

**LEGISLATIVE ASSEMBLY OF THE
NORTHWEST TERRITORIES
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Northwest
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10th Assembly

Standing Committee
on Finance

Ninth Report

Richard Nerysoo
Chairman

STANDING COMMITTEE ON FINANCE

NINTH REPORT

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Chairman**

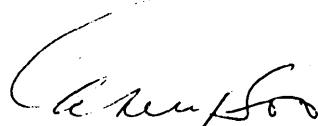
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17 February 1986

THE LEGISLATIVE ASSEMBLY OF THE NORTHWEST TERRITORIES

In accordance with its Terms of Reference, the Standing Committee on Finance is pleased to submit its Ninth Report to the Legislative Assembly. The Ninth Report details the Committees observations and recommendations arising from the review of the capital and operating estimates of the Government of the Northwest Territories for the 1986/87 fiscal year.



/ Richard Nerysoo
Chairman

STANDING COMMITTEE ON FINANCE

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ACKNOWLEDGEMENTS

The co-operation of all the witnesses who appeared before the Committee is acknowledged and appreciated.

In particular, the Committee wishes to extend thanks to the following individuals for their advice and assistance throughout our review:

The Honourable Tom Butters, Minister of Finance

Mr. Gord Aumond, Executive Assistant

Mr. Eric Nielsen, Deputy Minister of Finance

Mr. Bob Stewart, Deputy Secretary to the FMB

Mr. Adrian Young, Manager, Program Budgets and Analysis, FMS

Mrs. Marge Loupret, Manager, Capital Planning, FMS

**STANDING COMMITTEE ON
FINANCE**

TERMS OF REFERENCE

The Standing Committee on Finance may on its own authority:

- a) inquire into such matters as may be referred to it by the Legislative Assembly;
- b) review and recommend on the preparation of estimates, expenditures and appropriations required to defray the charges and expenses of the public service of the Territories in each fiscal year;
- c) review and recommend on capital projects and capital planning;
- d) in consultation with the Chairman of the Financial Management Board examine and recommend the terms and conditions of any agreement relating to financial arrangements with the Government of Canada;
- e) in consultation with the Chairman of the Financial Management Board, examine and recommend the terms and conditions for borrowing, lending and investing funds;
- f) review, evaluate and recommend on any revenue sources that may be available to the Territories;
- g) review financial implications of existing and proposed Territorial programs and the financing thereof as well any other programs which may in future become a charge against the Territorial budget;
- h) investigate and inquire into those financial matters that, in the opinion of the Committee require investigations;
- i) in accordance with Rule 92(1) the Standing Committee shall make a written report to the Legislative Assembly;
- j) from time to time the Standing Committee shall tender general advice and information to the Legislative Assembly on any financial matter that may come before the Assembly in session.

PART 1

THE REVIEW PROCESS

The Standing Committee on Finance commenced its annual review of the 1986/87 capital and operating estimates of the Government of the Northwest Territories on January 13, 1986. The review meetings were held in Yellowknife over a period of two weeks and concluded on January 24, 1986. In total, the Committee examined the proposed budgets of 14 departments, 4 Secretariats, 3 Boards, 1 Directorate and the Northwest Territories Housing Corporation.

The Committees review began later this year than in the previous year due to a delay in preparation of the budget information. Although this delay did not significantly affect our ability to review the budget in detail, the two weeks allotted were insufficient to complete a review of the capital budget of some departments. It was agreed by Committee members that capital items which were not dealt with would be examined in Committee of the Whole.

In response to our 1985/86 budget review, the Financial Management Secretariat has developed a new concise Standing Committee on Finance Book. This document now includes information on departmental objectives, organization charts and pie graphs which illustrate the composition of departmental budgets by activity. This year the Standing Committee on Finance Review Book has been prepared by computer. It is anticipated that for the 1987/88 fiscal year, computerized budget preparation will facilitate the translation of budget documents into Inuktitut in response to another of the Committees concerns.

We are pleased at the steps which the Financial Management Secretariat has taken to develop documents which facilitate our review both in terms of the capital and O&M estimates.

In addition, this year, we are pleased to note that departments have generally responded promptly in following up on outstanding commitments to provide information to the Committee. We have not experienced the lengthy delays in receiving information which characterized our previous review.

