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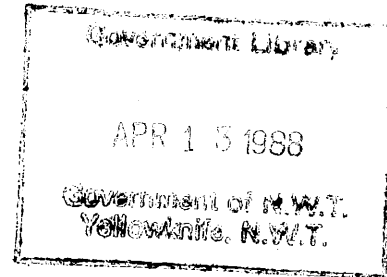
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EVALUATION OF THE

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BUSINESS INCENTIVE POLICY

SECOND REPORT: THE RESULTS



Priorities and Planning Secretariat
Department of the Executive
Government of the Northwest Territories
October, 1987



EVALUATION OF THE
BUSINESS INCENTIVE POLICY
SECOND REPORT: THE RESULTS

EXECUTIVE SUMMARY OF THE FIRST REPORT: THE PROCESS

The Business Incentive Policy provides for the adjustment of contract bids from qualified Northern Contractors in order to promote the use of Northern labour and materials purchased in the North, and to encourage the development and competitiveness of Northern businesses.

The Policy, as revised February 28, 1985, stipulates that a review will be conducted within two years. In the 'Interim Report on the Business Incentive Policy' tabled in the February, 1986 sitting of the Legislative Assembly, the then Minister of Government Services, the Honourable Tom Butters, identified the Priorities and Planning Secretariat as the lead agency in conducting the review of the Policy.

The evaluation was conducted in four steps:

- i) the preparation of an 'Evaluation Assessment Report' which focussed on the issues to be evaluated, the information - or data - that should be collected, and how this information should be analysed;
- ii) the preparation of the Terms of Reference to guide the evaluation, for submission to the Priorities and Planning Committee;
- iii) the collection and analysis of readily available information on the tendering of GNWT contracts; and
- iv) a survey of the NWT business community - as well as some Southern-based contractors - in order to determine the impact, if any, of the Policy, and to seek opinions on the Policy itself.

An Evaluation Study Team was formed in order to provide input in assessing the major issues to be evaluated, and to review the progress of Secretariat Staff on a regular basis.

The Study Team is comprised of representatives from:

Priorities & Planning Secretariat - Chair
Public Works and Highways
NWT Housing Corporation
Government Services
Economic Development & Tourism
Finance

- i) the efforts of Government Services and the Housing Corporation to tender by commodity groupings, allowing more Northern businesses (which are generally smaller and more specialized) to bid; and
- ii) significant growth in the non-renewable resource and government sectors during the study period, resulting in increased overall demand for goods and services.

Encouraging the Development and Competitiveness of Northern Businesses

Three indicators of business development were used in the questionnaire: increases in gross revenue, new investment in buildings, equipment or inventory, and diversification into new products or services. The results were significant:

- i) 40 per cent of all Northern respondents reported increases in gross revenue;
- ii) 27 per cent reported new investment; and
- iii) 16 per cent had diversified their business activities.

Good evidence was collected during the evaluation to suggest that the NWT business community has become more competitive. For all sampled contracts in the period 1982/83 to 1986/87 having at least one Northern bidder and one Southern bidder, Northern businesses were awarded an average of approximately 70 per cent.

However, the importance of the Business Incentive Policy in effecting these trends in development and competitiveness was difficult to determine. It is believed that other factors, such as the Housing Corporation's 'Community Development' initiatives and splitting of construction contracts into 'supply' and 'erect' components, and the 'Maximum Local Impact' initiatives of Public Works and Highways, had more impact.

Income Tax Implications

Under the terms of the formula financing agreement between the GNWT and the federal government, the federal transfer payment is calculated after consideration of GNWT tax revenues. Any additional tax revenues collected by the GNWT by awarding contracts to Northern companies in preference to lower-bidding Southern companies would be fully offset by a reduction in the federal grant. The Business Incentive Policy provides no tax advantage to the GNWT.

POLICY COSTS

The following costs were considered:

- i) administrative costs, including staff salaries and benefits (Business Incentive Policy Officer), travel, contract services, and office expenses;
- ii) an estimate of the cost of Eligibility Committees, created in each Region to consider applications for registration as Approved Northern Contractors (all committee members are GNWT employees);
- iii) the actual amount of preference paid by application of the Policy; and
- iv) an estimate of the amount of 'hidden preference' paid on some contracts, due to the absence of bidding by Southern businesses which may have submitted lower bids.

1986/87 Policy costs were approximately \$430,000. This was less than 1/2 of 1% of the annual total value of all contracts let by the departments involved in the evaluation (excluding petroleum products).

OTHER CONSIDERATIONS

90 per cent of the Northerners who responded to the questionnaire were aware of the Policy and its objectives. Of those aware of the Policy, 89 per cent were in favour of it. However, 41 per cent of Northern respondents believed that the Policy had little or no impact on their business.

Survey participants were also asked their opinion concerning what the Policy should be doing, and what it is doing. Three significant conclusions emerged:

- i) protection of the NWT business community is not an important objective;
- ii) 94% of Northerners and 82% of Southerners believe that the main objective of a Business Incentive Policy should be job creation; and
- iii) There is a large gap between what the business community believes the Policy should be doing and what the business community believes it is doing.

ISSUES TO BE ADDRESSED

The most significant issue to emerge from the evaluation was the concept of 'equalization of opportunity': assurances that competition for GNWT contracts is equalized for all bidders - regardless of ownership - with respect to the costs incurred in undertaking such contracts.

This concept is different enough from that of protection of the NWT business community through strict eligibility criteria, that further investigation was warranted. It was determined that there are two types of costs that should be addressed by policy initiatives: labour costs and overhead costs.

With respect to labour costs:

- i) expenditures for construction projects generate more jobs per dollar than expenditures for the purchase of materials. Yet, the amount of preference allowed under the Policy is not sufficient to overcome the cost differential between Northern and Southern labour which is created by the higher wages and lower productivity of Northern construction workers;
- ii) general contractors would prefer to hire locally, but are prevented from doing so in many cases because of the lack of skilled and willing workers. Policies which promote the use of Northern labour should provide for increasing the supply of Northern labour in order to achieve long term success.

With respect to overhead costs (office operating costs):

- i) operating an office in the NWT creates jobs - irrespective of the ownership of the business; restricting preference to only those offices owned by Northerners ensures that some jobs stay in the South for those contracts awarded to Southern firms. A more progressive approach would encourage Southern firms doing business in the NWT to open offices in the NWT staffed by NWT residents;
- ii) operating an office in the NWT is more costly than operating an office in the South. The concept of 'equalization of opportunity' suggests that preference should be tied to the degree of overhead costs of a business expended in the NWT.

POLICY INITIATIVES

Most of the proposed initiatives are not new. What is new is recognizing that such initiatives should be applied in a more comprehensive and consistent manner. The proposed initiatives fall into three categories:

Initiatives which encourage business development:

Use of an 'Overhead Allowance Factor', which provides for the extension of preference to all businesses based on the degree of administrative activity undertaken in the NWT. This would replace the present eligibility criteria for registration as an Approved Northern Contractor;

Implementing import replacement strategies which increase the stock of goods and services available in the NWT, by encouraging the establishment of certain kinds of businesses in the NWT;

Influencing other public sector agencies to adopt policies and programs with similar objectives;

Initiatives which promote labour force development:

Apprentice Programs and On-the-Job training;

Comprehensive capital planning, wherein the GNWT's five year capital planning process becomes an instrument of labour supply development by giving consideration to the availability of regional contractors, suppliers and labour pools in budgeting capital projects;

Initiatives which promote business development and job creation in a regional or local context:

Invitational bidding;

The 'Maximum Local Impact' initiatives introduced by Public Works and Highways.

CONCLUSIONS

The present Policy has widespread support, but very little impact.

The intent of the Policy should be continued, with objectives that reflect the findings of the evaluation. The objectives of promoting the use of Northern labour, and encouraging the development and competitiveness of Northern business, should be retained. Analysis indicated that promoting the use of goods purchased in the NWT did not lead to significant job creation benefits. Eliminating this objective would not adversely impact Northern wholesalers and retailers as long as their higher overhead costs relative to Southern businesses are recognized.

Stronger links need to be created between Policy objectives and the means of achieving them. Applying the concept of the equalization of opportunity to achievement of the objectives through the public tendering process could be accomplished in two ways:

- i) bid adjustments which reflect the degree of utilization of Northern labour in construction contracts would promote the use of Northern labour; and
- ii) bid adjustments which reflect the percentage of total overhead costs of a business expended in the NWT would also promote the use of Northern labour, as well as encourage the development and competitiveness of the NWT business community.

An integrated approach to achieving the broad goal of job creation, using a variety of related initiatives, would be more effective than a single blanket Policy. This approach would include:

- i) a revised Business Incentive Policy;
- ii) business development through import replacement;
- iii) apprenticeship programs and on-the-job training;
- iv) comprehensive capital planning;
- v) invitational bidding and Local Impact initiatives; and
- vi) influencing other public sector agencies to adopt similar policies and programs.

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1 INTRODUCTION

The Terms of Reference for the evaluation of the Business Incentive Policy, as approved by the Executive Council in December, 1986, required that four issues be addressed by the Evaluation Team:

the type and magnitude of benefits that have resulted from the Policy;

the type and magnitude of the costs of the Policy

the desirability of continuing the Policy; and

the changes required, if any, in the provisions of the Policy and/or the current delivery system.

Three different types of data were collected to aid in the evaluation:

Annual Contracts Statistics

Each department involved in the evaluation - Government Services, Public Works and Highways, and the Housing Corporation (a Crown Corporation, but considered a 'department' for the purposes of this report) - publishes annual reports detailing the number and value of contracts awarded to both Northern and Southern firms. In addition, contracts awarded on the basis of application of the Business Incentive Policy are recorded.

Bidding Information

Bidding information from a random sample of contracts, for the years 1982/83 to 1986/87, was obtained. The sample was designed to allow for proportionate representation by department, and by region, and a fairly high degree of accuracy¹ in drawing conclusions about all contracts.

¹Plus or minus 10% at a 90% confidence interval, based on the number of contracts

In all, the origin (Northern or Southern) and bid amounts of 5,794 bidders for 1,527 contracts, with a value of \$342,706,448.85,, was obtained for the period 1982/83 to 1986/87. This represents 21.3% of the total number of formal tenders let by the departments involved, and 48.6% of the total value of all contracts arising from the tenders.

Business Survey

Separate questionnaires were designed for Northern businesses, Southern businesses, and Northern business organizations (Chambers of Commerce, the NWT Business Council, and the NWT Construction Association).

The questionnaires sent to individual businesses were divided into 5 sections:

- i) general description of business
- ii) awareness of the Policy
- iii) registration (Northern firms only)
- iv) bidding for GNWT contracts
- v) opinion of the Policy.

Questionnaires sent to business organizations asked the position (if any) of the organization on the Policy as a whole, as well as on specific provisions of the Policy.

The following table summarizes the response rate:

	Northern Firms	Southern Firms	Business Orgs
Number Sent	172	219	21
Returned undelivered	6	8	0
Subtotal	<u>166</u>	<u>211</u>	<u>21</u>
Number of Responses	73	75	4
Response Rate	44%	36%	20%

Responses to specific questions in the survey are referenced in the following sections. See Appendix 1 for a summary of all responses.

