Report of the Auditor General to the Northwest Territories Legislative Assembly

for the year 1999

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

240 Sparks Street
Ottawa, Ontario
K1A 0G6

September 7, 2000

The Honourable Tony Whitford, MLA
Speaker of the Northwest Territories
Legislative Assembly
Legislative Assembly
Yellowknife, NT

Dear Mr. Whitford:

I herewith transmit my Report, in English, to be tabled before the Legislative Assembly in accordance with the provisions of Section 30(2) of the Northwest Territories Act, R.S., c.N-22,s.1.

The report deals with "Other Matters" arising from our audit of the financial statements of the Government of the Northwest Territories for the year ended March 31, 1999 that, in my opinion should be brought to the attention of the Legislative Assembly. The report also includes our recommendations and related management responses.

Cordially yours,

L. Denis Desautels

L. Denis Desautels, FCA

Encl.

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Introduction

Our Vision

The Office of the Auditor General (the Office) is committed to making a difference for the people of the Northwest Territories by promoting, in all our work for the Legislative Assembly, answerable, honest and productive government.

Our Mission

The Office conducts independent audits and examinations that provide objective information, advice and assurance to the Legislative Assembly. We promote accountability and best practices in government operations.

Our Mandate

In accordance with the *Northwest Territories Act*, section 30(1), we audited the accounts and financial transactions of the Government of the Northwest Territories (GNWT) to express an opinion on that government's consolidated financial statements for the year ended 31 March 1999.

Our audit included reviews of certain operating, legislative and financial control systems and financial management practices, with detailed tests as we considered necessary.

This *Report of the Auditor General to the NWT Legislative Assembly*, also known as the *Report on Other Matters* (ROM), is part of our audit. In accordance with the *Northwest Territories Act*, section 30(2), the Auditor General is to report on any "other matters" arising from the audit that he feels should be communicated to the Legislative Assembly. Each of the matters of significance reported in this report was examined in accordance with generally accepted auditing standards; accordingly, our examination included such tests and other procedures as we considered necessary.

Our Audit Work

This report contains comments on items that we believe will be of interest to members of the Legislative Assembly; it also contains our recommendations and management's responses, where appropriate. The matters reported were noted during our financial and compliance audits of the Public Accounts, Crown corporations and other entities. Apart from two exceptions, these items are not, individually or collectively, significant enough to require a reservation of opinion in the *Auditor's Report* on the Government's financial statements for the year ended 31 March 1999. The exceptions relate to non-compliance with specific sections of the NWT *Financial Administration Act*. More detail on these instances of non-compliance is provided in Chapter 1 of this report.

We also issued unqualified audit opinions on the following Government entities, except for our opinion on the NWT Development Corporation for the year ended 31 March 1999 (more detail is provided in Chapter 1 of this report):

- in accordance with the NWT *Financial Administration Act*, section 99:

Entities	Year Ended
Aurora College	30 June 1999
Northwest Territories Power Corporation	31 March 1999
Northwest Territories Housing Corporation	31 March 1999
Northwest Territories Development Corporation	31 March 1999
Northwest Territories Business Credit Corporation	31 March 1999
Workers' Compensation Board	31 December 1998

- in accordance with ministerial appointments:

Entities	Year Ended
Northwest Territories Liquor Commission	31 March 1999
Petroleum Products Revolving Fund	31 March 1999

Our People

Many people with different skills and experiences carry out an audit. It is the sum of these resources that allows the Office to make a difference. The team responsible for the audit of the GNWT includes:

Deputy Auditor General - Sheila Fraser	
Assistant Auditor General - Donald Young	
Principal - Roger Simpson	
Audit Staff	
Gary Brennan	Donna-Lee Shaw
Elisabeth De Passille	Megan Schwarz
Dustin Hoshowski	Tammy Squires
Nicole Lauzon	Dan Stadlwieser
Susan Meilleur	Dan Thompson
Ed Mollard	Jim Van Horn
Nicholas Pare	Shawn Vincent
Jean-Pierre Plouffe	Laura Wolanik
Ivan Robert	Peter Yeh
Other Audit Services	
Annual Audit Practice Team	
Edit and Graphics Services	
Legal Services	

Report Clearance

Our Office policy suggests that audit observations and recommendations be referred to the management of the audited organizations for comment. The Office should obtain from the entity, where appropriate, written responses to recommendations contained in audit chapters.

We provided our draft report to the Office of the Comptroller General, departments and territorial corporations, where appropriate, for comment. Management responses are included here in the relevant chapters.

Our Thanks

Management provided explanations, information, and access to all documents requested during our audit. We thank the staff of the GNWT and its entities for their co-operation.

For comments or questions on this report, please contact Roger Simpson at (780) 495-2028.

Chapter 1

Compliance with Authority and Public Accounts Issues

Purpose

1.1 This chapter contains our observations and comments on the GNWT's financial position, its compliance with authorities, and other public accounts issues, including:

- the role of the Office of the Auditor General of Canada in the division of assets and liabilities;
- capital assets;
- pay equity;
- accounting for supplementary funding under the Canada Health and Social Transfer; and
- communicating information on government financial condition.

The Government's Financial Position

1.2 The Government of the Northwest Territories produces annual financial statements on a consolidated basis that reflect the financial activities of all its Crown corporations, in addition to the departmental operations of the Government itself. We issue our audit opinion on the consolidated financial statements of the Government. The financial information in this chapter is from this consolidated government entity, unless indicated otherwise.

1.3 With the creation of the territory of Nunavut on 1 April 1999, the NWT has become a different entity. The social, economic and political contexts have changed, and the Government must decide how it intends to proceed as a new territory in its own right. Like most governments in Canada, paying careful attention to spending, while at the same time addressing important social problems, poses a significant challenge for the GNWT.

Revenues

1.4 The GNWT remains dependent upon an annual grant and other transfers from Canada for most of its annual budgetary resources. In 1999, 81 percent of its total revenue came from the federal government, with the balance raised from territorial taxation (9 percent) and other sources (10 percent).

1.5 The Formula Financing Agreement has a significant impact on the Government's ability to improve its financial situation because, under this agreement, increases in many types of other revenue result in decreases in the Grant from Canada. For example, under the Formula Financing Agreement, the GNWT keeps an average of 20 - 25 percent of any additional revenues from economic growth (own generated revenues). Although revenues lost owing to declining economic activity may result in increases in the Grant from Canada, the Government's main control over its bottom line is management of its spending. Exhibit 1.1 shows the Government's total revenues and total expenditures over the last five years.

Expenditures

1.6 In the 1998-99 fiscal year, 39 percent of total GNWT expenditures were grants and contributions. A further 35 percent was for its own operations, and some 16 percent went to pay for salaries and wages of departmental and crown corporation employees. A portion of the grants and contributions also went to paying the salaries and wages of health care workers, teachers and municipal employees. Capital expenditures accounted for the last 10 percent. Over the last three years, as shown in Exhibit 1.2, grants and contributions, along with government operating costs have increased, while the Government's own salaries and wages have decreased slightly.

