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**A PROPOSAL TO THE GOVERNMENT OF THE N.W.T.
REGARDING
THE NORTHERN PREFERENCE POLICY**

presented by

THE NORTHWEST TERRITORIES CONSTRUCTION ASSOCIATION

Box 1425,

Hay River, N.W.T.

Phone 874-2491

February, 1984

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The Northern Preference Policy

1. Objective of Our Proposal

The Northwest Territories Construction Association is very appreciative of the intent and implementation of the existing Northern Preference Policy.

We contend, however, that the current recession has rendered this policy ineffective.

Southern contractors, hungry for business, have looked North in dramatically increased numbers over the last year. In some cases, they have used the present policy's minimal definition to set themselves up as sham "Northern businesses", with a storefront and a part-time manager in the N.W.T. These simple devices entitle them to Northern bid preference on government contracts, in competition with bona fide, established Northern contractors.

Further, the drastic drop in southern labour prices has given these firms a unique advantage over resident Northern contractors. The present bid preference helps offset our traditional disadvantages of higher overhead and operating costs. It is not adequate to account for a sudden difference of between \$5 and \$8 per hour in skilled tradespeople's wages.

We see an urgent need to redesign the Northern Preference Policy, at least for the short term, if it is to achieve its objectives.

We have met with the Deputy Minister of the Department of Public Works and other officials, and they are aware of our concerns. It is at their invitation that we now submit a positive proposal for policy change.

We of the Northwest Territories Construction Association believe that our proposal will meet the following objectives:

It will encourage the establishment and retention of bona fide Northern contractors and sub-contractors, and it will maximize Northern content on government construction projects at minimal additional cost to government.

2. Who We Are

The Northwest Territories Construction Association, with 55 member businesses, acts as a common spokesman for the construction community in the N.W.T. The Association, which was founded in 1979, was revitalized in 1983. While our membership is based primarily in the Western Arctic, we are actively investigating the possibility of establishing regional offices in Rankin Inlet and Frobisher Bay.

We aim to assist N.W.T. contractors, large and small, to develop and prosper over the long term; to encourage the use and training of Northern labour and the purchase of materials from Northern suppliers.

As the voice of the N.W.T.'s third largest employer, our 14 elected directors have tackled a wide range of issues on behalf of our growing membership, including bonding, the impact of the Norman Wells project on the N.W.T., local employment on construction projects and contractor certification, among others.

Our views on the Northern Preference Policy have been carefully considered, and, we believe, represent a consensus of opinion in the industry.

3. Current Problems with the Northern Preference Policy

The N.W.T. construction industry has been hit hard by the recent economic recession to the south. In the past year, we have seen declining or non-existent profit margins, lay-offs and cutbacks. Many Northern contractors find themselves struggling for survival. This is not, however, because the actual volume of construction work here in the N.W.T. has decreased.

What has happened is that depressed economic conditions in the south have caused southern construction firms to look North as an interim means of obtaining work. These firms are obtaining not only the large jobs, for which there is limited competition in the North, but also some of the smaller projects which are the bread and butter of Northern contractors.

Why are Northern contractors apparently unable to meet this fierce competition, especially when they are given some bid preference on government contracts, under the existing Northern Preference Policy?

The Government of the Northwest Territories can, perhaps, do little now to alleviate the fact that most oil company construction dollars for the Norman Wells project for this year will go to unionized southern firms, as very few Northern contractors are signatory to the union agreements. Nor do we expect this government to somehow raise metal prices in order to increase limited construction growth opportunities in the mining industry.

We would, however, expect Northern contractors to be competitive on such medium-sized government contracts as the Norman Wells firehall addition, under the government's Northern Preference Policy.

This project is a good example of one of the current problems with the policy. Technically, the low bidder was a "Northern business" entitled to preference under the policy. In fact, the company concerned, Hearnese Stratton of Edmonton, has a one-man operation fronting for him in the North, and so he qualifies as a legitimate Northern contractor according to the policy definition.

In our Association's view, this \$348,840 project should have gone to the second bidder, a bona fide Northern contractor, for a premium of \$7,001 under the Northern Preference Policy.