2 BACKGROUND

The benefits and costs of the Business Incentive Policy should be presented in the context of the objectives of the Policy (see Appendix 2 for a statement of the Policy), the objectives being:

- i) to promote the use of Northern labour;
- ii) to promote the use of materials purchased in the North;
- iii) to encourage the development and competitiveness of Northern businesses.

The focus then becomes:

Has the Policy achieved its objectives?

What has been the cost of doing so?

An additional question respecting costs was posed in the Assembly in February, 1987: Have any of the costs of the Policy been recovered by the GNWT through increased tax revenues?

3 POLICY BENEFITS

3.1 Has the use of Northern labour been promoted?

The answer is both 'Yes' and 'No'.

Of the 73 Northern survey respondents, 17 indicated that the Policy was responsible for staff increases totalling 33 people in 1985 and 1986. These same 17 businesses reported a total of 797 employees in 1986. Therefore, in percentage terms, 23% of the respondents indicated an average 4.3% increase in staff over two years, which they believed was due to the Policy. The highest gain - 8% - was recorded by construction businesses. Wholesalers and retailers reported a 7% gain; all other businesses reported 3%.

On the negative side have been instances of exported jobs: the use of Southern labour on construction contracts awarded to Northern businesses. The two most common cases are the use of Southern sub-trades on large construction projects, and the use of Southern tradesmen listed as 'own forces'.

3.1.1 Sub-trades

Public Works and Highways supplied information on the origin of the sub-trades listed by the winners of 21 contracts valued in excess of \$500,000 (See Appendix 3). Sub-trades are businesses hired by the main contractor to undertake specific aspects of construction, such as plumbing, painting, or roofing.

Of all the general contractors listed in Appendix 1, only 1 (Con Pro Industries) is a Southern business. Yet 50% of the 1985/86 sub-trades, and 67% of the 1986/87 sub-trades, are Southern businesses.

Although the origin of sub-trades is a consideration in evaluating contract bids - Policy benefits apply only to that portion of the work performed by Northern businesses - it appears that Northern contractors are quite willing to contract Southern sub-trades, even though the availability of NWT sub-trades is good. The reason is cost: the difference in cost between Northern sub-trades and their Southern counterparts is more than the incentives allowed under the Policy. For one 1986/87 contract, the general contractor, P.C.L. Constructors Northern Inc., subsequently substituted 4 Northern sub-trades for their proposed Southerners, but at an additional cost to the GNWT of \$169,000.

3.1.2 Use of 'Own Forces'

Another practice which appears more prevalent among general contractors is the hiring of tradesmen as temporary employees, rather than contracting sub-trades. The Policy implication is this: whereas the portion of a tender performed by a Southern sub-trade is excluded from application of an incentive, the portion performed by the general contractor's 'own forces' is not. A general contractor may hire Southern tradesmen or labourers, yet still qualify for Policy benefits on that portion of the contract performed by such temporary employees. There are a number of reasons cited for using Southern labour:

- i) the higher wages required by Northern labour;
- ii) the lower productivity of Northern labour;
- iii) the lack of availability of skilled Northern tradesmen; and
- iv) the lack of mobility of Northern labour.

All of these factors taken together increase the relative cost of using Northern labour. The preference allowed under the Policy is not sufficient to overcome the cost differential created by these factors.

3.2 Has the use of materials purchased in the North been promoted?

Yes. The percentage of total Government Services contracts awarded to Northern businesses has increased from 38% in 1982/83 to 53% in 1986/87 (See Appendix 4 for summaries of all departments). More significantly, the percentage of total value of these contracts (excluding petroleum products) has increased from 38% to 64% in the same period.

Similar increases have been recorded in the Materials Management Division (now 'Corporate Services') of the NWT Housing Corporation: from 1982/83 to 1986/87, the percentage of total contracts awarded to Northern businesses jumped from 69% to 95%; the percentage of total value of these contracts awarded North increased from 91% to 98%.

3.3 Has the NWT business community undergone development?

A qualified 'Yes'. Growth or development of the business community can be viewed as a combination of expansion of existing businesses, and new business starts. New business starts are ignored in answering the question for two reasons:

- i) the Policy, as amended in February, 1985, effectively prevents a Southern entrepreneur from establishing a business office in the NWT. Even if that person chooses to become resident in the NWT, the Policy requires a 3-year 'waiting period' before eligibility for registration as an Approved Northern Contractor;
- ii) an NWT resident who starts a new business probably does so for reasons other than registration for Policy benefits, although there may be a perceived opportunity under the Policy.

Therefore, the question of business development is answered with respect to expansion of the existing business community. Three indicators of business development were incorporated into the questionnaire: increases in gross revenue; new investment in buildings, equipment or inventory, and diversification into new products or services.

Of the 73 respondents, 29 (40%) reported increases in gross revenue, 20 (27%) indicated new investment, and 12 (16%) had diversified into new products or services, all believed due to the Policy.

3.4 Has the NWT business community become more competitive?

Yes. There is good evidence to suggest that the NWT business community has become more competitive. Two indicators of competitiveness were derived from the examination of GNWT tenders: the percentage distribution (Northern/Southern) of winners of tenders having both Northern and Southern bidders; and bid differentials - the percentage difference between the lowest Northern bid and the lowest Southern bid.

3.4.1 Winners of Tenders Having Both Northern and Southern Bidders

For all sampled contracts in the period 1982/83 to 1986/87 having at least one Northern bidder and one Southern bidder, Northern businesses were awarded an average of:

- 75% of Government Services contracts;
- 69% of Public Works and Highways contracts;
- 72% of NWT HC - Construction contracts; and
- 72% of NWT HC - Materials Mgmt contracts.

More significantly, on the whole, the percentage of such contracts awarded to Northern businesses has been increasing from 1982/83 through 1985/86 even though the average number of bidders per bid has remained fairly constant throughout the period (see Appendices 5 and 6). Further, this trend is not dependent on contract size: the majority of construction contracts are over \$100,000; supply contracts are less than \$100,000 (see Appendix 7). Declines in the success of Northern bidders were recorded in all departments in the 1986/87 fiscal year, probably due to strong competition from Alberta businesses facing a depressed economy at home.

3.4.2 Bid Differentials

For each year of the study period, the average difference between the lowest Northern bid and the lowest Southern bid was calculated for each contract won by a Northern business. Contracts awarded on the basis of application of the Policy were not included in the calculation. Similar average figures were determined for contracts awarded to Southern firms.

In all years, contracts won by Northern businesses were, on average, won by a wider margin than contracts won by Southern businesses (see Appendix 8). Contracts greater than \$100,000 showed the greatest bid differentials in favour of Northern businesses.

Taken together, these two indicators suggested that Northern businesses have been winning an increasing percentage of contracts in competition with Southern businesses, and winning such contracts by wider margins. Further, the Business Incentive Policy has not figured prominently in this outcome.

3.5 Have any of the costs of the Policy been recovered by the GNWT through increased tax revenues?

Under the current income tax allocation formula, any business with a permanent establishment in the Northwest Territories will pay income taxes to the GNWT based on revenue generated in the NWT.

A model developed for the Government of the Yukon, and modified with NWT data, was used to examine the potential income tax return to the GNWT from awarding contracts to Northern businesses in preference to lower-bidding Southern businesses (see Appendix 9).

The analysis indicated that the direct return to the Government of the NWT from the purchase of goods with a value of \$100,000 is approximately \$4,786 or 4.8%. The direct return to the Government of the NWT from a construction project expenditure of \$100,000 is approximately \$10,432 or 10.4%.

Further analysis revealed that the potential tax return from awarding contracts on the basis of the Policy has been greater than the benefits paid only for Housing Corporation construction contracts and 86/87 Public Works and Highways contracts (see Appendix 10).

A very strong 'However...' is in order here. Under the terms of the formula financing agreement between the GNWT and the federal government, the federal transfer payment is calculated after consideration of GNWT tax revenues. In other words, any additional tax revenues collected by the GNWT would be fully offset by a reduction in the federal grant. Further, additional tax revenues could come from Southern companies: 'permanent establishment in the Northwest Territories' includes having substantial machinery or equipment in place at any time in the year, so many large and lengthy construction contracts let to Southern companies may generate NWT corporate income tax.

Although broadening the NWT tax base is desirable, the Business Incentive Policy provides no tax advantage to the GNWT.

3.6 Summary of Policy Benefits

As detailed in the above sections, some NWT businesses recorded gains, believed to be directly attributable to the Policy, in employment, new product lines or services, and capital investment. However, the largest employment gains were recorded by the construction industry. Further, when assessing the overall employment impact of the Policy, consideration must be given to the preferred use of Southern labourers and sub-trades on large construction projects.

The observed gains in the increased use of materials purchased in the North, and in the development and competitiveness of NWT business can be attributable to the Policy only in a minor way. Other factors have had more impact on the achievement of these policy objectives, namely:

- i) invitational bidding practices, which can be used to target a specific group of bidders;
- ii) the splitting of Housing Corporation supply contracts into commodity groupings; and the splitting of Housing Corporation construction contracts into separate 'supply' and 'erect' contracts, allowing access to bidding by smaller companies (i.e. local or territorial);
- iii) the Housing Corporation's 'community development' initiatives, which encourage the use of local businesses and labour in construction projects;
- iv) the Local/Northern Involvement Reporting and Maximum Local Impact initiatives recently introduced by Public Works and Highways; and
- v) significant growth in the non-renewable resource and government sectors during the study period, resulting in increased overall demand for goods and services.

4 POLICY COSTS

4.1 Administrative Costs

Administrative costs include staff salaries and benefits, travel, contract services, and office expenses. These costs are summarized in the following table:

	1985/86		1986/87	
	BUDGET	ACTUAL	BUDGET	ACTUAL
PY's	2	2	2	1
Wages and Benefits	\$ 81,000	\$ 81,000	\$ 59,000	\$ 58,980
Travel	10,000	10,000	15,000	5,980
Contract Services	0	0	20,000	2,040
Other Admin	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>2,860</u>
Totals	111,000	111,000	114,000	69,860

4.2 Indirect Cost of Committees

Each region, plus Yellowknife, has an Eligibility Committee which meets frequently throughout the year to approve or reject applications for registration as a 'Northern Contractor'. In addition, the Deputy Minister of Government Services chairs an Appeal Committee to hear further arguments from rejected applicants. Members of all committees are GNWT employees.

There appears to be no consistency among the regions concerning meeting times, so calculation of the cost of committees is a rough estimate only:

$$7 \text{ committees} \times 5 \text{ members each} \times 8 \text{ meetings per year} \times 1 \text{ hour per meeting} = 280 \text{ person-hours per year}$$

Assuming \$40 per hour as the average cost of salaries and benefits for each committee member yields an annual cost of \$11,200.