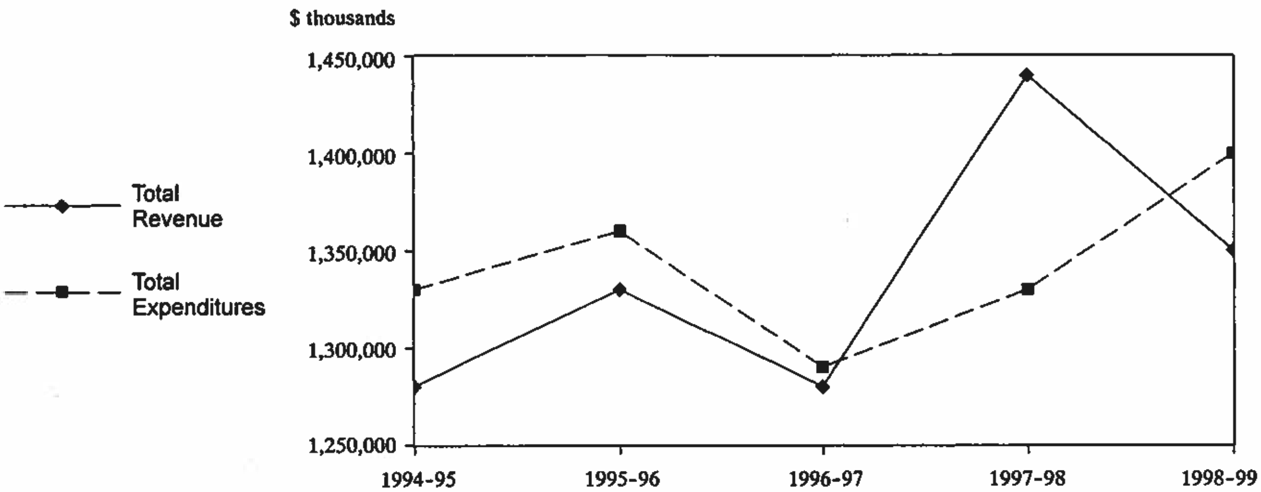
1.7 The Government has initiated projects to examine programs and current spending. For example, the Audit Bureau is reviewing procurement practices across all departments in the GNWT. These initiatives should help to identify where the GNWT can make choices, thus balancing the provision of goods and services with the available resources.

Surplus, deficit and debt

1.8 The Government's 1998–99 consolidated financial statements reported an annual deficit of $48 million, which reduced its carried forward surplus to $86 million (Exhibit 1.3). On a non-consolidated basis, the Government itself has

Exhibit 1.1

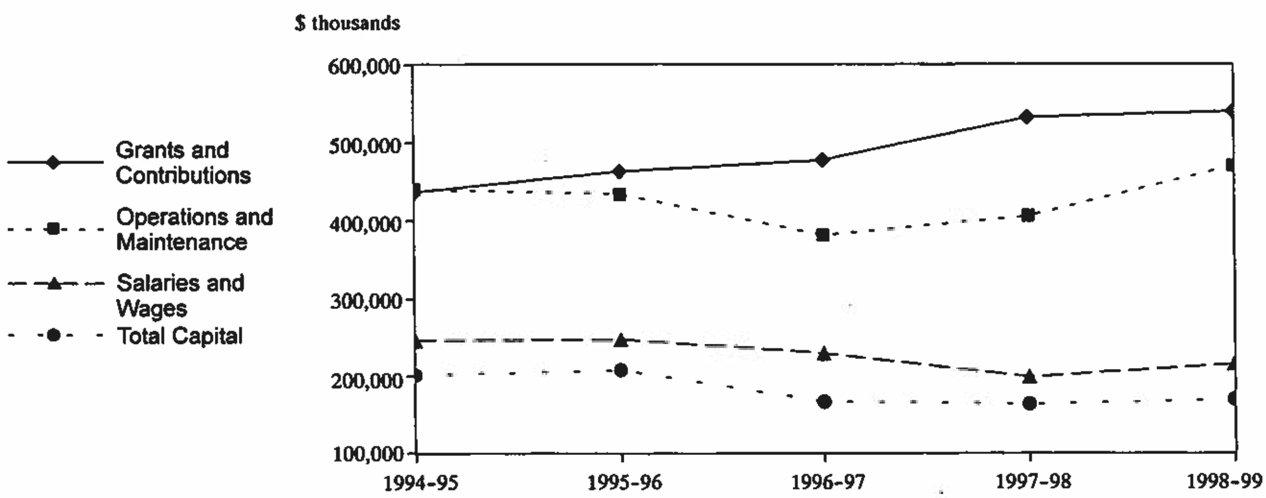
GNWT Consolidated Revenue and Expenditures 1994-95 to 1998-99



Source: GNWT Consolidated Public Accounts

Exhibit 1.2

GNWT Consolidated Expenditures 1994-95 to 1998-99



Source: GNWT Consolidated Public Accounts incurred deficits in each of the last five years, with the exception of 1997-98. Revenues exceeded expenditures in 1997-98 primarily due to $110 million in adjustments to the Grant from Canada resulting from census population adjustments. As no such large windfall is expected within the next few years, the GNWT must look particularly closely at its spending and other revenue sources if it wishes to avoid accumulating and having to finance a deficit.

1.9 The Government itself has, to this point, not borrowed any money on a long-term basis. The philosophy has been to live within its means annually. In 1996 it passed a *Deficit Elimination Act (DEA)* that emphasized its commitment to balanced annual spending until 31 March 1999. Although there was a technical violation of the *DEA* in 1998-99 because the GNWT incurred a deficit, there are no practical consequences of this. Once supplementary appropriations were passed to deal with the shortfall, the *DEA* was essentially deemed to be repealed or amended.

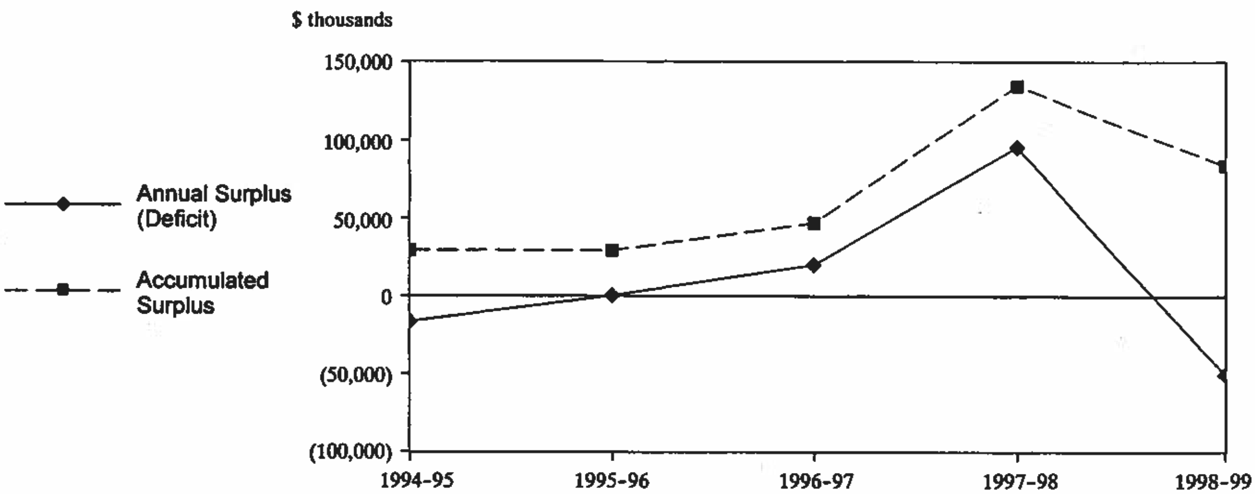
Looking ahead

1.10 Exhibit 1.4 shows that the Government's 1999-2000 budgeted expenditures totalled $724 million[1]. The exhibit shows the broad categories of expenses where the Government plans to spend its resources. Another consideration is how much of the budget is committed by previous arrangements, and how much is left as discretionary spending. For example, if the Government has entered into contracts, leases or other longer-term agreements where it agrees to pay for something over a number of years, that spending is committed and reduces the amount available for discretionary program spending in later years. It also reduces the Government's ability to control its spending. Over the year, the Government has leased properties with payments well into the future.

