



Charting Progress: Clearing Up the Confusion Over Bilateral Agreements

Since the Liberals were first elected in 2015, the federal government has increasingly used conditional funding as a tool to influence policy in areas that fall under provincial and territorial jurisdiction — a practice also known as the federal spending power.¹ As a result, the federal government has entered into a series of bilateral agreements with its provincial and territorial counterparts in policy areas such as child care, health care and housing.

However, conditional funding means Ottawa can *withhold* funding when it is unsatisfied or unconvinced by provincial or territorial performance. This almost came to be in one significant policy area: housing.

As part of the National Housing Strategy, the federal government and the provinces and territories have entered into bilateral agreements since 2018. Under these agreements, the federal government has pledged to provide funds to the provinces and territories to meet mutually agreed-on housing targets, including an increase in the number of new social-housing units.

The Ontario government agreed to increase its existing stock of social-housing units by 15 per cent for up to \$1.7 billion over 10 years. In April 2024, the federal government informed the Ontario government that it had not made sufficient progress on its target of increasing social-housing by 15 per cent and, consequently, Ottawa would redirect \$357 million of the total to Ontario's 47 service managers.

This amount, approximately 21 per cent of the funds allocated to Ontario as a part of the bilateral agreement, included funding that was allocated for other housing projects. This marked the first time since the bilateral agreements came into effect that the federal government threatened to redirect funding.

TRACKING PROGRESS

Progress on the bilateral housing agreements is tracked through action plans, which must be submitted by the provinces and territories every three years (in 2019, 2022 and 2025). Due to the pandemic, the federal government gave provinces and territories the option of submitting a one-year action plan for 2022-2023 in exchange for a deadline extension for the plan covering 2022-2025. Manitoba, Nova Scotia, Ontario and Saskatchewan chose this option. These provinces followed up with a 2022-2025 action plan in 2023.

After reviewing Ontario's 2023 plan, the federal government concluded the province had not made sufficient progress on building new affordable rental units. It argued that the province planned to increase its stock of affordable housing units by only 6 per cent by the end of 2025; other provinces had completed more than 60 per cent



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¹ For a historical perspective on the Liberal government's use of the spending power, see Graefe, P. & Fiorillo, N. (2023). [The federal spending power in the Trudeau era: Back to the future?](#) Centre of Excellence on the Canadian Federation

of their goal.² The Ontario government responded that Ottawa had failed to recognize the progress it had made on repairing its existing social-housing stock.

Compared to the progress made by other provinces and territories, Ontario was the bottom performer. It was the only jurisdiction to report no progress on increasing the number of new affordable housing units since the inception of the bilateral agreements. Based on these numbers, Ontario would have to achieve more than 90 per cent of its commitment to build 19,660 rent-assisted units in the last three years of the agreement, from 2025 to 2028.

Efforts by the Ontario government to keep the funding were initially unsuccessful. Ontario proposed revising its target to increase the building of new affordable units by 28 per cent by the end of 2025 instead of 6 per cent. The federal government rejected this proposal because of concerns that Ontario would not be able to hit its 19,660-unit target by the end of the bilateral agreement. Ultimately, the federal and Ontario governments came to an agreement whereby Ottawa would deliver the funds to the province, as originally planned, and Ontario would commit to building 8,644 new social-housing units by the end of 2025, or around 44 per cent of its total goal.³ Additionally, the province agreed to submit its third action plan ahead of schedule, by the end of 2024.⁴

PROVINCIAL PERFORMANCE: ONTARIO IS NOT ALONE

Although Ontario is the only jurisdiction to be threatened by the federal government with having its funding revoked, it is not the only poor performer. As our analysis shows, other provinces and territories are also lagging.

To assess provincial and territorial performance, we focus on two indicators that are consistent across most provincial and territorial action plans: a commitment to build 15 per cent more social-housing units and one to repair at least 20 per cent of existing social-housing stock.