4.3 Preference Paid

The following table summarizes the number of contracts awarded on the basis of application of the Policy, and the amount of preference paid in excess of the lowest bid for these contracts:

	Number of Contracts	Preference Paid
1985/86	231	\$496,304.99
1986/87	<u>269</u>	<u>307,398.63</u>
Totals	500	\$803,703.62

A more detailed breakdown is provided in Appendix 11.

It should be noted that only two contracts tendered by the NWT Housing Corporation are included in this table. Although the Housing Corporation is bound by the provisions of the Policy, the Canada Mortgage and Housing Corporation (CMHC) - which provides the majority of funding for housing projects in the NWT - is not supportive of the Policy. **Contracts awarded by the Housing Corporation on the basis of the Policy - even if preference is applied only to that portion funded by the GNWT - will not be funded by CMHC.** As a consequence, the Housing Corporation has introduced other measures acceptable to CMHC, such as invitational bidding and community development initiatives, in order to achieve the objectives of the Policy.

4.4 Hidden Preference

Preference arises when a contract is awarded to a Northern Contractor even though a Southern firm submitted a lower bid. Thus, preference can only be paid on a contract if there is at least one Northern bid and at least one Southern bid. The concept of 'hidden' preference arises in the absence of bidding by any Southern firm if the assumption is made that a Southern firm - if bidding - would have submitted a lower bid. Hidden preference is just that, because it is included in the price paid for goods or services in the absence of more competition.

A comprehensive model developed in order to determine this hidden preference (see Appendix 12) provided the following estimates:

For 1985/86	\$16,736
1986/87	\$41,614

4.5 Summary of Policy Costs

	1985/86	1986/87
Administration	\$111,000	\$ 69,860
Committee Time	11,200	11,200
Preference or Benefits Paid	496,305	307,400
Hidden Preference	<u>16,740</u>	<u>41,615</u>
Totals	\$635,245	\$430,075

Measurable Policy costs represent less than 1/2 of 1% of the annual total value of contracts let by the departments involved (excluding petroleum products).

There are two additional costs of the Policy which are difficult to measure, but which nevertheless should be identified. The first is the opportunity costs of contract authority time - that is, the cost to the GNWT of having contract authorities engaged in Policy-related tasks, instead of being available to undertake other activities.

The second relates to competition for GNWT contracts. It was stated previously that the average number of bidders for GNWT contracts has remained fairly constant throughout the study period. Analysis of the questionnaire returns from Southern businesses showed that a significant number (54 per cent) bid less frequently, or have stopped bidding altogether, because of the Policy. That the average number of bidders remains constant is indicative of **new businesses** bidding for GNWT contracts (or existing businesses which had not bid on contracts in the past).

Without the Business Incentive Policy, it is likely that the average number of bidders would have increased - Southern businesses which now bid less frequently, plus the new businesses. **Increased competition for GNWT contracts may have resulted in a reduced cost for goods and services which is not reflected in the analysis of hidden preference. In other words, there is a cost to the GNWT resulting from the decisions of a number of Southern businesses to reduce the frequency of their bidding because of the Policy.**

5 OTHER CONSIDERATIONS

5.1 Interprovincial Barriers to Trade

In 1985, the Federal, Provincial and Territorial Ministers responsible for regional economic development established a joint task force to:

- i) identify and examine barriers to interprovincial trade;
- ii) assess the effects barriers are having on regional development; and
- iii) examine the prospects and recommend opportunities for increasing interprovincial trade.

A February, 1986 Task Force report proposed consideration of a moratorium on new barriers, and suggested establishment of a process for reducing or eliminating barriers to interprovincial trade. Subsequent meetings mandated a Committee of Ministers to accelerate consultations among governments to remove obstacles to interprovincial trade; and established the following priorities for consideration:

1. government procurement
2. marketing practices for alcoholic beverages
3. employment standards
4. transportation regulations.

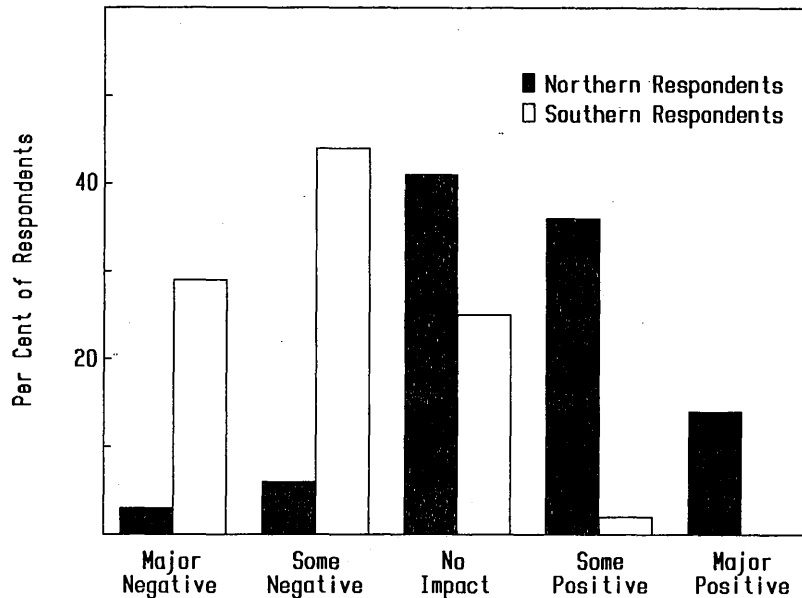
Record of Decision 87-8-17 authorized the Minister of Economic Development and Tourism to sign the Memorandum of Understanding on Barriers to Interprovincial Trade in Goods and Services subject to revisions which would allow new barriers if they met the test of 'compelling considerations of provincial or territorial economic development'. These revisions were subsequently approved by the other members of the Committee of Ministers.

What this means is that the GNWT has some latitude to pursue preferential policies on the basis of their contribution to economic development. Such pursuits are not likely to be impacted by a Free Trade Agreement with the United States.

5.2 Impact of the Policy on the Business Community

90% of the Northern survey respondents were aware of the Policy and its objectives. Of those aware of the Policy, 89% were in favour of it.

The Business Survey included a question on the overall impact of the Policy on the respondent's business. Despite earlier statements regarding Policy-related employment and investment gains, 41% of Northern respondents who answered the question believed the Policy had little or no impact on their business; 36% felt that the Policy had some positive impact. 25% of the Southern respondents believed that the Policy had no effect on their business; 44% had felt some negative impact. The overall impact is summarized in the following chart:



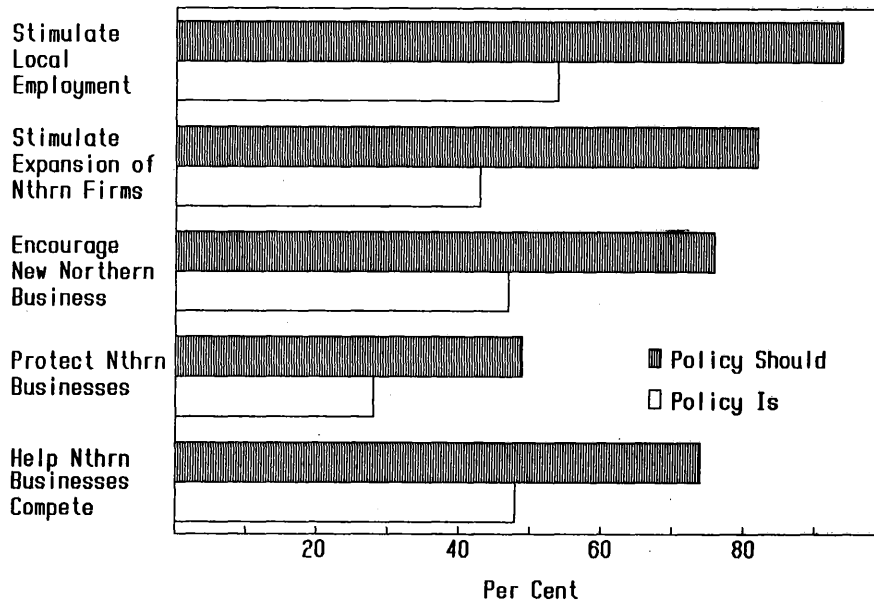
5.3 Opinion of the Policy

Survey participants were asked their opinion concerning what the Policy should be doing, and what it is doing. Northern businesses were asked to consider the following categories:

- i) stimulate local employment;
- ii) stimulate expansion of existing Northern businesses;
- iii) encourage new Northern business starts;
- iv) provide protection against Southern bidders; and
- v) help Northern businesses compete.

The percentage of respondents selecting each choice is illustrated in the following chart. Businesses were not limited to one choice only, so the totals sum to more than 100%.

NORTHERN RESPONDENTS' OPINIONS OF POLICY OBJECTIVES



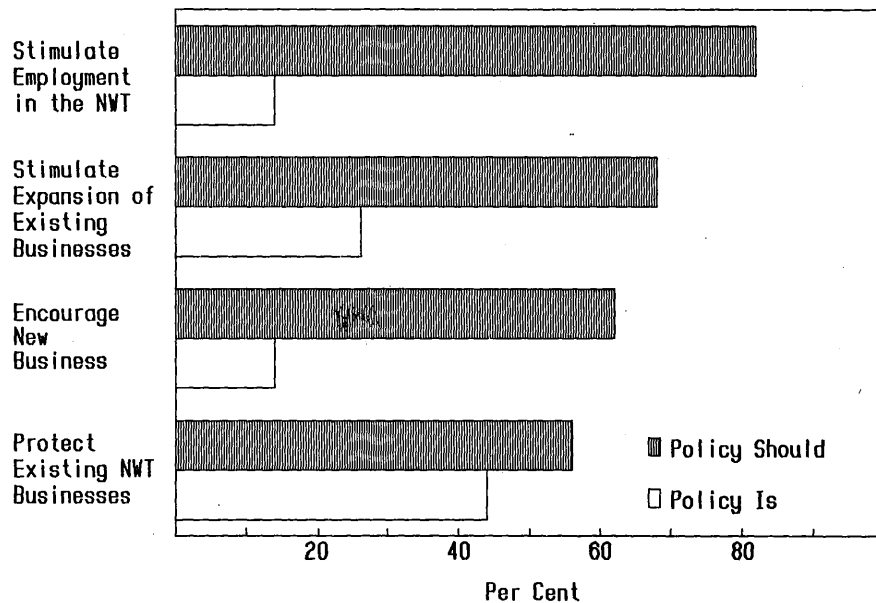
Questionnaires sent to Southern businesses asked the questions in slightly different ways, with less emphasis on the 'Northern' aspects of each consideration.

Southern businesses were asked to consider the following categories:

- i) stimulate employment in the NWT;
- ii) stimulate expansion of existing businesses;
- iii) encourage new businesses to open; and
- iv) protect existing NWT businesses.

Southerners were not asked to consider the category of helping Northern businesses to compete, as there would probably be very little difference in interpretation between this category, and the category of protecting NWT businesses.