1.11 It could be helpful to members of the Legislative Assembly if the previously contractual and statutory committed amounts of the budget were shown in the estimates to let the members know

Exhibit 1.3

GNWT Annual Surplus (Deficit) and Accumulated Surplus 1994-95 to 1998-99



Source: GNWT Consolidated Public Accounts

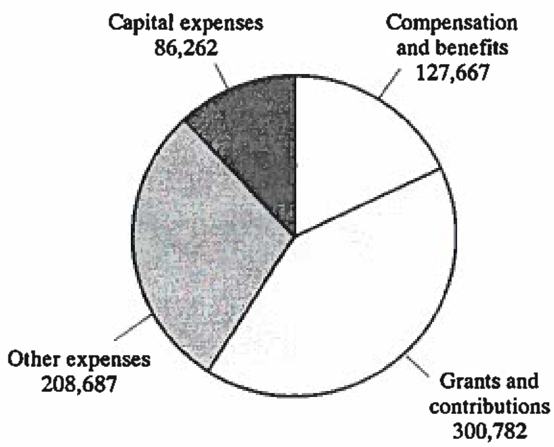
[1]The GNWT has subsequently restated its 1999-2000 Main Estimates due to the adoption of a new capital assets accounting policy.

what remains and what resources they really have the discretion to make decisions about.

Exhibit 1.4

How the Dollars Will Be Spent in 1999-2000

($ thousands)



Source: GNWT Main Estimates 1999-2000

Compliance With Authority

1.12 In the course of our audits covered by this report, we noted three instances of non-compliance with authority, which required us to qualify our opinion on:

- the GNWT's consolidated financial statements for the year ended 31 March 1999, for over-expenditures not in compliance with the *(NWT) Financial Administration Act (FAA)*;
- the GNWT's consolidated financial statements for the year ended 31 March 1999, for making pay equity settlement payments not in compliance with the *FAA*; and
- the NWT Development Corporation for the year ended 31 March 1999, for not collecting information to determine whether operating subsidies and investments had exceeded the limits directed by the Financial Management Board.

Over-expenditures reported in our Auditor's Report on the GNWT's consolidated financial statements for the year ended 31 March 1999

1.13 The Legislative Assembly approves an appropriation bill for each fiscal year based on the votes and items of expenditures set out in the Estimates. The Estimates are divided into votes consisting of one or more items. For example, Vote 1 is for operations and maintenance expenditures, and Vote 2 is for capital expenditures. Each of these votes is divided into items that represent the various departments. Section 32 of the *FAA* prohibits a person from "incurring an expenditure that causes the amount of the item set out in the Estimates on which the appropriation is based to be exceeded." In other words, a department cannot spend more than its approved budgets, including supplementary appropriations. Any over-expenditures are in violation of the *FAA*. Over-expenditures at the departmental (item) level from the 1998-99 Public Accounts Schedule of Expenditures are shown in Exhibit 1.5.

1.14 The Government has indicated that in the case of the Department of Health and Social Services, several factors were responsible for increased expenditures. These include increases in Non-Insured Health Benefits, Out of NWT Hospitals, Physician Services, Children in Care programs, and Independent Living.

1.15 The Government attributed the over-expenditure recorded by the Department of Transportation to a late adjustment involving the accrual of retroactive pay under the collective agreement signed in March 1999. It also indicates that an arbitrator's decision that required the Government to pay union dues for formerly excluded employees was responsible for the overexpenditure in the Department of the Executive.

Payments without an appropriation, reported in our Auditor's Report on the GNWT's consolidated financial statements for the year ended 31 March 1999

1.16 As allowed by the *FAA* section 36(1) and (2), the Comptroller General accrued $25 million in 1997-98 and a further $8 million in 1998-99 as an estimated provision to settle the equal pay complaint. However, in accruing the $25 million, the

GNWT did not follow the authorization process set out in the *FAA*. While this is somewhat technical, it is required by the Act. Section 36(4) of the *FAA* required the GNWT to request a supplementary appropriation within 15 days of tabling the 1997-98 Public Accounts. We were told that the GNWT saw this as a technical rather than substantive requirement. The GNWT explained that for practical reasons, it did not prepare the required bill and submit it for legislative approval, on the understanding that the issue was sufficiently understood by and otherwise disclosed to the Legislative Assembly. However, the *FAA* does require this step and the GNWT is in non-compliance with section 36(4) for the first $25 million. The second accrual of $8 million can still follow due process if a supplementary appropriation is requested within 15 days of tabling the 1998-99 Public Accounts.

1.17 In March 1999 the Government disbursed $10 million of pay equity settlements. If the required supplementary appropriation had been complied with as mentioned above, these payments would have been correctly authorized under *FAA* section 36(5). But in our view, lacking the authority, these payments are in breach of the FAA requirements (section 31).

1.18 The authority process is relatively technical and complicated. The actions of the Government were based on practicality, even though in retrospect, it should have followed the letter of the law and obtained the necessary authority.

Non-compliance reported in our Auditor's Report on NWT Development Corporation (the Corporation) for the year ended 31 March 1999

1.19 Under section 16(4) of the *NWT Development Corporation Act*, the Corporation may subsidize its subsidiaries' operating costs based on jobs created directly or indirectly, up to an amount prescribed by regulations under the Act. While there are no regulations, on 14 November 1989 the Financial Management Board (FMB) set an upper limit on subsidies of $10,000 per annum for each job created. Furthermore, section 16(3) of the Act allows the Corporation to invest in subsidiaries up to an amount prescribed, again based on jobs created directly or indirectly. The FMB set the investment limit at $100,000 per job created.

1.20 The Corporation did not collect information on jobs created to demonstrate that operating subsidies and investments have not exceeded the maximum directed by the FMB. Our Auditor's Report on the financial statements for the years ended 31 March 1997 and 1998 was also qualified for the same reason. Clearly there is a need for good-quality information on costs and jobs created.

Other Issues

Role of the Office of the Auditor General of Canada in the division of assets and liabilities

1.21 In this section, we clarify the Office's role in the division of assets and liabilities between the NWT and Nunavut.

Exhibit 1.5

Overexpenditures at the Departmental Level as Reported by the GNWT 1998-99

Department	Health and Social Services	Executive	Transportation
	O & M ($ thousands)	O & M ($ thousands)	O & M ($ thousands)
Main Estimates	255,259	55,551	56,162
Supplementary Estimates	10,327	10,055	2,637
Total Appropriations	265,586	65,606	58,799
Actual Expenditures	268,681	66,555	58,898
Overexpenditure	3,095	949	99

Source: GNWT Public Accounts 1998-99

1.22 The GNWT's consolidated financial statements for the year ended 31 March 1999 include a note on the division of assets and liabilities. This note includes the assets and liabilities split between the two territories as of 1 April 1999 for their respective opening balances.