Bitter experience has taught us that this project, and others like it, were bid in the south, will be managed from the south and will employ primarily southerners. It is a reasonably safe guess that most of the material dollars, labour dollars and tax dollars will go south.

It is our opinion that an answering service is not a bona fide Northern construction contractor. Because of the present vague definitions, the manager of a Northern company can, for example, claim to be the registered manager for a southern-based contractor and the Northern company's office can double as the registered office of the southern contractor.

This "Northern manager" cannot, however, make corporate decisions for the southern company, nor is he their full-time employee.

It is obvious that these storefront operations and phony joint ventures are set up solely to manipulate the Northern Preference Policy. Our Association has, over the past year, asked the government to investigate certain companies which we feel should not qualify for Northern preference on such grounds.

The response has been, that as long as the firm meets the requirements stipulated in the policy, it qualifies as a Northern contractor. These requirements include: meeting the legal requirements to carry on business in the N.W.T.; maintenance of an office in the N.W.T., with a manager who lives in the N.W.T.; employment of at least one person who lives in the North; and registration as a Northern contractor.

This, however, is not our only problem with the current Northern Preference Policy. Even with bid preference, bona fide Northern contractors are losing jobs to southern firms, who are underbidding us by as much as 25%. Our higher Northern overhead and operating costs do not account for

differences of this magnitude.

What does account for the difference is the fact that southern firms, due to the southern construction slowdown, now have available to them an abundant supply of hungry tradespeople willing to work anywhere for \$10 to \$12 an hour. By contrast, with living costs at Yellowknife 30% higher than Edmonton, according to the government's Bureau of Statistics, Northern tradespeople must be paid \$15 - \$18 and up, if they are to make ends meet.

It is this new factor of cheap southern labour which alarms our Association the most. The recently tendered Fort Franklin School provides an excellent example of what can happen on a large project, with present differences in labour prices and present levels of bid preference under the Northern Preference Policy.

The architect's budget for the school was \$4,100,000. The lowest tender received was for \$2,750,000, and the lowest three prices received were all from southern firms, carrying virtually all southern sub-contractors. The two Northern firms that bid this work placed a dismal fourth and sixth out of the tenders received - even with Northern bid preference - and Northern sub-contractors fared equally badly.

At present, Northern contractors receive a 10% preference on the first \$300,000 value of their bids and 5% on the second \$300,000, to a maximum of \$45,000. On a \$600,000 job, this works out to a preference of 7.5%. That is, the southern contractor would have to underbid the Northerner by that amount to get the job. But on a job the size of the Fort Franklin School, this preference is reduced to about 1.5% - hardly enough to allow Northern contractors and sub-contractors to compete, given their higher overhead and, now, labour costs.

To date the application of the Northern Preference Policy has cost the Department of Public Works an additional \$66,000 only.

Upon examining the government's records, we found that in the 1982-83 fiscal year, 919 contracts were awarded by D.P.W. Of these, 838 went to Northern contractors - as these are defined by the policy - for a total value of \$21,471,345, or 72% of the total value awarded.

Although these figures seem impressive, further investigation shows that the 20% to 28% of contracts not awarded to Northern general contractors were the large contracts in excess of \$1,000,000. (The award figures do not reflect the dollar value of sub-contracts, which may have been issued to southern sub-contractors by Northern generals.)

It is on these contracts that the competition has become most severe and the present Northern Preference Policy offers the least benefit. These larger contracts are the contracts that stimulate growth in the construction community - and they are the contracts Northern contractors and sub-contractors are now locked out of.

4. (a) Recommended Changes to the Northern Preference Policy

In these difficult economic times, it is imperative that the Government of the Northwest Territories enforce stricter measures to ensure that government funds are spent in the North to support Northern people and businesses.

To this end, we of the Northwest Territories Construction Association propose the following changes to Northern contractor qualifications and tender procedures.

We propose that, in order to qualify for Northern preference, a contractor must score 20 points or more according to the following point system:

1. One point for each 10% of shares in the company held by N.W.T. residents. (An N.W.T. resident would be defined according to the government's standard for Health Care registration.) The maximum number of points possible for this section is 10.