However, there are two important exceptions. First, the Northwest Territories agreed to restore at least 27 per cent of existing social-housing stock in exchange for a reduction in the expansion of new social-housing (an 8 per cent increase instead of 15 per cent). Second, as is often the case with bilateral agreements, Quebec's agreement differs substantially from the rest of the provinces. Quebec was not required to submit action plans to the federal government and, instead, incorporated some measurements in its housing ministry's annual report. We exclude these two jurisdictions from the following analysis.

Our analysis uses the overall average completion rate of the first indicator among the included jurisdictions, which was 64.8 per cent to benchmark performance (see figure 1). In addition to Quebec and the Northwest Territories, Prince Edward Island was also excluded from this calculation because it vastly exceeded its target (408 per cent). The federal housing minister also uses the provincial and territorial average to compare performance, although the number is slightly different, 66 per cent, it's unclear how this number was calculated.⁵ A closer look at the provincial and territorial action plans for 2019-2022 and 2022-2025 show that four other provinces also fall short of the progress that the federal housing minister benchmarked against.

² CBC News. (2024, March 27). [Ontario may lose \\$357M in federal funds for affordable housing](#). CBC News.

³ Stone, L. (2024, May 28). [Ontario, federal governments reach \\$357-million agreement after months of dispute](#). *The Globe and Mail*.

⁴ Government of Ontario. (2024, May 28). [Joint statement from the Honorable Sean Fraser, minister of housing, infrastructure and communities, and the Honorable Paul Calandra, Ontario minister of municipal affairs and housing](#).

⁵ Ramzy, M. (2024, May 6). [Trudeau government bypasses Doug Ford, sending housing money straight to Ontario municipalities](#). *Toronto Star*.