In summary, the Committee is satisfied at the progress which has been made over the past year to enhance the Standing Committee on Finance Review process. We are looking forward to a continuing commitment to provide timely, translated documents and budget information. It is our belief that by streamlining the budget review process, by strengthening the quality of information available to Committee members, we can work towards enhancing our role and performance as a Committee.

PART 2

GOVERNMENTAL ISSUES

The 1986/87 Estimates contain much evidence of the dramatic evolution which the G.N.W.T. is presently experiencing. Reflected within this budget are expenditures related to major federal program transfers in 1985/86, new initiatives priorities and programs and the realignment of functions resulting from the governments recent reorganization.

In this part of our report, we speak to those initiatives which have or will have a significant government-wide impact in 1986/87 and future years. More specifically, we will highlight our concerns and observations on the budgetary implications of these measures.

Base Deficiencies

In terms of growth, the 1986/87 budget owes much of its increase to the funding of base deficiencies in the area of Education and Housing by the G.N.W.T. Faced with the lack of a federal response to Treasury Board submissions, the G.N.W.T. has financed, partly through its surpluses from prior years, selected recommendations of the Special Committees on Education and Housing. Commitments in these areas in 1985/86 and 1986/87 will result in a larger base budget for the Department of Education and the Northwest Territories Housing Corporation which must be financed in future years from the G.N.W.T.'s operating funds. Both Education and Housing are keys to the quality of life of the people of the Northwest Territories and we urge the G.N.W.T. to continue to press forward for Treasury Board funding arrangements which will address these deficiencies. We recognize that the G.N.W.T. will meet with resistance from the federal government to funding "internal" initiatives. However, a case can be made particularly in the area of housing that the deficiency is a historic deficiency stemming from inadequate base level funding of these programs when transferred to the G.N.W.T.

The existence of a number of base deficiencies across existing programs and problems with funding new programs such as the Young Offenders Act raises a question in our minds over the adequacy of funding for new federal transfers which are currently being negotiated.

Budget Planning Process

In 1985/86, the Committee expressed its concern over the separation of the planning processes for the Capital and Operations and Maintenance budgets. It was our contention that these two processes are integrally linked and that the planning process should be integrated to ensure that the budget reflected the operations and maintenance impacts of accelerated capital development. The need for this kind of integrated budget planning is most evident in the case of the staff housing requirements resulting from growth in the public service which has a significant impact on both the capital budget of the Department of Personnel and the O&M budget of the Department of Public Works and Highways. We are therefore pleased to note that the Capital Planning Activity which was formerly a component of the Regional Operations Secretariat has now been transferred to the Financial Management Secretariat.

A further concern of the Committee with respect to capital planning was the role of the M.L.A. in the capital planning process. Although the government responded quickly in 1985/86 that M.L.A.'s would be consulted in the process, a rough survey of Committee members suggests that the practice of involving M.L.A.'s in decision making on capital projects is inconsistent in practice. We wish to re-emphasize our concern that the local M.L.A. be involved on a consistent level in capital planning. It is our feeling that input by M.L.A.'s will be valuable in establishing equitable regional plans and in resolving community differences over capital priorities.

Priorities

In response to the Committees previous report which outlined our concerns on deficiencies in the priorities process, we wish to acknowledge the governments outcome review of the priorities process. We await the results of this review and its effect on the budget priorities of this government.

Program Evaluation

The evaluation of government programs is necessary to ensure that program objectives are being achieved. Evaluation is a tool for managers to measure the results of their efforts and to provide a basis for decisions regarding the allocation of resources to programs and activities. As a Committee, we have been strong proponents of program evaluation to strengthen

internal accountability within government and to ensure that we receive adequate results for the money which is voted annually to sustain programs. It is therefore, a positive sign to see the increasing involvement of departments in performance measurement, program evaluation and other efforts directed at management by results. Once these systems are in place across the G.N.W.T., we hope to see these results quantified and included as part of the substantiating data for our review of the Main Estimates, similar to the information under Part III of the Federal Estimates.

Information on program results has the potential to be extremely useful for the governments own internal reviews of program budgets similar to the one currently being chaired by the Minister of Finance to examine areas of possible cutbacks and "sunsetting" of programs.

Devolution

In our review of the 1986/87, Main Estimates, the Committee focussed on these programs which were currently under negotiation for transfer from the federal government in 1986/87. Our concern in respect of devolution was twofold. Firstly, we wished to gauge the financial effects of the government's assumption of federal programs and secondly, we wanted to clarify the impact of recent concerns by native groups on these program transfers.