1.23 Our audit was conducted to obtain reasonable, but not absolute, assurance that these consolidated financial statements were fairly presented and that transactions coming to our notice were in accordance with specified authorities. Accordingly, our audit includes those procedures we consider necessary to enable us to report in accordance with the requirements of section 30(1) of the *Northwest Territories Act*. We issued our regular audit opinion on these consolidated financial statements as we have in previous years.

1.24 The audit was not designed to identify matters specifically related to the division of assets and liabilities. As a result, audit work on these matters was limited to what we considered necessary to give our opinion on the consolidated financial statements as a whole, including the note disclosure on the division of assets and liabilities.

1.25 There is a potential for misunderstanding the Office's role if one reads section 8.4 of "The Division of Assets and Liabilities of the Government of the Northwest Territories as at March 31, 1999, Report and Recommendations". The report states:

> The OAG will be asked to play a role in verifying the division of assets and liabilities. As part of the OAG's regular role, the value of assets and liabilities will be confirmed and the amount of estimates verified as reasonable. In addition to the regular function of auditing the March 31, 1999 financial statements, the OAG will be asked to verify that:
>
> - the division of the assets and liabilities has been performed according to the terms of the Intergovernmental Agreements; and
> - implementation transactions between the two new territories were conducted in accordance with the relevant administrative arrangements.

Our Office was not consulted on this request prior to the release of the report on the division of assets and liabilities. We would like to clarify that we were not asked to provide, nor did we obtain, separate assurance for our financial statement audit through a special engagement for the division of assets and liabilities.

Capital assets

1.26 In late 1997, the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants released recommendations on accounting for tangible capital assets. These recommendations require governments to disclose, in their financial statements, the cost of tangible capital assets and related amortization. The GNWT is currently in the process of implementing this recommendation.

Pay equity

1.27 In its consolidated financial statements, the Government has recorded a total expenditure of $33 million as an estimated provision to settle the equal pay complaint — $25 million in 1997-98, and an additional $8 million in 1998-99. Of the $33 million, $27 million is for unionized employees and the rest is for excluded employees. As of 28 February 2000, the Government had paid out $27 million. The balance is payable to eligible recipients when they are located and/or when they accept the Government's settlement offer.

1.28 The amount recorded is the Government's best estimate of the amount needed to negotiate a settlement of the equal pay complaint. As disclosed in note 17 (a) of the consolidated financial statements for 31 March 1999, the complaint is outstanding, and it is possible that pay equity costs could exceed or be lower than the amount recorded. In the event of an additional or a lower liability, the change will be charged to or recovered from operations in the year in which it is determined.

Accounting for supplementary funding under the Canada Health and Social Transfer

1.29 In January 1999, the premiers of all provinces and territories made a request to the Prime Minister for additional funding for health care. The premiers committed to spending any additional funds on core health care priorities through additional spending in their respective jurisdictions.

1.30 On 16 February 1999, the federal government tabled its 1999 Budget. It provided for a $3.5 billion supplement to be paid to all provinces and territories under the Canada Health and Social Transfer (CHST) program. The Northwest Territories' (post-division) share of this supplementary funding is $4,793,000. The terms of the transfer were not specific as to spending objectives.

1.31 Although the federal government accounted for this contribution as an expenditure in the 1998-1999 fiscal year, the provinces and territories have not recognized this contribution as revenue in the same year. Some jurisdictions are accounting for the full amount of the supplement as revenue in 1999-2000. Other jurisdictions, including the Government of the Northwest Territories, are accounting for the contribution as revenue in the same fiscal year as additional expenditures are incurred. This accounting practice is called matching, whereby related revenues and expenditures are recognized in the same fiscal year.

1.32 This accounting practice is in compliance with the government's accounting policies. However, by choosing this practice, the Government of the Northwest Territories will need to clearly identify what the incremental health care spending will be for and will need to keep track of the expenditures related to these core health care priorities.

Communicating information on government financial condition

1.33 Members of the Legislative Assembly have a need for timely, accurate and relevant information that tells them about the financial condition of the Government. Having financial information aids them in their duties as legislators who direct the spending of public monies. Having good, understandable information makes it easier for Cabinet to instruct the government in its management of public resources.

1.34 Members of the public also have a need to understand how well their government is doing financially. The public needs access to this kind of information so they can be involved in holding their government accountable for the way in which it manages and spends public money. People want to know how much money their government has, how much it spends, and how much the government is in debt or in surplus.

1.35 The problem that Members and the public alike face is that often this financial information is either difficult to locate, or once it is found, difficult to understand. Most of the information about a government's financial condition is found in its budgets and financial statements. Financial statements present a comprehensive picture of how the government has handled its finances over a given period of time. Because financial statements tend to be complex and technical, many people have difficulty interpreting much of what is contained in the financial statements, so their usefulness in providing clear and understandable information may be limited.

1.36 This is why in 1994, the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) formed a study group for the purpose of developing indicators of financial condition for governments. This study group published its report in 1997.

1.37 PSAB wanted governments to present information on their financial condition in simple, understandable ways. They recognized that the average person cannot tell whether the government is better or worse off based on financial statements alone. They also knew that Members of Parliament, as well as Members of Legislative Assemblies have a real need for information on key relationships, ratios and historical trends that shed light on the government's financial condition. This information needs to be understandable, accurate and timely if Members are to examine and evaluate various options for how to collect and spend public monies.

1.38 The CICA report suggests 10 indicators that governments should use to facilitate the communication of this kind of information. The indicators cover three major aspects of government financial condition (financial health), measured by sustainability, vulnerability and flexibility, looked at in the context of the overall economic and financial environment. Exhibit 1.6 defines these three key concepts.

1.39 The indicators suggested by the CICA were intended for the federal and provincial governments, and therefore may be of limited usefulness for the GNWT. However, we believe it would be worthwhile for the GNWT to consider developing and using its own indicators to present information on the government's financial condition. Communicating financial information through indicators is a means of increasing MLAs' and citizens' knowledge of the Government's financial performance.

1.40 However, this raises another important issue: if financial information is to be helpful, it must be collected, analyzed and communicated in a timely fashion. This requires that the Government produce its Public Accounts as soon after the year's end as possible. In recent years, the GNWT has not been as timely in producing its Public Accounts as it could be. Exhibit 1.7 shows the time elapsed between year-end and when the accounts were available to be tabled. There can be some time between when they are available and the actual tabling date, which depends on whether the Legislative Assembly is sitting. Exhibit 1.7 also shows when they were tabled and thus available to the public.

Exhibit 1.6

Dimensions of Government Fiscal Condition

Dimension	Description	Indicators[1]
Sustainability	The degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy	Debt-to-GDP Deficit-to-GDP
Flexibility	The degree to which a government can increase its financial resources to respond to financial commitments, by either expanding its revenues or increasing its debt burden	Public Debt Charges-to-Revenues Changes in Physical Capital Stock Own Source Revenues-to-GDP
Vulnerability	The degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international	Government-to-Government Transfers-to-Own Source Revenues Foreign-Held Government Debt-to-Net Government Debt Foreign Currency Debt-to-Net Government Debt

[1] Does not include economy wide indicators.