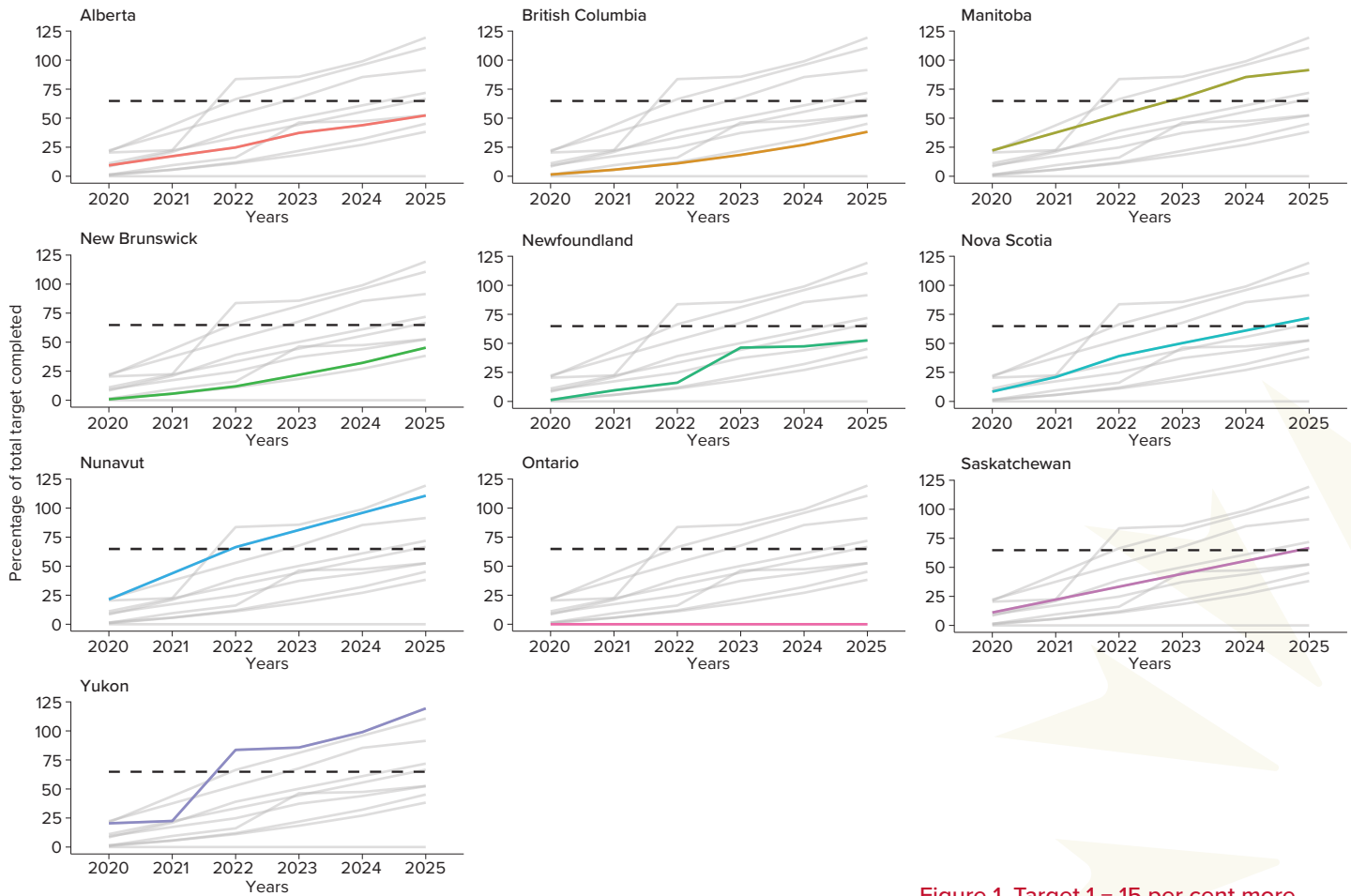


Figure 1. Target 1 – 15 per cent more social-housing units by jurisdiction

Source: Author calculations

Note: Prince Edward Island, the Northwest Territories and Quebec are excluded from the calculation of the jurisdictional average.

Dotted line represents jurisdictional average.

Newfoundland and Labrador (53 per cent), Alberta (52 per cent), New Brunswick (45 per cent) and British Columbia (38 per cent) are below the 64.8 per cent jurisdictional average despite being two-thirds of the way through the bilateral agreement period. British Columbia stands out as having planned to achieve only 38 per cent of the target by the end of the sixth year of the agreement. This is slightly more than the first revised target submitted by Ontario (28 per cent), which the federal government rejected. B.C.'s target is lower than Ontario's final revised target of 44 per cent, making it the bottom performer.

While each of these provinces made more progress than Ontario's originally planned 6 per cent target, a significant push will be needed to meet their targets in the last three years of the bilateral agreements. In the case of British Columbia, it means that it must complete over 60 per cent of its goal in the last three years of the 10-year agreement. The other lagging provinces must also achieve around 50 per cent or more of their goals in the final three years.

The second indicator we included in our analysis was the target for restoring at least 20 per cent of existing social-housing stock. Figure 2 displays progress across jurisdictions, again using the average as a benchmark, which was 65.5 per

cent. Ontario's second Action Plan has not been publicly released yet so data is not available after 2023.

Although the average performance across provinces and territories was better, the individual performance of more jurisdictions was worse. Six provinces are projected to fall short of the expected target by the end of 2025: Manitoba (51 per cent), Nova Scotia (27 per cent), Saskatchewan (48 per cent), New Brunswick (22 per cent), British Columbia (50 per cent) and Ontario (49 per cent).

Furthermore, two of these provinces, Manitoba and New Brunswick, have allocated almost no additional units for refurbishment in 2022-2025 (504 and zero additional projected units, respectively). While Manitoba's progress is better than that of New Brunswick, this still means that half of the target to repair social-housing stock in the province will have to be met between 2022-2025. New Brunswick is projected to complete only 22 per cent of its goal by the end of 2025, with no additional units planned. Nova Scotia, at 27 per cent of its target, is also at risk of being in a similar situation.