SOUTHERN RESPONDENTS' OPINIONS OF POLICY OBJECTIVES



Even though the questions are different enough that direct comparisons are not possible, three significant conclusions emerge:

- i) protection of the NWT business community is not an important objective;
- ii) 94% of Northerners and 82% of Southerners believe that the main objective of a Business Incentive Policy should be job creation; and
- iii) There is a large gap between what the business community believes the Policy should be doing and what it is doing.

6.3 Job Creation and Operating Costs

Is there a strong relationship between head office location and benefits to the NWT? Is there a strong relationship between ownership of a business, and benefits accruing to the NWT?

The basic premise upon which the Policy rests is that it costs more to operate a business located in the NWT than a business located in the South. This premise is as true in 1987 as it was in 1982. Office operating costs - the overhead costs of a business - spent in the NWT generate economic benefits through the multiplier effect. Therefore, there is a strong argument for supporting NWT businesses in preference to Southern businesses because of the multiplier effects of expenditures made by NWT businesses.

But the argument extends only to the short-term, without considering longer-term possibilities. The Policy discourages businesses not owned by NWT residents from locating in the NWT. Encouraging such businesses to open offices in the NWT would not only capture some multiplier effects, but may, in the longer-term, increase the values of the multipliers because more required goods and services would be available in the NWT.

Some Southern-based businesses do operate offices in the NWT - providing jobs for NWT residents and purchasing supplies and materials from NWT businesses. Do these businesses contribute less to the NWT economy? Perhaps, but only to the extent of profits not re-invested in the NWT. There is nothing to prevent Northern businesses from investing their profits in Southern-based facilities to take advantage of both lower costs and the insurance of preference. Again, encouraging all businesses to re-invest profits in the NWT increases the long-term economic benefits available to the NWT economy through the multiplier effects themselves, and through increases in the values of the multipliers.

In summary, economic benefits are related to where expenditures and the re-investment of profits are made. They are not related to head office or ownership considerations. 'Equalization of opportunity' in this case would mean recognizing the increased costs associated with operating offices in the NWT, and encouraging overhead expenditures, and the re-investment of profits, in the NWT.

6.4 Application of the Policy

This is not to suggest that Northern-owned businesses are less important than businesses in general. It means setting aside the question of ownership for the time being, and **concentrating on creating stronger links between Policy objectives, Policy benefits, and operating realities.**

Given that:

- i) job creation is an important Policy objective;
- ii) construction contracts generate the most jobs per dollar expended of all GNWT contract expenditures; and
- iii) Northern labour costs are higher than Southern labour costs;

it follows that Policy benefits should be tied to the **degree of utilization** of Northern labour on construction projects.

Further, given that:

- i) jobs are created through direct expenditures for office staff, and indirectly through local expenditures for other office operating needs; and
- ii) office operating costs - the administrative costs of a business - are higher in the NWT than in the South;

it follows that Policy benefits should be tied to the **percentage of total overhead costs** of a business expended in the NWT.

7 POLICY INITIATIVES

No single policy is capable of achieving the broad goal of job creation. There are two reasons for this that are particularly relevant to any discussion of policy initiatives:

- i) policies which promote the use of Northern labour - that is, the **demand for labour** - do not address the issue of the lack of skilled and willing workers - the **supply of labour**; and
- ii) job creation incentives can be territorial-wide, regional or local; they can apply to certain kinds of businesses, or certain sectors of the economy. The chosen focus in large part dictates the nature of the policy initiative(s).

A number of related policy initiatives are proposed for consideration. **Most of the proposed initiatives are not new: it is recognizing that they should be applied in a more comprehensive and consistent manner that is new.**

The initiatives are presented in three separate groupings:

- i) those that encourage business development;
- ii) those that promote labour force development; and
- iii) those that do both of the above, but in a regional or local context.

7.1 Initiatives Which Encourage Business Development

7.1.1 Overhead Allowance Factors

An Overhead Allowance Factor (OAF) is a number between 1 and 10 equal to the amount of administration of a business which is undertaken in the NWT. It need not be complex: consideration would be given to ownership, profit re-investment, location of head office, degree of decision-making authority vested in the local office, local employment, and the degree of use of local suppliers and professional services.

Businesses wishing to be registered would complete an application form, and be assigned an OAF. A business owned and operated by an NWT resident would likely have an OAF of 10; Southern-owned businesses would have OAF's of 1 to 6 or 7, depending on the degree of administration carried on in the NWT. **The use of Overhead Allowance Factors would replace the eligibility criteria for an 'Approved Northern Contractor'.**

In order to streamline the application process, applications for OAF's could be attached to business licence applications or WCB registrations. Registration for the the GNWT's Business Directory could be included in the package, so that businesses can complete all of the required and requested forms at the same time.

The OAF would be applied in bid evaluation: a business with an OAF of 10 would receive a 10% bid adjustment; an OAF of 4 means a 4% bid adjustment, and so on.

The use of an Overhead Allowance Factor acknowledges that all businesses operating in the NWT - regardless of ownership - contribute in some way to the local economy. It acknowledges that business operating costs increase as the degree of administration carried on in the NWT increases. Compensation for such increased operating costs is not linked to ownership, but to the economic benefits provided. And in the long run, Southern businesses operating in the NWT may be encouraged to move more of their administration to the NWT.

The use of Overhead Allowance Factors could be extended to the provision of additional support to specific organizations, such as indigenous Societies or Community Development Corporations. In such cases, an OAF greater than 10 could be assigned in relation to the amount of support deemed necessary. However, a word of caution is in order here. In the February/87 sitting of the Assembly, a motion was brought forward to extend the definition of an 'Approved Northern Contractor' to include indigenous Societies. Other kinds of organizations could come forward seeking special status in bidding on GNWT contracts. Flexibility in the use of measures such as OAF's provide the means of dealing with these kinds of requests, but, regardless of the desirability of supporting such organizations, such support must be tempered by recognition of operating contributions and other subsidies of an on-going nature which the GNWT may already be providing.

7.1.2 Import Replacement Strategies

Import replacement strategies could be designed to increase the stock of goods and services available in the NWT, by encouraging the establishment of certain kinds of businesses in the NWT. This would be considered an initiative which supports the concept of equalizing opportunity in the longer term. The development of specific strategies would require co-operation between Government Services, the Housing Corporation and Economic Development and Tourism.

7.1.3 Influencing Other Public Sector Agencies to Adopt Policies and Programs with Similar Objectives

The Department of Municipal and Community Affairs provides funding to municipal governments to undertake projects to develop or upgrade community infrastructure. All contracts for such funding require the respective municipal government to comply with the provisions of the Business Incentive Policy in tendering projects. This compliance is a provision of the Capital Assistance Policy, which has been approved in principal by the Executive Council.

What is suggested is an investigation of ways and means of encouraging public sector agencies to not only comply with GNWT policies, but to adopt similar job creation initiatives as their own.

7.2 Initiatives Which Promote Labour Force Development

7.2.1 Apprentices Programs and On-The-Job Training

A recent Discussion Paper prepared by Public Works and Highways ('Maximum Local and Northern Employment and Business Opportunities on Construction Projects') emphasizes that "the provision of more or greater opportunities for Northerners to train and learn the necessary trades skills is...a key component of any plan to address the unemployment problem". Consideration will have to be given to apprenticeship training, general skills upgrading and implementing construction projects utilizing unskilled people in ways "that will accommodate their existing skill levels and provide them with on-the-job training".

7.2.2 Comprehensive Capital Planning

A comprehensive capital planning process would extend the concept of regional consultation in budgeting to consideration of consultation on the availability of (or need for) regional contractors, suppliers and labour pools that could be utilized in future construction. In this way, the GNWT's 5-year capital planning process becomes an instrument of **labour supply development** (with due consideration of the tentativeness of 5-year planning in general);

7.3 Regional/Local Job Creation and Business Development Initiatives

7.3.1 Maximum Local Involvement

Public Works and Highways has introduced a number of initiatives which promote local involvement in construction contracts. The department is proposing to improve and expand the approaches utilized in the past and to increase the number of projects implemented using these approaches. It is intended that such initiatives be consistent with the objectives of the current Business Incentive Policy.

Proposed approaches are:

- i) tendering and awarding a contract on the basis of local and Northern involvement;
- ii) delegating some project management authority to Community Councils;
- iii) construction management by an individual or firm under contract to the GNWT on projects where the potential for local labour involvement is great; and
- iv) awarding a negotiated contract, under special or extraordinary circumstances.

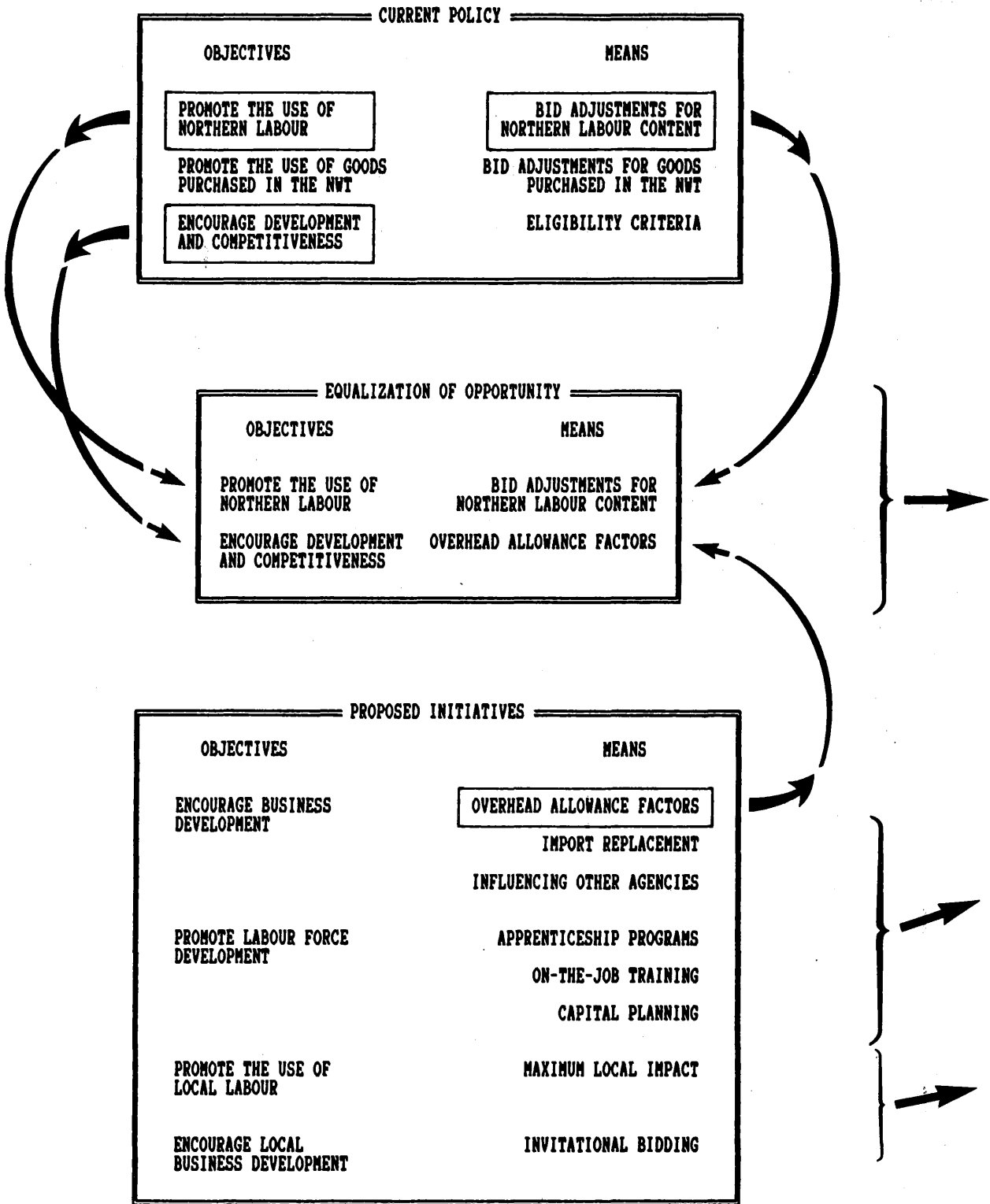
The reader is encouraged to review the April, 1987 Discussion Paper 'Maximum Local and Northern Employment and Business Opportunities on Construction Projects' for a more descriptive discussion of the proposed approaches.