Source: CICA, *Indicators of Government Financial Condition,* 1997

Exhibit 1.7

Tabling date of the GNWT's Public Accounts

	Date Public Accounts available for tabling	Tabling Date	Number of months after year-end before tabling
1995-96	17 January 1997	4 February 1997	10
1996-97	19 January 1998	29 January 1998	10
1997-98	11 January 1999	24 March 1999	12
1998-99	28 June 2000	30 June 2000	More than 12

Source: GNWT Hansards and FMBS

1.41 We feel that more timely production of the Public Accounts, and development of relevant financial indicators will bring benefits to the Government, Members of the Legislature, and the people of the North. The more knowledge people have about how the government operates, and its performance on a historical and real-time basis, the better able they will be to participate in important discussions and debates of the day. Ultimately, we believe that better communication of performance information, such as government financial condition or reports on the effectiveness of government programs, will enhance governance in the North.

Chapter 2

Public-Private Partnerships

Main Points

2.1 As part of a pilot project, the Government of the Northwest Territories (hereinafter called GNWT or the Government) entered into a public-private partnership (P3) arrangement to provide student housing units for Aurora College's Thebacha Campus in Fort Smith. We reviewed this arrangement and identified some concerns about how it was undertaken.

2.2 We conclude that taxpayers will pay more over the next 20 years than if the GNWT had built and operated the housing itself. We believe that because the GNWT did not balance out the additional cost against additional benefits, it has not demonstrated that it has obtained value for money on this arrangement.

2.3 We also conclude that the lease should be accounted for as a capital lease, not as an operating lease under the new Public Sector Accounting Board guidance.

2.4 Some of the following comments are generic to P3 issues and are included here for information or illustrative purposes. Observations specific to the GNWT are included in boxes.

What are Public-Private Partnerships, and Why Would the Government Use Them?

> **2.5** For the past three years, the Government has examined the use of public-private partnerships, often referred to as P3s, as a way of accelerating its investment in infrastructure. Although it originally planned to do seven P3 projects in the west, as of 31 March 2000 one had been completed — the family housing units for Aurora College in Fort Smith. The GNWT determined that the other proposed P3 projects were not suitable for the P3 approach.

2.6 P3 projects can be attractive for governments because they are financed by the private sector. Governments are spared from having to find the immediate cash in their budget or from borrowing funds in the market to finance the construction. After the infrastructure is built, they lease it on a long-term basis, often with a buy-out clause at the end of the term.

2.7 But generally there is also a price to pay when governments use P3 projects. Because the goal of the private sector is to make a profit, the long-term costs can be significantly higher. Through lease payments, governments pay not only for building, operating, financing and associated overhead costs, but also for corporate profits. When there is a buy-out clause at the end of the lease, it is often based on the market value of the building at that time. Consequently a government cannot negotiate a purchase price at the onset of the lease.

2.8 This can be a particular problem in the case of custom-built P3 buildings such as hospitals and schools, particularly in smaller Northern communities where there is no alternative use for the building at the end of the lease, and potentially no justification for spending more money to build another one. In the North, this can create a political or moral obligation for the Government to buy the building at the lease end, which would likely mean paying more than if it had constructed the building itself.

2.9 Thus, from a cost-effectiveness point of view, it follows that the Government should explore all of its options before entering into P3 projects, as they can commit future cash flows for 20 years or more, and can be more costly in the end.

The Critical Need to Consider All Aspects Before Making a Commitment to Any P3 Project

2.10 In reviewing the P3 project, we used the following criteria as reasonable standards that could be followed to ensure that the GNWT followed the best process and obtained the best results.

Establishing a clear need for the project

2.11 First, before making a P3 decision, we expect the Government to identify, justify and prioritize its need for the asset. Any analysis should be well documented. In other words, there should be a solid "business case" to support the decision.

Serious consideration of financial alternatives

2.12 Second, we expect the Government to select the best financing alternative for each potential P3 project based on a cost-benefit analysis. This includes comparing the project cost as a P3 to the cost that would be paid out of current budget, and asking whether it would be possible and cost-effective for the Government to borrow money to build the asset itself.

Policy considerations and clarity of purpose

2.13 Third, a government decision to enter into several P3 projects to provide public infrastructure requires new policy . We would expect the policy to reflect the direction given by the Legislature in explicit and relevant criteria — for example, through clearly worded objectives, as well as definitions of key terms such as "value for money." The Government must be able to measure its performance and report the results it obtained against the objectives of the policy.

The Government's P3 Policy

2.14 The Financial Management Board (FMB) approved an overall policy framework for P3s in January 1998. The P3 Management Committee later approved more detailed policy and implementation guidelines, although the policy has not been approved by the Executive Committee as have other formal Government policies. The guidelines state that a P3 initiative will boost the GNWT capacity to foster economic growth in the future, create construction-related jobs for Northerners, and develop the capacity of Northern businesses to participate in the completion of large-scale capital projects. Exhibit 2.1 contains extracts from this policy. In our view, these statements need to be further clarified in order to be evaluated.

Exhibit 2.1

P3 Policy Statement

The P3 policy approved by the P3 Management Committee states that the GNWT is committed to:

- Ensuring that the Government's requirements are filled through an open and fair process that provides the highest possible value to the North;
- Ensuring that all proponents have a reasonable opportunity to participate in Government business opportunities;
- Encouraging economic development;
- Respecting its trade obligations;
- Being accountable to the public for its procurement decisions; and
- Achieving value for money.

Note: The GNWT has not further clarified the above statements as to their precise meaning.

Source: GNWT P3 Policy and Implementation Guidelines

Intangible, Undefined Northern Benefits and Risks of P3s

2.15 Besides the expectation of increased efficiencies due to the role of competition in the private sector, governments expect to realize other benefits from involvement in P3 initiatives. These can include financial benefits (lower costs, increased revenues), service benefits (speedier project completion, improved service quality), economic development benefits (increased entrepreneurial capacity, new sources of capital), increased innovation and creativity, access to the newest and most efficient technology, and enhanced public management.

2.16 In the past, we have heard arguments that a particular type of expenditure has intangible benefits, such as helping Northern business development, and the policy statement makes this concept central to the process. Although there may be some such intangible benefits in P3 situations, these still need to be expressed clearly, and the costs of developing them should be estimated and disclosed. In the GNWT, the Business Incentive Policy and Northern preference policies are also supposed to ensure that the North benefits. Claiming that some of these benefits are directly attributable to P3 projects is misleading, as the benefits would also be achieved if other methods of procurement were used.

2.17 Arrayed against the potential benefits of P3 projects are the potential risks. Governments may assume financial risks in undertaking P3s (paying more in the long term, incurring hidden project costs), and risks to service quality (having to reduce staff or lower service standards). In tight budgetary situations, P3s add to the long-term fixed financial commitments of a government, which reduces flexibility in subsequent budgetary decisions.

2.18 A specific issue for the GNWT is that P3 projects that are operating leases only need annual Legislative Assembly approval of one year's lease payments. This is different from the regular process for approving capital expenditures and related budgets.

Value for Money and Assumed Risk

2.19 It may be more costly, in the long term, to lease the assets than to build and own them. Obviously many factors must be considered, such as the availability of funds and a government's borrowing capacity. As this kind of decision can commit a government to making payments for many years without owning anything at the end, it therefore requires nothing less than a comprehensive study, with all of the factors considered and costed.