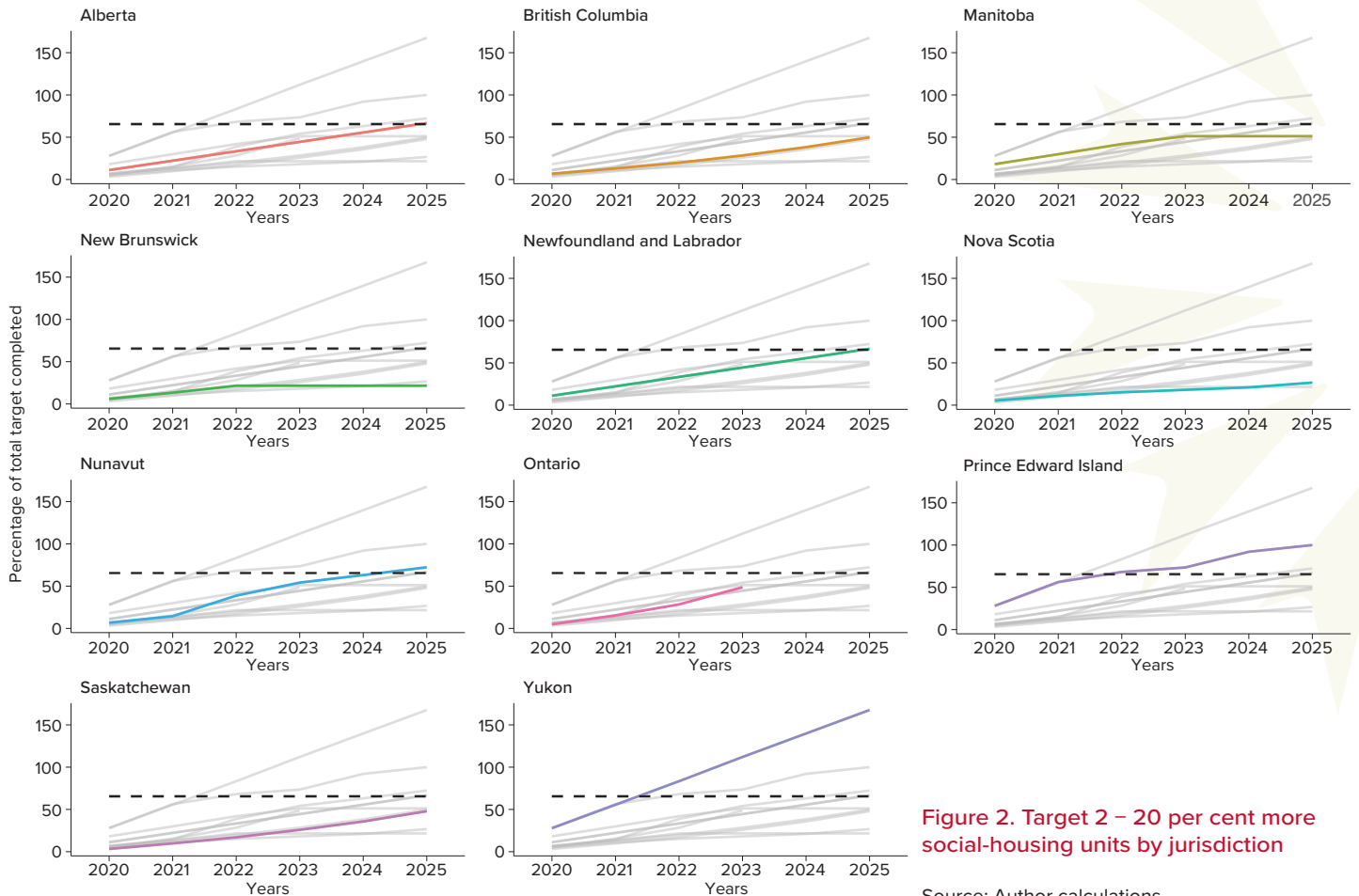


Figure 2. Target 2 – 20 per cent more social-housing units by jurisdiction

Source: Author calculations

Note: the Northwest Territories and Quebec are excluded from the calculation of the jurisdictional average.