7.3.2 Invitational Bidding

A report on public sector purchasing practices prepared for the Alberta Government (see 'Evaluation of the Business Incentive Policy; First Report: The Process') found that, in general, control of the opportunities to bid - through invitational bidding or restrictive tendering - is the most widely implemented initiative for encouraging and supporting local business.

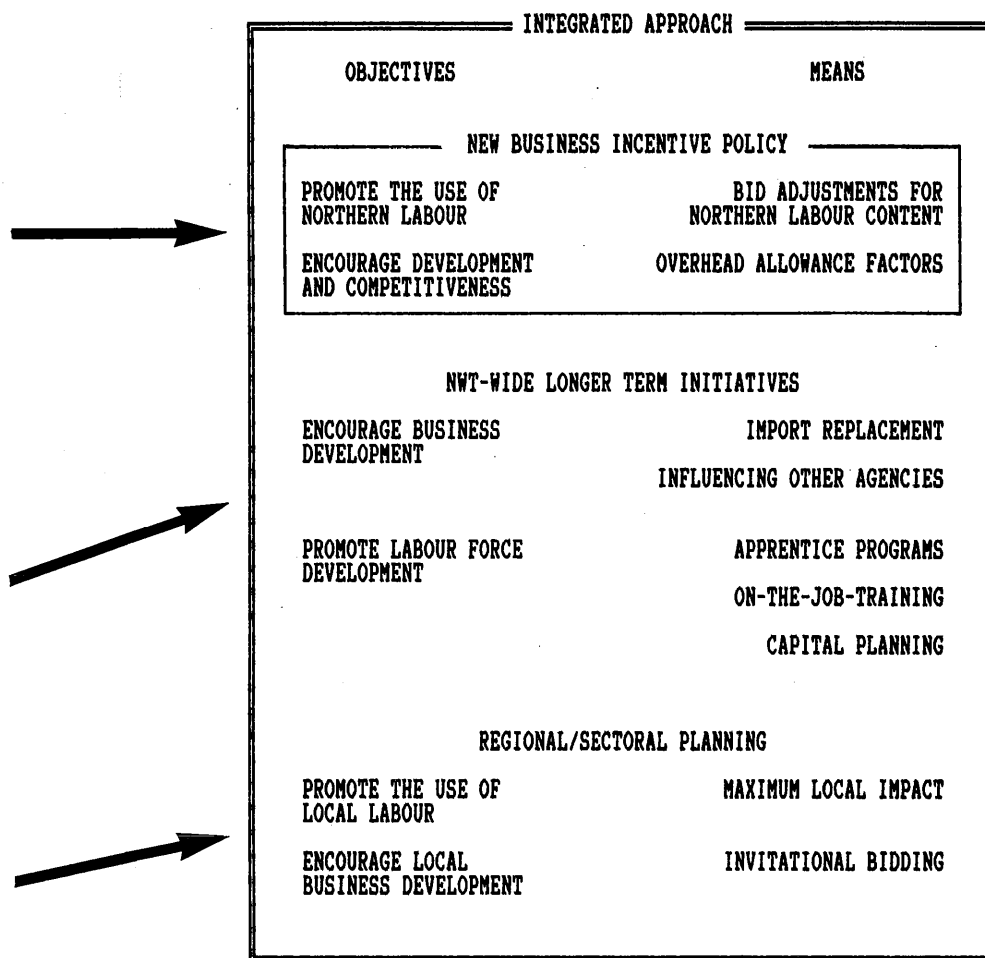
Government Services routinely uses invitational bidding because of the volume of contracts let each year (13,884 tendered in 1986/87). As long as there are sufficient suppliers of a commodity or service, and such suppliers have equal opportunity throughout the year to bid, competition is not curtailed.

8.5 Summary of Policy Initiatives and Conclusions



**The current Business Incentive Policy,
amended to reflect the concept of
'Equalization of Opportunity'**

**+ Proposed Initiatives
= An Integrated Approach
to Job Creation and
Business Development**



APPENDICES

APPENDIX 1: SUMMARY OF QUESTIONNAIRE RESPONSES

Summary of Northern Responses:

	Const	Trade	Other
General Information			
Number of businesses responding	23	23	27
Number registered as Northern Contractors	18	21	15
Average Number of Years in business	14	16	16
Average Number of offices/branches in NWT	2	1	1
Full-time NWT employees in 1985			
Most reported by 1 firm	99	20	184
Average	12	6	14
Full-time NWT employees in 1986			
Most reported by 1 firm	99	20	183
Average	13	6	14
Part-time NWT employees in 1985			
Most reported by 1 firm	30	30	53
Average	12	4	8
Part-time NWT employees in 1986			
Most reported by 1 firm	40	30	54
Average	13	4	8
Gross Revenue reported:			
Less than \$100,000	2	1	4
\$100,000 to \$250,000	2	2	2
\$250,000 to \$500,000	3	2	4
\$500,000 to \$1,000,000	1	4	2
More than \$1,000,000	<u>14</u>	<u>11</u>	<u>7</u>
Total responses	22	20	19
% of Revenue from GNWT Contracts:			
0% to 20%	9	10	10
21% to 40%	2	3	4
41% to 60%	3	2	4
61% to 80%	2	2	0
81% to 100%	<u>5</u>	<u>0</u>	<u>1</u>
Total responses	21	17	19

	Const	Trade	Other
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Bidding Information

Number of respondents indicating
Regional contracts they had bid on:

Headquarters	7	15	13
Fort Smith	3	12	9
Inuvik	12	8	4
Kitikmeot	7	7	0
Keewatin	7	7	2
Baffin	6	3	1

Impact of Policy

% of respondents aware of Policy	100%	96%	81%
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Number of responses re overall impact
of Policy on respondent's business:

A Major Positive Impact	1	5	3
Some Positive Impact	9	7	6
Little or No Impact	9	6	11
Some Negative Impact	2	0	2
A Major Negative Impact	1	1	0
No opinion	0	4	7

View on Competition versus Protection:

Significantly improved competitiveness	3	5	4
Slightly improved competitiveness	6	9	9
No effect	7	3	6
Some Protection of NWT businesses	4	2	2
Significant Protection	2	2	1

Summary of Southern Responses:

	Const	Trade	Other
General Information			
Number of businesses responding	32	18	24
Average Number of Years in business	24	34	34
Number reporting branches/depots in NWT	4	2	6
Full-time NWT employees in 1985			
Most reported by 1 firm	12	4	20
Average	5	4	8
Full-time NWT employees in 1986			
Most reported by 1 firm	16	3	24
Average	6	3	8
Part-time NWT employees in 1985			
Most reported by 1 firm	13	1	50
Average	6	1	13
Part-time NWT employees in 1986			
Most reported by 1 firm	15	1	16
Average	8	1	6
Gross Revenue reported:			
Less than \$100,000	1	1	0
\$100,000 to \$250,000	0	1	1
\$250,000 to \$500,000	1	0	1
\$500,000 to \$1,000,000	0	0	2
More than \$1,000,000	<u>25</u>	<u>10</u>	<u>8</u>
Total responses	27	12	12
% of Revenue from GNWT Contracts:			
0% to 10%	21	11	11
11% to 20%	2	1	0
21% to 30%	2	0	0
More than 30%	<u>1</u>	<u>0</u>	<u>0</u>
Total responses	26	12	11

	Const	Trade	Other
% reporting employment increases because of Policy	22%	30%	19%
Average % increase in employment for firms that reported such increases	8%	7%	3%
% reporting investment in Buildings, Equipment or Inventory because of Policy	30%	26%	26%
% reporting Gross Revenue increases because of Policy	22%	57%	41%
Average % increase in Gross Revenue for firms reporting such increases	17%	16%	12%
% reporting Net Income increases because of Policy	17%	39%	30%
Average % increase in Net Income for firms reporting such increases	17%	6%	5%
% reporting diversification to other businesses or product lines because of Policy	0%	35%	15%

Respondents' Opinions

% of respondents aware of the Policy who are:			
In favour of Policy	87%	95%	86%
Not in favour of Policy	9%	5%	9%
No Opinion	4%	0%	5%

% of respondents reporting what the Policy **should be doing** (1st column) and what it is **doing** (2nd column):

Stimulate employment in the NWT	91 48	91 61	85 44
Encourage new business to start up	78 30	74 52	63 41
Stimulate expansion of existing firms	78 39	78 52	74 26
Protect NWT business community	61 26	39 26	33 22
Help NWT businesses compete	78 43	87 65	59 37

	Const	Trade	Other
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Bidding Information

Number of respondents indicating
Regional contracts they had bid on:

Headquarters	11	5	6
Fort Smith	6	4	1
Inuvik	8	5	1
Kitikmeot	4	0	0
Keewatin	9	1	1
Baffin	12	2	2

Number of respondents reporting
a change in bidding on GNWT contracts
since introduction of the Policy:

Bidding more frequently	3	4	7
Bidding less frequently	21	7	6
Stopped bidding	6	0	0

Number of respondents reporting that
they co-bid with Northern firms

	14	5	2
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Number of Construction firms reporting
on listing of sub-trades:

Usually list Northern sub-trades	11		
Sometimes list Northern sub-trades	8		
Usually list Southern sub-trades	3		

Impact of Policy

% of respondents aware of Policy	81%	67%	50%
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Number of responses re overall impact
of Policy on respondent's business:

A Major Positive Impact	0	0	0
Some Positive Impact	1	0	0
Little or No Impact	5	3	5
Some Negative Impact	15	5	6
A Major Negative Impact	9	5	2
No opinion	2	5	11

	Const	Trade	Other
% reporting NWT employment increases because of Policy	0%	0%	0%
% reporting investment in NWT because of Policy	3%	0%	0%
Average % increase in investment for firms reporting such increases	10%		
% reporting increases in business activity in the NWT because of Policy	0%	0%	0%

Respondents' Opinions

% of respondents aware of the Policy who are:			
In favour of Policy	19%	17%	25%
Not in favour of Policy	69%	83%	67%
No Opinion	12%	0%	8%

% of respondents reporting what the Policy should be doing (1st column) and what it is doing (2nd column):

Stimulate employment in the NWT	69	6	50	17	50	8
Encourage new business to start up	50	34	44	6	50	16
Stimulate expansion of existing firms	47	13	39	6	46	8
Protect NWT business community	25	59	44	17	50	16

APPENDIX 2: BUSINESS INCENTIVE POLICY



11.09
BUSINESS INCENTIVE

The Government of the Northwest Territories may provide an incentive to Northern contractors in order to promote the use of Northern labour and materials purchased in the North and to encourage the development and competitiveness of Northern businesses.