2.20 As the GNWT's policy is to choose the best deal for the taxpayers, it must consider all costs and benefits, and calculate whether it is paying more to lease than to own. It is vital that complete and reliable information on alternatives, costs and incremental benefits be provided to decision makers.

2.21 When looking at whether a P3 project yields value for money, we have many factors to consider. The probability of obtaining value for money appears higher when the developer is permitted to generate third-party revenues, and/or the occupancy risk is transferred to the developer. Occupancy risk — the risk that there will be more or less demand for the facility than expected — is an important risk factor. As P3s are supposed to be about the public sector sharing risks with the private sector, we would expect occupancy risk to be considered carefully in the GNWT's risk assessment. In the case of a school or hospital, it is quite likely reasonable to leave that risk with the public sector. However, in situations where the facility does not have such a specialized function, it may be reasonable to expect the private sector to assume this risk, because it can mitigate the risk by generating other revenues from the use of the facility.

Complex Accounting Rules

2.22 The Canadian Institute of Chartered Accountants (CICA) sets the accounting rules for the public sector through the Public Sector Accounting Board (PSAB). The Government of the Northwest Territories has adopted PSAB accounting standards.

2.23 The CICA had previously issued a standard for accounting for leases that sets criteria based on numerical tests of lease conditions in key areas. This gave rise to arrangements being designed to meet a particular accounting treatment. Over the years, it became apparent to the PSAB that the standard needed to be tightened up and clarified in some areas to avoid this artificiality.

2.24 In April 2000, subsequent to the completion of the Fort Smith student housing P3 project, the PSAB issued a guideline on leases. We have used this new standard as a basis for commenting on this project.

2.25 Under the guideline, a lease can fall into one of two categories. Under certain conditions, a government would be able to classify it as an operating lease, which means that it could record the annual lease payments as operating expenses and that would be sufficient for accounting purposes. But although the criteria are complex, if a government has taken on much of the risk from the developer, the accounting rules say that it must be classified as a capital lease. This means a government must treat the building as if it owned it, and show the long-term payment obligation to the developer as a liability.

2.26 This can have an implication on deficits, and on borrowings shown in a government's financial statements. This choice of classifying a lease as operating or capital can also have implications for the private sector, and can make the difference as to whether or not tax savings can be passed on to the government. However, any potential savings should be estimated and the government should ensure that it receives the benefit.

2.27 Consequently, governments in general have spent a lot of time structuring P3 arrangements to meet the PSAB criteria in the hope of showing the lease as an operating type. In fact, one criticism of P3s in general is that too much energy is spent on worrying about the accounting treatment, and not enough on whether the government got the best value for money.

Other P3 Costs Incurred by the Government

2.28 Learning about and developing P3 projects can be costly. In May 1998 and April 1999, the FMB approved funding to provide dedicated project management support to departments with P3 projects. Additionally it provided the Financial Management Board Secretariat (FMBS) with outside expertise and staff resources for administrative support, including policy development, communications, financial analysis, evaluation and implementation. The GNWT was planning to spend close to $4 million by 31 March 2000 on the administration and implementation of P3 projects.

2.29 The $4 million represents additional funds spent over and above any P3 leases the GNWT had entered into. The GNWT advised us that $2.4 million of the $4 million would have been spent anyway and that these funds are not really incremental; but if some of these costs relate to specific projects, they should be shown as such. If the costs relate to abandoned projects, then they really are incremental.

2.30 We believe that the Fort Smith student housing project, as the first completed P3 project, should provide valuable lessons to the Government in developing such projects in the future. We considered several issues in looking for the lessons learned — whether the project got value for money, whether risks were appropriately shared, and whether the process was effective.

2.31 The case study chronicles the history of this project, with our commentary where the information was scanty or not available at all or, in some cases, where the decisions made appeared not to be supported by documentation.

Case Study
Student Family Housing – Fort Smith

Background

2.32 The GNWT entered into a P3 project to provide housing for student families from outlying communities who attend the Thebacha Campus of Aurora College in Fort Smith. A private-sector company is responsible for designing, financing, building, owning and operating the student housing units, which consist of 20 three-bedroom units and 5 four-bedroom units. A 20-year lease was signed on 11 June 1999, with the commencement date being 5 January 2000.

Object of the review

2.33 We reviewed the P3 arrangement to determine if there are lessons to be learned from this project and, where necessary, to provide recommendations to improve the management of future P3 arrangements. The scope of our review included:

- the need for the project;
- the financing alternatives evaluated;
- value for money; and
- compliance with generally accepted accounting principles and PSAB guidelines.

2.34 Exhibit 2.2 shows the P3 process, details of the project and a summary of our observations concerning each stage of the process.

Observations

The need

2.35 While Aurora College identified a shortfall of student family housing in Fort Smith in 1997, we are concerned about the lack of "business case" analysis to justify the construction of 25 family units, and the lack of evaluations of other alternatives.

2.36 On 20 March 1998, the FMB approved 12 pilot P3 projects, including the Fort Smith one, although how the latter got on the list is not clear. We have not seen how, or by whom, this P3 project was proposed to the FMB. It is not identified in correspondence from the Minister of Education, Culture and Employment (ECE), or in the FMBS analyses of projects with P3 potential.

2.37 ECE informed us that 20 three-bedroom and 5 four-bedroom units were required because existing houses for students with families were considered to be inefficient and reaching the end of their useful lives. However, when the FMB initially approved this as a P3 project, there was no clear documentation on whether the need was for additional family housing or replacement of existing units. On completion of the project, we still were not able to obtain any clear plan to deal with the old housing.

2.38 Neither ECE nor FMBS was able to provide us with written, detailed analyses that clearly demonstrated the need for 25 new or replacement units, or identify whether they considered alternatives such as renovating the existing houses. Nor have we seen any cost-benefit analysis of financing alternatives and the advantages and disadvantages of each alternative prior to this project going ahead, as required by FMB. This is an important issue because the alternative chosen (P3) was selected without a full consideration of which alternative would best serve the need and taxpayers, and thus result in value for money.

Request for proposals

2.39 Of the three proposals received, two were rejected because, according to the GNWT, they did not meet the operating lease requirement as stated in the Request for Proposals (RFP). Thus, only one proposal was evaluated against the alternative of the GNWT building and operating its own facility with borrowed funds.

Exhibit 2.2

The Case Study of the Fort Smith Student Housing P3 Project

P3 Process	Fort Smith Project Details	OAG Observations
Needs Analysis • Business Case • What do we need?	• Aurora College Draft Housing Plan (1997) • Required to analyze alternatives • Approved as P3 March 1998	• Lack of detailed needs analysis (2.35) • No alternatives analyzed (2.38)
Request for Qualifications (RFQ) • Submissions from interested firms	• RFQ held in July 1998 • Seven interested firms responded to RFQ	• No concerns
Request for Proposals (RFP) • RFQ firms invited to submit proposals	• Three bidders chosen from RFQ's • RFP issued in October 1998 • RFP contained functional program and GNWT cost estimates	• GNWT cost estimates contained error (2.41) • GNWT cost estimates provided to the private-sector (2.43)
Proposal Evaluation • Evaluation of proposals based on defined criteria	• RFP closed February 1999 • Two bidders disqualified over operating lease requirement • GNWT estimates adjusted after error discovered • P3IT recommended P3MC and FMB approve entering negotiations with chosen bidder • FMB approved entering into contract in March 1999	• More costly (2.46) • Qualitative benefits identified are not incremental (2.51)
Negotiation of Lease • Sign development and lease agreements with developer	• Development agreement signed June 1999 • Twenty-year lease signed June 1999 • Land sold to developer October 1999 • GNWT took possession February 2000	• Value of land sold (2.55) • Not an operating lease (2.61)

2.40 We have some comments about the way the RFP was conducted and about the subsequent evaluation of the successful proposal. First, the GNWT's own original cost estimates included an error that overstated its operating cost. Second, this original estimate was provided to the private sector as part of the RFP.