In reviewing the effect of devolution with each affected department and in our discussions with the Government Leader, we received distinctly mixed signals as to the exact status of governmental program transfers. On one hand we were assured that negotiations on the transfer of forestry, hospitals, nursing stations were proceeding at the departmental level, however, at the level of Executive Committee we were advised that programs transfers were presently "on hold" pending the result of discussions with various native organizations.

We recognize that circumstances change rapidly with respect to devolution, however, it begs the question of the \$329,000 which it will cost in 1986/87 to fund the operation of an Office of Devolution if there is a continuing impasse on federal transfers. We feel strongly that the government should act quickly to publicly communicate its position on the status of devolution initiatives to demystify the process and to address public concern over the issues.

There is little doubt that programs such as forestry will place a significant demand on our resources including infrastructure. It is exceedingly difficult as a committee for us to evaluate the financial implications, adequacy of funding etc. without a clear understanding of the governments plan of action.

Privatization

In 1985, the Department of Economic Development and Tourism introduced a Policy on Privatization which required all departments to examine government programs to identify those services which could be performed by the private sector. The policy called for departments to prepare and submit a privatization plan by November, 1985.

In questioning departments on privatization it appeared that this process is still to be completed. Some departments indicated that plans were in the final stages of preparation while others indicated that they were not as far along in the process. Generally, departments expressed a cautious approach to privatization. We were advised by the Minister of Public Works and Highways that privatization of some services would result in reduced levels of native employment in the public sector and that his departments were trying to achieve a balanced approach.

As a Committee we are aware that the Executive Council must weigh the cost/benefits of privatization against its other initiatives with respect to Affirmative Action. However, we support in principle privatization of services over the long term as a means of reducing government expenditures and enhancing the development of a healthy and competitive private sector.

Tax Regime Development

The introduction of formula financing in the G.N.W.T. has resulted in a greater emphasis on fiscal policies, to support the development of an appropriate tax regime. This budget year is unique in that it marks the beginning of a new period where budgets will be partially supported by specific G.N.W.T. revenue initiatives. One such initiative which is evident is the re-imposition of the ad valorem tax on certain fuels. In 1986/87, this tax source will yield \$7.6 million in additional revenues. Other revenue initiatives include an increase in vehicle licence fees. In future years, it will become more important that the G.N.W.T., maximize its own source revenues to show fiscal responsibility.

The 1986/87 budget reflects additional staffing in the treasury and fiscal policy activities of the Department of Finance to administer tax initiatives and to develop appropriate fiscal, economic and taxation policies. We are supportive of this initiative.

During our consideration of the 1986/87 budget, the Minister of Finance advised the Standing Committee on the directions proposed for the imposition of a payroll tax to remedy the outflow or "leakage" of income tax on non-residents who have earned income in the N.W.T. As a result of discussions with the federal government on administration of the tax and pursuant to internal discussions this initiative is not being pursued in 1986/87. The problem of tax leakage from the G.N.W.T. continues. This leakage, while small from provincial tax perspectives results in a substantial loss of revenue for the G.N.W.T. and could be recovered with no impact on residents of the Northwest Territories. The difficulty apparently lies with the administration of the tax collection agreements between Revenue Canada and the provincial/territorial government. As a Committee we support the continued efforts of the Minister of Finance to pursue this matter with the federal Minister and officials of Revenue Canada and to explore alternate ways to minimize tax leakage.

In the near future, we see the review of government tax regimes as having an important bearing on the role of the Standing Committee on Finance and the Legislative Assembly as a whole.

PART 3

DEPARTMENTAL ISSUES

Through the process of reviewing the capital and operations and maintenance estimates, the Committee is able to examine the activities of all departments and agencies in the G.N.W.T. This aspect of our review permits committee members to question Ministers and officials on program and expenditure details. The third and final part of this report outlines specific issues which were raised in Committee which the members view as being significant items for followup with the respective departments.

DEPARTMENT OF JUSTICE

Special Native Constables Program

During consideration of the budget of this Department, the Minister advised the Committee that as a result of discussions between the Solicitor General, the Commissioner and the Minister, the Police Services Agreement now provides for the Minister of Justice to set the goals and objectives of police service. One of the major goals of the government has been to ensure that any future growth in police services will be under the Special Native Constables Program. The 1986/87 Budget for this program is \$297,000 - a \$9,000 increase over 1985/86 levels. As such it is difficult to perceive significant growth being accommodated within this program.