This policy is based on the following principles:

1. Northern Residents should receive every opportunity to benefit from dollars spent in the North.
2. Value for money should be obtained for goods and services purchased.
3. All firms doing or competing for business with the Government of the Northwest Territories will be treated fairly and consistently.
4. Standards of performance will apply equally to all businesses providing service to the Government of the Northwest Territories.


Commissioner and Chairman
of the Executive Council

REFERENCE

For elaboration of the Policy refer to Directive.

SCOPE

This directive applies to all contracts entered into by departments and territorial agencies of the Government of the Northwest Territories.

1. Supply of goods contracts
2. Construction contracts
3. Service contracts
4. Leases

Yukon contractors qualifying under the NWT Business Incentive Policy are eligible only for an incentive on construction contracts.

EXCLUSION

This directive does not apply to contracts for:

1. Legal services
2. Contracts for architectural and engineering services
3. Those portions of contracts funded by non Government of the Northwest Territories agencies where the funding conditions preclude the application of an incentive.

DEFINITIONS

The following terms used in this Directive are hereby defined:

1. Contract

An obligation arising from mutual agreement between the departments and territorial agencies of the Government of the Northwest Territories and at least one other party, the performance of which the law compels or for which the law gives a remedy in damages and includes contracts for the supply of goods, construction, contracts for services rendered and leases.

2. General Contractor

Undertaker of a contract with departments, crown corporations or agencies of the Government of the Northwest Territories for the purpose of doing work for payment.

3. Subcontractor

Undertaker of a contract with the General Contractor for the purpose of doing work for payment.

4. Northern Resident

A person who has been ordinarily resident in the Northwest Territories for the last three years.

5. Resident Manager

A person residing in the Northwest Territories who has decision making authority over day to day matters affecting a Northwest Territories' business.

6.1 Northern Contractor

Means a contractor who complies with the legal requirements to carry on business in the Northwest Territories, and meets the following criteria:

- A.(1) (a) is a limited company with at least 51% of the company's voting shares beneficially owned by Northern Residents, or
- (b) is a co-operative with at least 51% of the co-operatives' voting shares beneficially owned by Northern Residents, or
- (c) is a sole proprietorship the proprietor of which is a Northern Resident, or
- (d) is a partnership the majority interest in which is owned by Northern Residents.
- (2) "Notwithstanding subsection A(1), is a non-resident contractor that has carried out business in the Northwest Territories for ten consecutive years prior to December 13, 1984 and maintained a physical presence in the N.W.T. either by means of business premises, warehouse or resident manager."
- B. Maintains a Resident Manager,
- C. Maintains a Bona Fide place of business in the NWT, and
- D. has received designation as a Northern Contractor prior to submitting a tender.

6.2 Northern Supplier

- (a) In addition to the criteria listed in 6.1, a business which is a supplier of goods and maintains a place of business in the N.W.T. from which the public has access to and can purchase directly from, an inventory stock shall be deemed to be a Northern Contractor for the purposes of this Policy and Directive.
- (b) In the case of supply contracts, the business incentives provided in this policy shall apply only to Northern Contractors who meet the additional criteria set out in subsection 6.2(a) of this Directive.

7. Yukon Contractor

For purposes of construction contracts only, a contractor who is a general contractor certified by the Yukon Government under the Yukon Preference Policy, will be deemed to be a Northern Contractor.

8. Qualification Committees

A committee in the Keewatin, Kitikmeot, Baffin, Fort Smith and Inuvik Regions chaired by the Regional Director and including such Departmental Representatives as the Regional Director may think necessary.

A committee in Yellowknife chaired by the official responsible for administering the Business Incentives Policy and including such departmental representatives as the official may think necessary.

9. Adjusted Bid

For evaluation purposes only a tenderer's bid favourably adjusted by the dollar amount of the applicable incentive.

10. Contract Authority

Means a person defined pursuant to the Contract Regulations who enters into contracts that are binding on the Government of the Northwest Territories, or its crown corporations and agencies.

11. Territorial Agency

Means a Territorial Committee or a Territorial Corporation as defined in the Financial Administration Ordinance.

12. Goods

Means merchandise, wares and materials whether made or manufactured or ready for delivery at the date of contract.

13. Local Purchasing Authority (LPA)

Means a form authorized by the Government of the Northwest Territories that permit departments and territorial agencies to purchase goods from Northern contractors within a predetermined value.

PROVISIONS

1. Authority and Accountability

(a) Executive Council

Only the Executive Council may approve exceptions to this policy.

(b) Qualification Committees

Qualification Committees are responsible for reviewing applications and determining approval for designation as a Northern Contractor.

(c) Appeal Process

The Deputy Minister of Government Services will receive all appeals with respect to rulings made by the Qualification Committees. He will refer the matter to the Minister of Government Services for decision.

2. Eligibility

Application for designation as a Northern Contractor applies to general contractors and subcontractors. Contractors and subcontractors must apply for designation where they have a Resident Manager and can demonstrate to the appropriate qualification committee that they meet all criteria of a Northern contractor as set out in the Business Incentive Policy.

3. Incentive

(a) Under \$250

Departments and territorial agencies may purchase goods valued less than two hundred and fifty dollars (\$250) directly from Northern contractors using a Local Purchasing Authority (LPA).

(b) Bid Adjustment

A fixed percentage will be applied to that portion of the bid that will be carried out by a northern contractor as follows:

(i) Under \$5,000

For contracts valued at less than \$5,000., a twenty percent (20%) incentive [maximum bid adjustment \$1,000].

(ii) \$5,000 - \$1,000,000

For contracts less than \$1,000,000 but greater than \$5,000, a ten percent (10%) incentive [maximum bid adjustment \$100,000.]

(iii) \$1,000,000 - \$2,500,000

For contracts exceeding one million dollars (\$1,000,000) and up to two million five hundred thousand dollars (\$2,500,000) an incentive of ten percent (10%) to adjust a bid on the first one million dollars (\$1,000,000) and a preference of five percent (5%) adjustment on the remainder to a combined maximum adjustment of one hundred and seventy five thousand dollars (\$175,000).

(iv) Over \$2,500,000

For contracts over two million five hundred thousand dollars (\$2,500,000) a maximum incentive adjustment to a bid of one hundred and seventy five thousand dollars (\$175,000) will apply.

4. Awarding of Contracts

Contracts will be awarded in accordance with the Contract Regulations of the Government of the Northwest Territories.

5. Evaluation

A bid will be adjusted for evaluation purposes by the Contract Authority when all of the following criteria are met:

- (a) A tender submission identifies the value of that part of the contract to be carried out by a Northern Contractor(s).
- (b) An officer of the tenderer has certified that the content attributed to Northern Contractors is correct (support materials must be available for supply to the contract authority on request).

6. Monitoring

If it comes to the attention of the contract authority that a successful tenderer has incorrectly certified or in any way subsequently changed without prior permission, the use of Northern Contractors specified in the tender, the contract authority may disqualify the tenderer from being eligible for the application of an incentive in tendering. Such a decision would be made known to the tenderer in writing.

7. Advertising Tenders

Tendering advertisements will be published only in Northwest Territories publications or posted in appropriate public places where there are no newspaper publications.

8. Registry

A registry of Northern Contractors will be maintained, updated and published annually by the Department of Government Services.

9. Policy Review

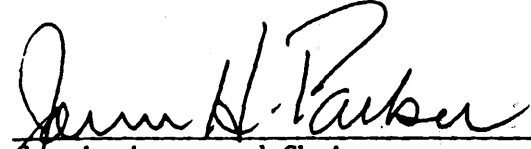
In recognition that requirements for a Business Incentive Policy in the Northwest Territories may change, this policy will be reviewed within two years' time.

10. Effective Date

This policy will apply to all tenders called after December 17, 1984.

11. Prerogative of Executive Council

Nothing in this Directive shall in any way be construed to limit the prerogative of the Executive Council to award or not to award a contract pursuant to a Contract Regulation or take actions, respecting incentive, outside the provisions of this Directive.



Commissioner and Chairman
of the Executive Council.

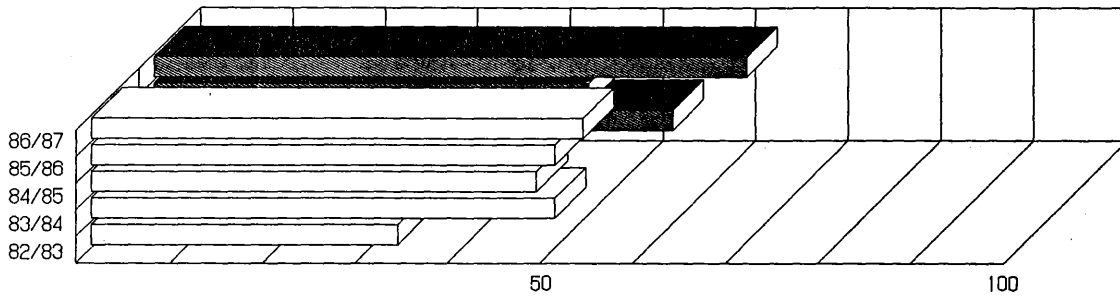
APPENDIX 3: SUB-TRADES ANALYSIS

General Contractor	Value of Contract	# of Subs Listed	# Nthrn	# Sthrn
1985/86				
P.C.L.	\$2,100,288	6	4	2
P.C.L.	877,687	4	2	2
P.C.L.	698,763	6	2	4
P.C.L.	2,770,725	6	0	4
Kissarvik	614,220	4	4	0
Kissarvik	529,935	8	7	1
Clark-Bowler	634,139	4	4	0
P.C.L.	2,176,570	17	4	13
P&M Construction	4,079,000	12	10	2
P.C.L.	1,185,807	5	2	3
P.C.L.	3,060,437	6	1	5
Con Pro	554,003	1	0	1
P.C.L.	608,559	4	4	0
Average Values	1,530,010	6	3	3
1986/87				
Fred Ross	1,225,000	3	2	1
Fred Ross	554,000	2	2	0
P.C.L.	4,492,736	7	2	5
P.C.L.	3,541,048	9	2	7
Clark-Bowler	2,668,774	4	2	2
Hovat/Cavan	2,270,000	8	4	4
P.C.L.	4,517,653	12	2	10
Average Values	2,752,744	6	2	4