Dotted line represents jurisdictional average.

So far, the federal government has taken no action to denounce the lack of progress of these provinces. After Ontario submitted a revised action plan, the federal housing minister remarked that “[this] puts them on par with most other provinces as to where they’re at right now” and that “this puts Ontario in a place where they’re going to be able to achieve the obligations that they agreed to at the outset.”⁶ But it is a reach to suggest that other provinces and territories are on track to achieve their obligations.

⁶ Stone, L. (2024, May 28). [Ontario, federal governments reach \\$357-million agreement after months of dispute](#). *The Globe and Mail*.

In sum, five provinces, including Ontario, will have to build approximately 50 per cent of their target for new social-housing units from 2025-2028, and four provinces will have to meet at least 50 per cent of their target for repairing their existing stock of social-housing in the same time frame; New Brunswick and Nova Scotia will have to meet around 75 per cent of their targets in that period.

The federal government’s argument for threatening to redirect part of Ontario’s funding to municipalities was that the province lagged far behind its peers when it came to building more social-housing units, but it is not the only province or territory that is at serious risk of not delivering on their obligations under the bilateral agreements by the end of 2028.

PERFORMANCE REQUIREMENTS AND CONDITIONS

One key problem is that the bilateral agreements did not set clear performance standards. Within the agreements there are several conditions that provinces and territories must meet to receive funding, which is allocated through the Canada Mortgage and Housing Corp (CMHC). These requirements are as follows:

- a) A claims form must be submitted and meet the requirements of the terms of the agreement.
- b) The environmental requirements set out in the agreement must be met by the date the claims form is submitted.
- c) Mutually agreed-to action plans must be finalized and the required reports submitted.
- d) The total amount of CMHC funding in the fiscal year must not exceed the maximum amount available for the fiscal year for each applicable initiative.
- e) Provinces and territories must provide a progress report every six months (on top of the action plan) to ensure progress toward the agreed targets and outcomes, and an annual audited statement of disbursements for each fiscal year.

Additionally, two sections specifically pertaining to refunds and adjustments, sections 7.9 and 7.10, state that any funding that does not comply with the stipulations of the agreement, any amount that exceeds the total of cost-matched funding by the provinces and territories or funding that is unclaimed may result in funds being withheld.

Although these requirements don’t directly make hitting targets a condition of the federal government releasing funds, action plans must be “mutually” agreed to for the funds to be released. If the federal government does not agree with the targets included in the action plans or is dissatisfied with the progress reported by the provinces and territories (as with the case of Ontario), it has the right to reject the action plans and withhold funding.



Our analysis shows that there's a lack of clarity surrounding the progress the federal government deems satisfactory, given that several provinces are below the average targets, yet only Ontario almost had its funds withheld. This clearly puts the federal government in a position to dictate what provinces and territories can and cannot do, placing it above them in the decision-making process.

CLARITY IS IMPORTANT

The dispute caused uncertainty and instability for all orders of government. But lack of clarity is not limited to the bilateral housing agreements. Both the bilateral health care and child care agreements have similar stipulations that federal funding can be withheld if provinces or territories if there is no mutual agreement on the action plans.

It is in the interest of all orders of government for there to be clarity. For the federal government, clearer conditions of when funding can be clawed back may incentivize provinces and territories to meet their targets. For the latter, clearer standards and thresholds will create stability and perhaps more confidence when entering into agreements with the federal government. And finally, more clarity means less anxiety for municipal governments, which have been caught in the middle of federal and provincial spats on more than one occasion.

In the end, although Ontario and the federal government were able to reach an agreement, the dispute created a lot of uncertainty and instability while the two governments negotiated. But what would have happened had they not come to an agreement?

Progress requires clarity and it is in the best interest of all parties to flesh out an agreement that achieves that.



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