2.41 The P3 Implementation Team (P3IT), responsible for evaluating the proposal, discovered an error in March 1999 that overstated the estimate of operating costs provided to the bidder by $75,000 per year. The team adjusted the estimate for the error, but also adjusted the utility cost portion of the original estimate upward, indicating that these costs had been underestimated previously. However, there was no documentation to support the change in projected utility costs. Although the team identified the error before requesting the FMB's approval to enter into contract negotiation, it did not re-negotiate the deal with the developer.

2.42 We also noted that the GNWT cost estimate provided to the private sector and used to evaluate the proposal was the "Class D" version, which included a 25 percent construction contingency. "Class D" estimates are made before the design and therefore include the high level of contingency. Once the proponent supplied a preliminary design, the GNWT could have developed a more precise "Class B" estimate, which usually contains only a lower 10 percent construction contingency. This could have been used as a control to allow the GNWT to compare its cost estimate to the proponent's estimate of the same class.

2.43 We question why the Government provided cost estimates to private-sector bidders. Considering that the GNWT supplied reasonably detailed requirements, and that the project involves basic construction, operation and maintenance, we wonder why proponents would not be able to develop their own estimates based on their own previous experience of working in the North, or readily obtain estimates through parties other than the GNWT.

2.44 In our view, from a value-for-money perspective, this was a tactical error. If the private-sector company had been required to submit its own independently generated cost estimates, the GNWT would have had a genuine basis for comparison.

Value for money

2.45 One of the commitments of the Government included in its P3 policy statement is to achieve value for money. However, the GNWT has not determined how to evaluate whether value for money is achieved. We expect that value for money is achieved when:

- need is clearly demonstrated; and
- the least costly alternative is chosen; or
- the additional benefits outweigh the additional costs when the alternative chosen is more costly.

2.46 We have already discussed the lack of clarity in demonstrating the need. On the cost side, the P3IT calculated that the GNWT would be paying more — a premium of 4 percent using the present value of the private sector's versus GNWT's adjusted cost estimates. The premium, however, does not take into account the fact that the GNWT would not own anything in this deal. Using the revised GNWT cost estimate, we calculated that the GNWT could have saved more than $1million plus owned the facility, if it had financed the project itself.

2.47 Under this lease, the Government will not own the property after 20 years, although it has the option of buying it at that time at fair market value. Given that the lease payments cover almost 90 percent of the capital costs, without the Government owning the property at the end, if it wants to keep using the housing it will have to either sign a new lease or buy the property. No one can predict what the fair market value might be in 20 years' time; but if it is more than the 10 percent not covered by Government payments, a renewal or purchase will mean that the Government pays for the facility more than once.

2.48 Exhibit 2.3 shows the breakdown of the lease cost, including base rent and the operating portion of the rent over the next 20 years (both include rental and operating and maintenance costs for fixtures, furniture and equipment).

Exhibit 2.3

Leasing Costs of New Student Housing in Fort Smith

Description	Cost Over Twenty Years (all 25 units)	Total Cost Per Year - 25 Units (first year)	Cost Per Year Per Unit (first year)	Cost per Month Per Unit (first year)
	Dollars			
Base Rent	7,670,200	383,511	15,340	1,278
Operating Costs Payment	8,026,158	337,382	13,495	1,125
Total Lease Payment	15,696,358	720,893	28,835	2,403

Source: GNWT

2.49 For each unit, the Government pays lease costs of $2,403 a month at the start, of which $1,125 is operating costs. This seems extremely high compared with another leasing arrangement it has in Fort Smith where the Government pays $1,267 a month for family units in the same area ($510 of which is operating costs), although these are smaller one and two-bedroom units. Furthermore, the Department estimates that monthly operating costs for the surplus student housing units are $600 a month each. We could not get a satisfactory explanation of why the new, efficient units cost nearly twice as much each month as the old, presumably inefficient ones.

2.50 The high lease cost is due to construction costs of approximately $162,000 per unit ($1,300 per square metre or $120 per square foot) and higher operating costs than GNWT's estimates. A question that needs to be answered is whether other non-financial benefits justify the premium.

2.51 The P3IT evaluation concluded that with the four percent premium the proposal provides value for money. The team submitted its conclusions to the P3 Management Committee and to the FMB in support of a recommendation to enter into contract negotiations with the chosen developer. The FMB submission also indicates that the team proposed to do a more extensive cost-benefit analysis, but this was not done. While some benefits were identified, many would occur whether the project was self-financed or done as a P3.

2.52 Although the original plan was to have the housing units ready for August 2000, the GNWT agreed to begin the lease on 5 January 2000 if the units were ready then. However, we understand from the Department that it did not take possession of the units until February.

2.53 The Department advised us that 13 families moved from existing College housing into the new units in February and March 2000. The College is renting each unit for $420 a month. The Department expects the remaining 12 units to be occupied in the next term. It also expects to sell 20 of the 31 older housing units and to keep the remainder. Until the old housing units are sold, there are at least 25 family units not being used. We estimate that it will cost the Government an additional $200,000 because it advanced the lease date from August to February and is not using all those units.

The land

2.54 As part of the agreement, the land for the project had to be transferred from the Government to the developer. The lot for the housing development is nearly five acres, and was sold to the developer for $23,870. In addition to the main lot, the Government purchased two small access lots from the Crown, and sold both of these to the developer for $18,000.

2.55 It is unclear whether the price at which the Government sold the land represents fair market value. If the appraised value of the land was not adjusted to take into account that the two access lots would be part of this deal, subsequently raising the value of the main lot, then the Government may have to pay more than the original fair market value at the end of the lease if it exercises its purchasing option.

Accounting

2.56 From the beginning, the Government structured the project around the expectation that the lease would be classified as an operating lease. For example, in the request for proposals, it specified, "the GNWT intends to pursue only an operating lease arrangement..." and "the GNWT will not enter into a capital lease." In the end, the Government believed that it had structured the arrangement as an operating lease because it met the numerical test of the CICA and because according to the risk assessment it conducted, substantial risks were transferred to the landlord.

2.57 In April 2000, after completion of the P3 project, the Public Sector Accounting Board (PSAB) released a new guideline on leased tangible capital assets. We have used this guideline as the definitive standard to date. It should be noted that a draft of this PSAB guideline, issued in June 1999, was made available only after the GNWT analysis was done.

2.58 If a lease is classified as operating, a government will not have to budget for the capital cost, borrow any money to finance the construction or charge to expenses the full cost of the infrastructure. This operating lease treatment would thus reduce a government's surplus or increase a deficit for that year and would not require a government to record a liability for the lease. The GNWT has advised us that in choosing an operating lease it was motivated by the potential savings, not a wish to avoid recording the asset and liability.