2. One point for each 10% of employees who are N.W.T. residents. Again, the maximum number of points possible is 10. The information would be obtained from the previous year's employment records of the company. In the case of a new company, it would be based on the staff employed at the time of application.
3. One point for each year of continuous operation in the N.W.T., to a maximum of 15 points.

It is our opinion that this qualification structure will encourage the establishment and retention of businesses based in the N.W.T. and eliminate preference for southern shams.

4. (b) We further propose that the following tender procedures be implemented to maximize Northern content on government construction projects:

1. A public pre-tender notice should be given for all projects. Interested contractors will respond to D.P.W. indicating their intent to bid.
2. D.P.W. would screen the contractors who indicated intent to bid to determine which are qualified Northern contractors, according to the point system outlined on the previous page.
3. If there is sufficient Northern competition, i.e. three or more interested and qualified Northern contractors, tender documents will be issued only to the registered Northern contractors. This would also hold true for sub-contractors (mechanical, electrical, flooring, etc.).

4. If there were less than three Northern general contractors or sub-contractors bidding on a project, a southern general contractor or sub-contractor would be allowed to bid, in order to bring the number of bidders up to three.
5. If southern contractors are allowed to bid owing to insufficient Northern competition, Northern contractors will be given an overall bid advantage of 10% on the first \$1,000,000 bid and 5% on the balance.
6. When a southern contractor is allowed to bid, he will receive a list of qualified Northern sub-trades bidding on that project, and can use no others.
7. Tender documents will change such that the general contractor can show the lowest Northern and southern sub-trade prices on a trade which a southern sub-contractor is bidding.
8. Northern contractors who qualify as such under the point system will be given a registration number which shall appear on tender documents.

In addition, we recommend that the N.W.T. Construction Association be given representation on the government's Northern Preference Policy Committee. We believe that it is important, and advantageous to government as well as to the industry, for us to have input in reviewing the list of qualified Northern contractors. In this way, we can offer some check to those southern contractors who attempt to manipulate the policy.

Finally, we recommend that the government's Northern Preference Policy be reviewed each year to evaluate its success and necessity. It should be understood that the measures we are now proposing are, we sincerely hope, temporary and designed to offset the effects of the present recession.

5. Conclusions

Bona fide Northern contractors are businesses which train and employ Northern residents. Their wages and profits remain in the North, contributing, through the spin-off effect, to the growth and stability of the N.W.T. economy as a whole.

They are firms which provide a convenient local or regional service for Northern clients. They will often do the job better, first because they are familiar with the North's unique conditions, and second, because their livelihood depends on their clients' satisfaction. They do not pack up and leave the North when a job is done.

In the long run, a healthy competitive Northern construction industry contributes to a healthy Northern tax base and lessens the Government of the N.W.T.'s dependence on federal funding.

But if nothing is done to change the Northern Preference Policy, these Northern firms will be forced to: cut back or close shop, to avoid financial collapse; hire cheap southern labour or sub-contractors in order to remain competitive and survive; or move their main base of operations south, leaving only a token office in the N.W.T. - becoming shams themselves. In the end, more Northern dollars will flow south, fewer Northerners will be trained and employed and there will be fewer services available to Northern communities.


The N.W.T. Construction Association truly believes that leaving the present policy in place would be a false economy on the part of government.

We ask that you review this brief and provide us with the opportunity to meet with you and further discuss this matter. The need for reform of the Northern Preference Policy is especially urgent, as there are three multi-million dollar government construction projects presently out to tender in the Eastern Arctic.

Northern contractors will have, at best, a 2% preference under the existing policy in bidding on these projects, whose total value is in the area of \$15 million. Sub-contractors will have no preference at all. Since none of these projects will start until after sealift, it is possible to extend the tender closing dates so that these contracts would be governed by a new Northern Preference Policy.

Our Association's Executive is available to discuss this proposal with Members of the Legislative Assembly, its Executive Council and officials of the Department of Public Works and the N.W.T. Housing Corporation. We look forward to your response to our urgent request.

Bob Roman,
President.

A handwritten signature in black ink, appearing to be 'Bob Roman', written over the typed name.