We strongly support the Special Native Constables Program and the objective of the Minister to channel future growth under the Program as a means of ensuring the active participation of native peoples in policing and deterrent activities within their communities.

LOCAL GOVERNMENT

Community Recreation Facilities

The Committee recommends to the Minister that smaller communities across the Northwest Territories be a primary focus for future development of recreational facilities to increase inter-community competition to encourage native participation in sports activities and to foster higher calibre athletes in competitive events. Without such development, athletes from these communities are unable to refine their skills and compete effectively with those from the larger fully serviced communities.

Capital Assistance Policy for Sport and Recreation Facilities

In our questioning of the Minister on the subject of a capital assistance policy for community sport and recreation facilities, the Committee was advised that a policy was in place but was presently under review. As an example, the Minister cited the present policy on arenas which required communities to pay 40% of the capital cost of the facility. This policy however was only selectively enforced based on the community's ability to pay.

The Standing Committee on Finance strongly recommends that a fair and equitable policy be developed on capital assistance for recreational facilities and that this policy be adhered to in the interest of fairness and consistency.

Municipal Act

In 1985/86, the Department of Local Government received a one time allocation of \$75,000 for legislative drafting related to the Municipal Act. At the budget review for 1985/86 the committee was advised that the Municipal Act was imminent and would be introduced in the Assembly after a final round of consultation. To date, there has been no evidence of the draft legislation. A response by the Minister suggests that the earliest that the first two parts of the legislation could be tabled is the Fall Session of 1987. In light of the extensive amount of time and money which has been spent to date on this bill, the Committee recommends that the Minister proceed immediately to finalize the Municipal Act and to bring it forward to the Assembly.

Review of Regional and Tribal Councils

The Committee recommends to the Minister that a major review be undertaken on regional and tribal councils across the N.W.T. to define the role, legislative authority and levels of financial support for these bodies.

Review of Arctic Winter Games Participation

The Committee recommends that the government examine its participation in the Arctic Winter Games in view of the high costs of participation and the limited access to competition for smaller communities. This review should examine the cost benefits of holding annual territorial games in lieu of the Arctic Winter Games.

Community Airports Funding

During our discussions with the Minister of Local Government, the Committee raised the issue of funding for community airports. The Minister advised the Committee that the federal government had not given a firm response on funding and that discussions were at an impasse. No discussions had taken place on establishing a cost sharing agreement as the high capital costs of airport constructions projects would result in cost cutting measures on other departmental capital programs.

Adequate community airport facilities are a prerequisite for access to arctic communities. Airports provide for medical transportation, transportation of food and supplies, tourism benefits, and enhance the potential for local development. Therefore, in the absence of traditional funding from the Ministry of Transport, the Committee strongly recommends that the government pursue funding from other sources such as the Economic and Regional Development Agreement, and its subsidiary agreements and to negotiate within the framework of these agreements an access component for community airports construction to service arctic communities.

DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS

GNWT Accommodation

The increase cost of GNWT accommodation in 1986/87 is \$6.173 million dollars. The department advised the Committee that this increase results primarily from forced volume growth to acquire new properties to support GNWT programs. We were advised by the Minister that this increase represents a historical "catch-up" on deficiencies in facilities and reflects the governments intention to lease facilities wherever possible rather than construct these facilities.

The Committee is concerned with the effect of this significantly increased cost on the limited resources of our government. We caution the government that these costs must be considered when negotiating transfers and program enhancements to ensure that deficiencies do not occur in future and to ensure that federal base funding transfers adequately compensate for these costs.

Lease Policy for Accommodation

On a related matter, the Committee questioned the Minister on the government's lease policy for accommodation. This issue was first raised in the Committee's report to the Legislative Assembly on review of the 1985/86 Estimates. We were told by the Minister that a base policy is presently being developed which will provide for standardization of leases. The Minister further advised the Committee that "an attempt" will be made to acquire leased assets through public tender.

Once again, this Committee wishes to re-emphasize to the Minister that all leases should be acquired through a public tender process to ensure that the G.N.W.T. receives value for money and that all potential suppliers are afforded an opportunity to bid. As we previously stated, the Business Incentives Policy will adequately protect northern suppliers against intrusion by southern companies. It is therefore recommended that the Minister introduce a lease policy which requires public tenders for acquisition of lease hold properties.