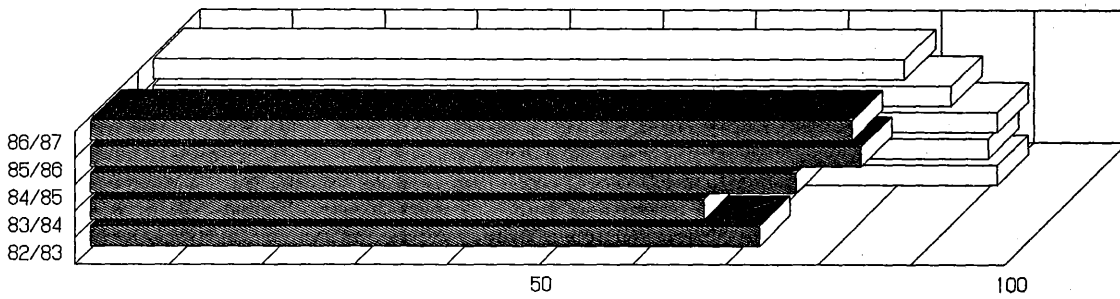
APPENDIX 4: PERCENTAGE OF TOTAL CONTRACTS AWARDED TO NORTHERN BUSINESSES

□ % of Total Number of Contracts
 ■ % of Total Value of Contracts

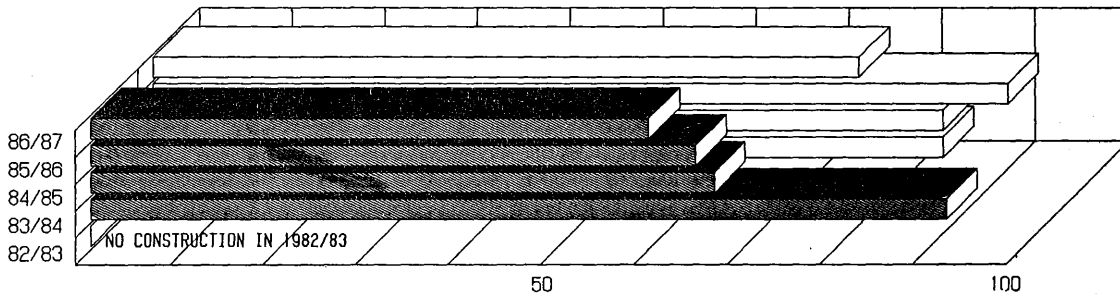
GOVERNMENT SERVICES



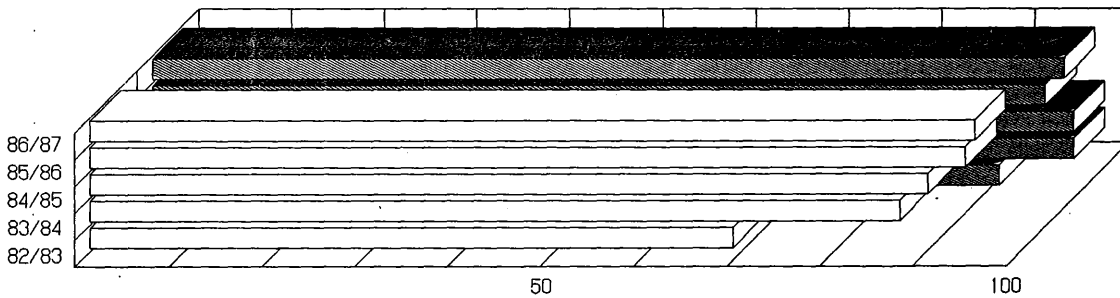
PUBLIC WORKS AND HIGHWAYS



NWT HOUSING CORP - CONSTRUCTION

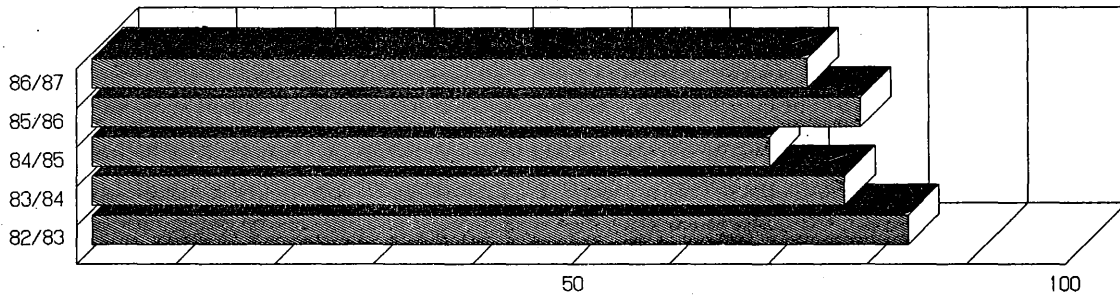


NWT HOUSING CORP - MATERIALS MGMT

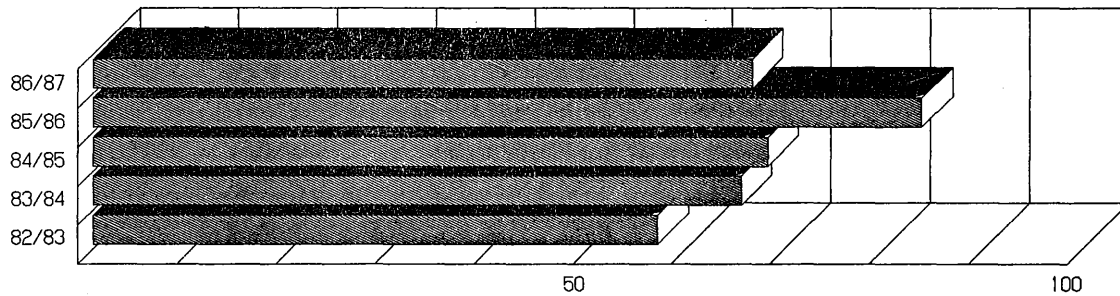


APPENDIX 5: PERCENTAGE OF CONTRACTS HAVING BOTH NORTHERN AND SOUTHERN BIDDERS THAT WERE WON BY NORTHERNERS

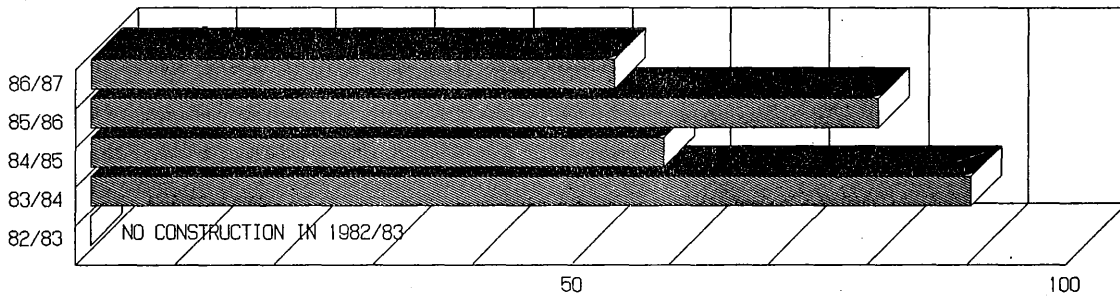
GOVERNMENT SERVICES



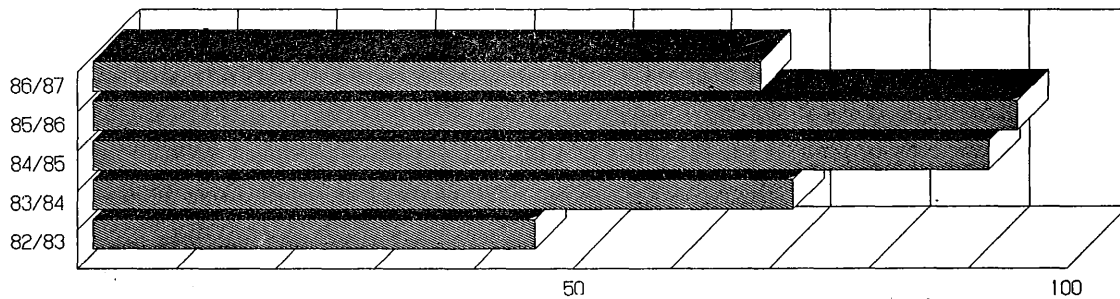
PUBLIC WORKS AND HIGHWAYS



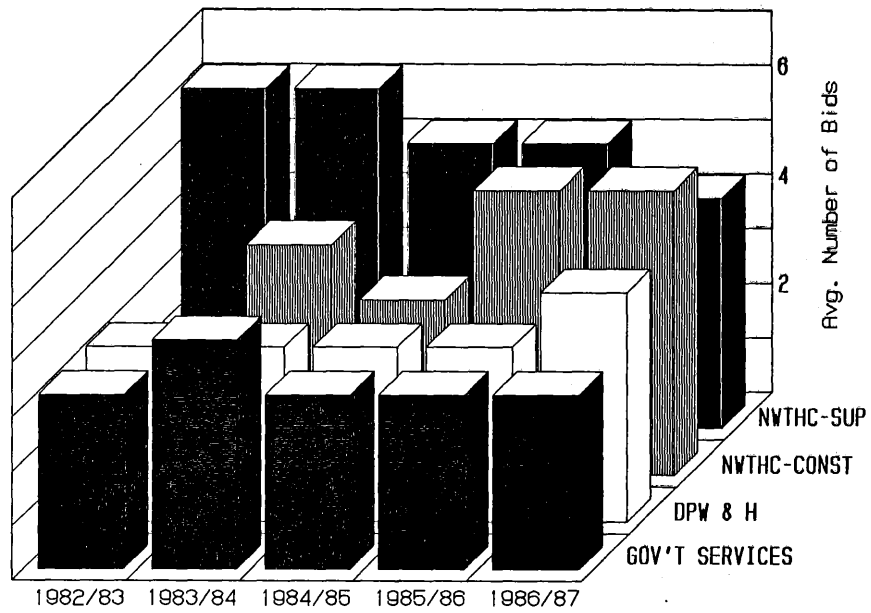
NWT HOUSING CORP - CONSTRUCTION



NWT HOUSING CORP - MATERIALS MGMT



APPENDIX 6: AVERAGE NUMBER OF BIDDERS PER TENDER



APPENDIX 7: DISTRIBUTION OF CONTRACTS IN THE SAMPLE HAVING BOTH NORTHERN AND SOUTHERN BIDDERS

Year	Number of Contracts in the Sample with Both Northern and Southern Bidders	% of Contracts >\$100,000	% of Contracts <\$100,000
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GOVERNMENT SERVICES

