable, effective operational funding is a challenge for non-profit housing providers. Operational funding is often allocated to certain hours or periods of the day, which can create massive service gaps if 24/7 organizations are only able to get funding for overnights, leaving residents to be self-sufficient during the day. Further, some housing providers have asserted that their current operating agreements with MHRC are too rigid, arguing that the set criteria restrict many people from gaining access to housing.

Many would agree that a new, consistent funding model from MHRC is well overdue.

Manitoba Housing's "New Model"

MHRC is transitioning to a block-funding model to address the current state of non-profit social housing providers operating under expired or expiring operating agreements. It is important to mention that this current funding model is only available to organizations with expired or expiring operating agreements, and not for new agreements. Urban-Native agreements are also ineligible (MNPHA, 2024).

Under this model, MHRC will provide a total overall annual budget for all non-profit social housing providers and be responsible for assessing and allocating funding by way of a new operating agreement to eligible non-profit housing providers. This fixed annual amount will be distributed to approved housing providers monthly to assist them with cash flow. The sum allotted to each provider will be determined using "assessment tools" developed by MHRC (MNPHA, 2023). This assessment tool has not yet been made publicly available, but MHRC asserts allocations will consider the following:

- Prior years' expenditures
- Anticipated additional costs
- Annual replacement reserve fund allocation
- Debt service, if applicable
- Location
- Operations
- Financials
- Clientele and vacancies
- Capital plan
- Building conditions

MHRC makes projections based on the last three years of expenditure, operations, and vacancies.

According to MHRC, this model "allows non-profit housing providers to proactively implement social and affordable housing programs to meet the housing needs of their respective communities" (MNPHA, 2023). Supposedly, this would be because providers could choose to allocate funds to housing projects that would otherwise be used for other expenses. Providers will be able to align operational decisions and service delivery more closely with the financial budget and funding provided by MHRC. The current model employed by MHRC bases subsidies on "annual operating outcomes, subsidy advances, and/or complicated formulas" (MNPHA, 2023). In comparison, the proposed model:

- Reduces red tape and administrative burden. Providers are not beholden to the rigid funding structures set by MHRC.
- Focuses resources where they are needed, as providers can allocate funds as they see fit.
- Places financial decision-making in the hands of providers.
- Is a more efficient and predictable funding system for the government (MNPHA, 2023).

Funding would be highly versatile and more responsive to the organization's needs. Uses could include:

- Subsidizing rents
- Operating funds to cover administration and/or maintenance costs
- Allocation to reserve funds (however, organizations are responsible for deficits)
- Capital upgrade and/or replacement
- Debt service (MNPHA, 2023).

With this proposed block funding, MHRC aims to maintain the affordable housing stock, increase efficiency in project operations, build up reserve funds, and ultimately strengthen Manitoba's non-profit housing sector (MNPHA, 2023).

Key Differences

Non-profit housing providers who have negotiated their new agreements noted the following key differences:

- Funding increases annually.
- Funding amounts have increased.
- Organizations keep surplus but are responsible for deficits.
- 5-year agreements.
- Requirements/conditions:
    - Reporting will be minimal now.
    - Ensure that dollars budgeted for are going into reserve accounts
- Buildings may be combined under one reserve account.
- MHRC provided a comfort letter promising that the funding will continue after the 5-year agreement expires, allowing the provider access to funding that requires more than 5 years of funding (MNPHA, 2024).

It was also asserted that this new model is still inflexible with capital funding, which remains in high demand (MNPHA, 2024).

For further information, visit: https://mnpha.com/webinar-on-block-funding-with-manitoba-housing/

Analysis

Benefits

Block funding presents many advantages when compared with the current model. The fixed annual allocation offers a more efficient, predictable funding system, providing non-profits with more autonomy to decide how to internally allocate funds.

In 2021, the Province of Manitoba began switching transitional housing over to a block funding model as part of a COVID-19 relief program. Originally these units were funded on a per diem basis in which providers were "required to submit monthly invoices and ensure clients were enrolled on EIA before they could move in" (Department of Families, 2023, p. 12). Now, these providers currently working with the Province through a block funding agreement, receive quarterly payments based on full occupancy. This allows for better planning, grants providers greater flexibility, reflects occupancy rates, and lessens administrative strain for providers, as they no longer must submit monthly funder reports. Block funding also reduced barriers for clients by expediting the process and getting people housed more quickly during the COVID-19 pandemic:

> *"What ties harm reduction to a funding model or grant proposal is flexibility. That's one thing that we haven't historically had, but we actually did have pockets of flexibility during the pandemic, which was really interesting. The need was so great that funding was given to [non-profit organizations] in sort of a block funding model and they said '*do what you need to do, get people housed,*' and it untied our hands for a minute and the results were amazing."*
>
> *– Service provider (Department of Families, 2022, p. 13).*

If implemented correctly, block funding could be a viable option for the rest of the non-profit housing sector in Manitoba.

Risks & Concerns

As beneficial as the block funding model may seem, many are skeptical about its viability in the housing sector (Annable & Barghout, 2023; Lambert, 2019; Torjman & Battle, 1995). Block funding has too often been used as "the fall guy for fiscal restraint" (Torjman & Battle, 1995, p. 1). In 2019, when the Provincial Government announced block funding for several Child and Family services, critics expressed concern that the government would use this change to funding as part of its drive to balance the budget (Lambert, 2019). Providers have already caught a glimpse of what may be a very conservative block funding budget for non-profit housing, based on the initially proposed pilot amount of $1.4 million (Annable & Barghout, 2023). Some providers have criticized it as barely enough for any one provider to adequately address a significant repair.

It is difficult to know how funding will increase or decrease to housing providers and in what amount as needs change over time. This also raises the concern of the sustainability of this model.

Conclusion

As we transition to block funding, the model must reflect thorough consultation with providers to ensure their needs are fully met and is adequately and sustainably financed. Block funding at its most successful gives providers better autonomy over their public funding and allows for greater flexibility. However, this model has the potential to lead to unsustainable, erratic, and chronic underfunding. End Homelessness Winnipeg therefore recommends the following be included in a block funding model:

Manitoba Housing

1. Engage in thoughtful and comprehensive engagement with non-profit social housing providers and affordable housing stakeholders to adequately determine financial need in Manitoba.
2. Provide a transparent adoption process that clearly explains the connection between stakeholder engagement and policies being proposed.
3. Ensure funding is overseen by public stakeholders, which should include non-profit advocacy bodies.
4. Provide adequate time for non-profits to fully understand the proposed assessment tools.
    a. Further, following adoption, ensure adequate time is provided to eligible providers to review year-over-year allocations and request amendments if necessary.

Non-Profit Social Housing Providers

1. Perform a thorough and comprehensive audit of current fiscal needs, which should include annual expenses and capital needs for any one-off expenses expected (such as repairs, etc.)
2. Collaborate with other non-profit social housing providers to adequately determine the total annual need in Manitoba to support non-profit social housing.
3. Engage with the affordable housing and homelessness sector to effectively mobilize, as necessary.

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