Tenders for Stanton Yellowknife Hospital

The Committee has a concern over the tendering procedures used in the award of the contract for construction of Stanton Yellowknife Hospital. Initially we were advised by the Minister of Health that the decision to award the contract was made by the Executive Council independently of the Hospital Board. Following the closing of bids all contractors were asked to submit amended bids on a specific section of the tender, even though two of the original contractors had not been recommended due to their failure to adhere to the tender document, but that all three contractors were asked to amend bids based on the new building plan. The Minister of Public Works however has advised us that this is not the usual practice of the Department of Public Works but was the practice of the Hospital Board. In our opinion, the practices followed in the awarding of this contract are questionable and should be examined to clarify procedures for future construction contracts.

Access Roads Funding

The Committee recommends that the Minister pursue an access component under the new Economic and Regional Development Agreement to provide incremental funding for the roads program. To facilitate additional funding requests under the ERDA, we recommend that the government adopt a policy position on the multiple use of roads in the N.W.T. to promote community development, resource development, forestry access and tourism potential.

DEPARTMENT OF HEALTH

Plan of Action for Federal Program Transfers

The Committee recommends that the Minister of Health begin immediately to prepare a plan of action for federal program transfers over the next thirteen months which will provide for an adequate level of base funding in both capital and O&M for existing programs. The governments plan of action should also address funding for new initiatives which the G.N.W.T. determines are required to provide adequate health case services including mental health services to residents of the Northwest Territories. In our view, the Minister can appropriately take a pro active role in planning for program transfers to accommodate future needs.

Medical Transportation

The Committee wishes to stress to the Minister the need for greater communications between hospitals and nursing stations to ensure the adequacy of medical transportation of patients. While this is presently a federal responsibility, we encourage the Minister to pursue this matter with officials at the federal level and to identify efficient systems for medical transportation. This is a serious concern of the people of the Northwest Territories who in many cases have no choice but to travel to receive medical assistance.

Mental Health

The Committee is concerned at the lack of funding in the present budget for mental health programs. There has been little action taken by this government in response to the motion the Legislative Assembly and we feel strongly that funding should be sought to enhance mental health services in the N.W.T.

Native Hospital Workers

Further to our Report on Review of the 1985/86 Main Estimates, the Committee wishes to re-emphasize the importance of actively recruiting native hospital workers and the use of a positive Affirmative Action plan by these institutions.

DEPARTMENT OF SOCIAL SERVICES

Young Offenders Act

The 1986/87 Estimates of the Department of Social Services contains no funding for the Young Offenders Act. We were advised that this funding was presently under negotiation and that a Supplementary Appropriation would be forthcoming to provide interim authority for staff and salaries until a final funding level was determined. As a result, the budget of the Department of Social Services is not reflective of the total cost of operations in 1986/87.

The Committee is concerned that negotiations are not concluded at this late stage in the budget cycle. The Young Offenders Act has been in effect for some time and we have some difficulty in understanding the lack of at least a base level budget for the 1986/87 portion of this program in Operations and Maintenance. We realize however, that capital funding is contingent on the federal governments acceptance in principle of capital funding for this program.

WORKERS COMPENSATION BOARD

In 1985/86 the Committee raised the issue of the investment of Workers Compensation Board funds in government loans and other forms of northern investment. To date there has been no formal response by the Board on the feasibility of these kinds of investments. We recommend that the Board report to the Legislative Assembly on its position with respect to investment of funds to provide a definitive position on this matter.

NORTHWEST TERRITORIES HOUSING CORPORATION

Capital Plan

Once again, this year, the Committee is concerned at the lack of a five year capital plan for the Northwest Territories Housing Corporation. The preparation of a five year plan was an objective of the Corporation in 1985/86 which has not been followed through. We have learned from the Minister that the five year capital plan must await the results of the corporate plan and strategy review which is currently underway. As a Committee we are familiar with the fact that capital projects beyond the current year are subject to change during the budget cycle so that changes in future years capital allocations resulting from the corporate planning exercise are to be expected. The Corporation moreover, must act in concert with other departments in planning for residential land development and construction. The lack of a 5 year capital plan makes such coordination difficult. We therefore recommend that the preparation of a five year capital plan be an early priority of the Minister and that the Corporation complete such a plan for the 1987/88 operational planning cycle.

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