82/83	23	13%	87%
83/84	42	19	81
84/85	35	0	100
85/86	36	11	89
86/87	40	18	82

PUBLIC WORKS AND HIGHWAYS

82/83	21	52%	48%
83/84	32	84	16
84/85	41	90	10
85/86	37	81	19
86/87	36	94	6

HOUSING CORPORATION - CONSTRUCTION

82/83	0	--	--
83/84	27	93%	7%
84/85	38	84	16
85/86	54	78	22
86/87	17	94	6

HOUSING CORPORATION - MATERIALS MGMT

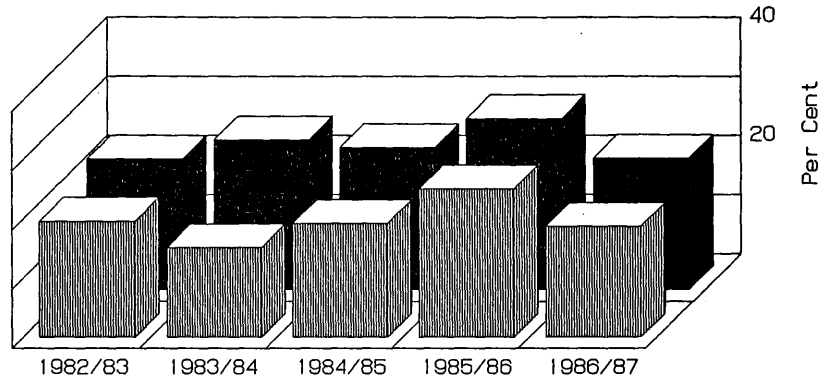
82/83	38	32%	68%
83/84	55	27	73
84/85	32	22	78
85/86	31	68	32
86/87	37	68	32

APPENDIX 8: BID DIFFERENTIALS

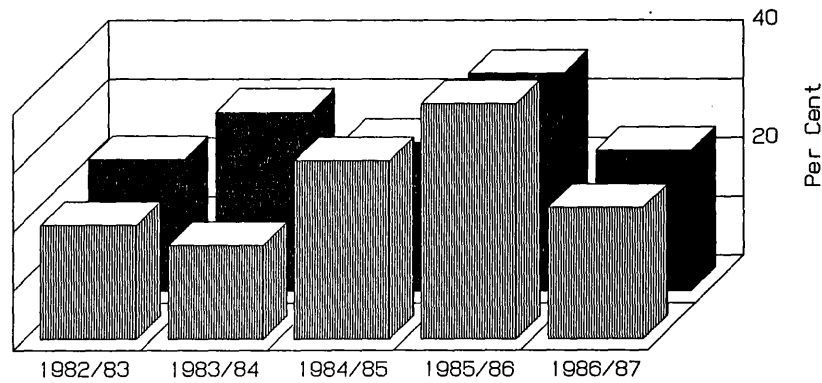
A bid differential is the percentage difference between the lowest Northern bid and the lowest Southern bid for the same contract. The charts display the **average bid differential** in terms of:

- Contracts Won by Northern Businesses
- ▨ Contracts Won by Southern Businesses

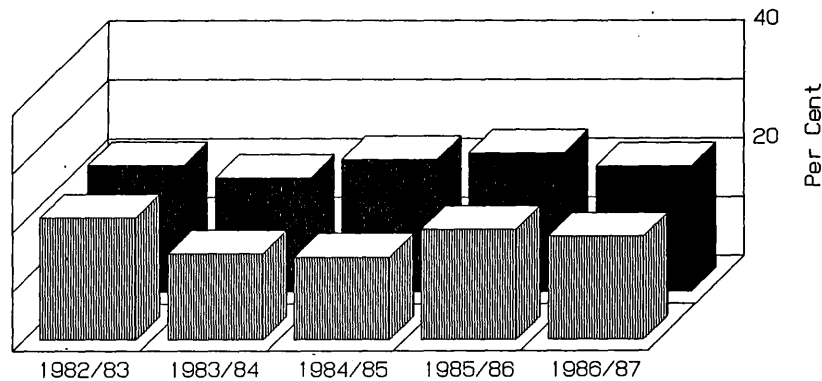
ALL CONTRACTS



CONTRACTS LESS THAN \$100,000



CONTRACTS MORE THAN \$100,000



**APPENDIX 9: ESTIMATED RETURN TO THE GOVERNMENT OF THE NWT
IN THE FORM OF INCOME TAXES GENERATED FROM
LOCAL EXPENDITURES**

- Assumptions:**
- 1) **Income multipliers are estimates only, based on analysis undertaken in a 1978 GNWT study; the model is modified from that presented in a report prepared for the Government of the Yukon**
 - 2) **An expenditure of \$100,000 is made within the NWT**
 - 3) **The increase in Business Activity which results from the operation of the multipliers on the \$100,000 expenditure translates into extra revenue for local businesses. The only costs associated with this extra revenue are materials and labour: other business costs - fixed costs - have been covered. This is the concept of 'marginal income': extra (or 'marginal') revenue minus the direct costs of obtaining this extra (or 'marginal') revenue. In this model, the marginal income rate is calculated as 28% of the increase in business activity, using Statistics Canada 'Corporation Financial Statistics 1984' for all industries**
 - 4) **The % of expenditures paid in wages are calculated from Statistics Canada 'Corporation Financial Statistics 1984'; for wholesale/ retail trade example, the figure is 9.9%; the figure of 31% used in the construction expenditure example is the sum of direct construction wages, and the wages paid by a supplier of building materials**
 - 5) **The average NWT personal income tax is 12%, and NWT corporate income tax rate is 10%**

Wholesale/Retail Expenditures:

Expenditure		Multiplier		Increase in Business Activity
\$100,000	x	1.2	=	\$120,000
Increase in Business Activity		Marginal Income Rate		Marginal Income
\$120,000	x	28%	=	\$ 33,600
% of Expenditure Paid in Wages		Increase in Business Activity		Increase in Wage Income
9.9%	x	\$120,000	=	\$ 11,880

Income Tax Implications:

Personal Tax:	\$ 11,880 @ 12%	=	\$ 1,426
Corporate Tax:	\$ 33,600 @ 10%	=	<u>3,360</u>
			\$ 4,786

The direct return to the Government of the NWT from an expenditure of \$100,000 made in the NWT is approximately \$4,786 or 4.8%

Construction Expenditures

Expenditure		Multiplier		Increase in Business Activity
\$100,000	x	1.6	=	\$160,000
Increase in Business Activity		Marginal Income Rate		Marginal Income
\$160,000	x	28%	=	\$ 44,800
% of Expenditure Paid in Wages		Increase in Business Activity		Increase in Wage Income
31.0%	x	\$160,000	=	\$ 49,600

Income Tax Implications:

Personal Tax:	\$ 49,600 @ 12%	=	\$ 5,952
Corporate Tax:	\$ 44,800 @ 10%	=	<u>4,480</u>
			\$ 10,432

The direct return to the Government of the NWT from a construction project expenditure of \$100,000 made in the NWT is approximately \$10,432 or 10.4%

**APPENDIX 10: COMPARISON OF INCOME TAX REVENUE
AND PREFERENCE PAID**

Applying the results of the model to 1985/86 and 1986/87 contracts awarded on the basis of application of the Policy requires two further assumptions:

- 1) The wholesale/retail multiplier takes into account the fact that almost all goods are imported; thus the full impact of the potential tax return (4.8%) is possible as long as the supplier is based in the NWT;
- 2) Application of the model to construction expenditures assumes that 50% of the total value of contracts is spent in the NWT; therefore the return to the GNWT in the form of taxes is of the potential 10.4%, or 5.2%

	Value of Contracts	Tax Impact	Cost of Preference	Difference
Public Works and Highways				
1985/86	\$4,552,835	\$ 236,747	\$ 399,518	\$(162,771)
1986/87	8,172,928	424,992	247,374	177,618
Government Services				
1985/86	\$1,490,337	\$ 71,536	\$ 92,430	\$ (20,894)
1986/87	757,890	36,379	56,496	(20,117)
NWT Housing Corporation				
1985/86	\$ 113,857	\$ 5,921	\$ 4,357	\$ 1,564
1986/87	69,872	3,633	1,718	1,915

The potential tax return from awarding contracts on the basis of the Policy has been greater than the benefits paid only for Housing Corporation construction contracts and 86/87 Public Works and Highways contracts.

**APPENDIX 11: CONTRACTS AWARDED ON THE BASIS OF APPLICATION OF
THE BUSINESS INCENTIVE POLICY**

	Number of Contracts	Preference Allowed	As % over Low Bid (Average)	As % of All Contracts for year
Government Services				
1985/86	226	\$ 92,429.99	6.6%	0.30%
1986/87	262	58,306.63	8.1	0.16
Public Works & Hwys				
1985/86	4	399,518.00	9.6	0.70
1986/87	6	247,374.00	3.1	0.33
NWT Housing Corp				
1985/86	1	4,357.00	3.9	0.01
1986/87	1	1,718.00	2.5	0.01
Annual Totals				
1985/86	231	\$496,304.99	9.0	0.65
1986/87	269	<u>307,398.63</u>	<u>4.1</u>	<u>0.30</u>
		\$803,703.62	7.1%	0.52%

NOTE: A decision by the Executive Council not to accept the low bid in awarding a Housing Corp 1986/87 contract resulted in Canada Mortgage and Housing Corp withdrawing participation in a number of projects in the Baffin Region. As a result, the GNWT cost-share increased by \$89,000.

APPENDIX 12: HIDDEN PREFERENCE

Preference arises when a contract is awarded to a Northern Contractor even though a Southern firm submitted a lower bid. Thus, preference can only be paid on a contract if there is at least one Northern bid and at least one Southern bid. The concept of 'hidden' preference arises in the absence of bidding by any Southern firm if the assumption is made that a Southern firm, if bidding, may have submitted a lower bid. This 'hidden' preference can be calculated using the following assumptions:

- 1) the percentage distribution of bids is the same for all 85/86 and 86/87 Government Services contracts as was observed in the sample:

	1985/86	1986/87
Northern bidders only	26%	32%
Southern bidders only	26	15
Nthrn and Sthrn bidders	48	53

- 2) the 'hidden' preference paid on contracts having Northern bidders only occurs in the same proportion as that actually paid on contracts that had both Northern and Southern bidders;
- 3) the average value of a contract awarded to a Northerner is the total value of contracts awarded North divided by the total number of contracts awarded North (Source: departmental Annual Contracts Summaries):

	1985/86	1986/87
	\$ 2,045	\$ 3,191

Using these assumptions, 'hidden' preference can be calculated through the following steps:

	1985/86	1986/87
Number of tendered contracts: (excluding petroleum products)	14,448	16,234
Number having Northern bidders only:	3,756	5,195
Number both Nthrn and Sthrn bidders:	6,935	8,604
Number of contracts in which preference was paid:	226	262
Contracts in which preference was paid as a per cent of tenders having both Northern and Southern bidders:	3.3%	3.1%
'Hidden' preference is assumed to occur in the same proportion, and at the same rate, on contracts having Northern bidders only:		
For 1985/86: 3.3% of 3,756 contracts	124	
For 1986/87: 3.1% of 5,195 contracts		161
Average rate of preference actually paid:	6.6%	8.1%

Therefore, the 'hidden' preference paid is the number of contracts x the average value of each contract x the average rate of preference paid:

For 1985/86: 124 x \$2,045 x 6.6%	\$16,736	
For 1986/87: 161 x \$3,191 x 8.1%		\$41,614