2.59 The PSAB also identifies factors that need to be considered in determining whether substantially all benefits and risk of ownership have been transferred. If the risks are essentially retained by a government, the lease will be determined as capital. The GNWT conducted its own risk assessment, which concluded that the lease was operating. However, in our view, this lease assigns the occupancy risks to the GNWT, as it is the Government's responsibility to fill the housing units with tenants. Under PSAB guidance, we determined this to be a key risk.

2.60 The PSAB guidelines also contain other technical measures, or tests, designed to compensate for elements in the lease formula that might be arranged to meet one of the numerical tests of determining capital versus operating leases. This strategy recognizes that costs could be added to the operating side allowing the capital costs to come in under the 90 percent threshold set out in the criteria. In the present case, the proponent's operating costs are higher that the GNWT's internal cost estimates. Using the PSAB approach, we calculate that the present value of payments over the lease period could be 14 percent higher than the fair market value test of 90 percent.

2.61 Using the new PSAB approach, we concluded that the lease should be accounted for as a capital lease for the following reasons:

- The present value of the lease payments is more than the fair market value of the leased property (meaning the Government will pay substantially more than the cost of the building over the term of the lease).
- The lease does not result in the transfer of a significant amount of risk to the private partner.

2.62 If the Government applies the new PSAB guideline retroactively, it will record in its 1999-2000 financial statements a capital expenditure and a liability item of $3,988,000 — the present value of the minimum lease payments.

Conclusion

2.63 From hindsight, any new, piloted approach such as this can produce examples of aspects that went well and areas where applications can be improved. We present our conclusions as lessons learned.

2.64 As P3s are a relatively new phenomenon, the Government wants to ensure that the purpose of the project and the decisions made are transparent in order to avoid any suspicion of favouritism. Thus, the process of identifying private-sector candidates, assessing their qualifications, and selecting the successful bidder must be open to public scrutiny. We would also expect mechanisms to be in place to keep the Legislative Assembly informed of the progress and outcomes of the P3 projects, so that members or committees can satisfy themselves as to the effectiveness of P3s as a policy tool. The GNWT indicates that the Standing Committees were kept informed on a regular basis during 1998 and 1999.

2.65 There is a widely held view that the private sector can do things more cheaply than government, and this is seen as a benefit of P3 arrangements. If this theory is true, the private sector must be allowed to develop the concept on its own (subject to broad government standards), including in this case the type of units, the construction methods and the cost estimates. As far as we can see here, the GNWT, by providing a detailed functional program and cost estimates in the RFP, left little room for the private sector to be innovative and efficient. As such, the GNWT may have lost a genuine opportunity to test whether a P3 arrangement can transfer risks to the private sector and result in benefits from the alleged efficiencies.

2.66 Furthermore, in a true P3 deal the private-sector partner is left to manage all aspects of the property, including renting it to occupants (perhaps with a minimum occupancy guarantee), collecting rents and generating third-party revenue. This could have been achieved through the partner renting additional units to others, renting attached commercial space, or collecting user fees. Often P3s provide opportunities for the private partner to generate third-party revenues, and subsequently provide cost savings to the public-sector partner. The lease that was signed in the case of the student housing P3 does not reflect this approach.

2.67 Many times we have heard that there are intangible benefits that add value to deals such as this, including developing Northern expertise. Some such benefits can be real, but they must be documented and valued, not left as vague, generic statements that nobody can prove or disprove. Many such benefits would occur whether the project was self-financed or done as a P3.

2.68 Getting the best value for money is the most important consideration, as evidenced by the requirement in the RFP that the proposal offer value for money and be competitive in terms of traditional non-P3 construction. Given that value for money was not clearly defined up front, it is difficult for the Government to know if and when it has achieved this objective. The FMBS has advised us that it has retained a major consulting firm to evaluate this pilot project, and to help to answer this question.

2.69 We noted a lack of clear analysis to support the need for this project. Further, we did not find support to suggest that this project was best suited as a P3 project over other alternatives. Although the proponent submitted a bid (Class B estimate) following its preliminary design, nowhere did we observe the Government developing its own analysis of costs using the proponent's design in order to make a more meaningful comparison. This would have been a useful control. We also observed a lack of value-for-money analysis in support of the proposed incremental benefits, and noted that revisions to original GNWT estimates have not been fully documented.

2.70 By trying to meet a demanding timetable for the implementation of all its P3 pilot projects, we believe the Government may have contributed to some of the problems we observed in our review. Because initially several projects were in various stages of development, we believe staff resources were strained, especially in light of the Government's inexperience in managing P3s.

Other related points

2.71 This project was undertaken to provide family housing for students attending Aurora College in Fort Smith during the academic year. As such, there seems to be no reason why it should not be shown on the books of the College. Instead the Government intends to carry it as a GNWT asset, with the College paying the lease costs, which it will recover from the Government through increases to its annual funding contributions. This unnecessarily complicates the accounting and fails to provide a true picture of the College's operations.

2.72 There are important lessons to be learned from this project. If the Government considers using P3s in the future, we recommend that it ensure that important elements are identified, clearly defined, followed, and completely documented to support all major decision elements. Key among these elements are demonstrated needs, fully documented considerations of alternatives, and well thought-out controls, including the Government's own cost estimates based on the same criteria as the proponent, and quantification of any assumed intangible benefits.

Management Response

The public-private partnership arrangement entered into by the Government of the Northwest Territories to provide student housing units for Aurora College's Thebacha Campus in Fort Smith was part of a broader pilot initiative, designed to test the potential of public-private partnerships as one means of addressing the GNWT's capital infrastructure requirements. We agree that there are important lessons to be learned from the project, and from all the other projects that proceeded within the pilot initiative. The GNWT has retained an external evaluator, KPMG Consultants, to monitor and evaluate the Public-Private Partnership pilot initiative, based on an evaluation framework that was designed with extensive stakeholder input.

The GNWT will take the conclusions of the Office of the Auditor General of Canada and the findings and recommendations of our external evaluator into consideration in developing policies to guide any further procurement of capital infrastructure through public-private partnership arrangements.

Chapter 3

Department of Health and Social Services: Alternative Service Delivery and Accountability

Main Points

3.1 The roles, responsibilities and relationships of the Department and health and social services boards have changed over the past few years. Boards are responsible for delivering programs, while the Department is responsible for policy, monitoring and evaluation. Part of this change involves increased financial contributions to boards, which requires adequate accountability measures.

3.2 Changes in the operation of the health and social services system also include shifts from treatment to prevention, movement from institutional care toward community care, and a new policy that holds boards responsible for their surpluses and deficits.

3.3 The Department has produced a draft accountability framework, in which it intends to address the need to effectively plan, monitor and evaluate progress, and report publicly on results. This is a start toward more effective accountability, but there are gaps and challenges that remain to be addressed.

Introduction

3.4 The Department of Health and Social Services spent $268 million in 1998-99, approximately 23 percent of the Government's total operations budget. A significant part of this spending is by way of contributions to health and social services boards, where accountability back to the Legislative Assembly is not as complete as it would be under departmental structures. As auditors of the Government, we are interested in ensuring that the public accounting process includes full and complete accountability to the Legislative Assembly for all public expenditures.

3.5 The goal of this chapter is to provide audit information to the Legislative Assembly on the Department of Health and Social Services (the Department). This chapter focusses on a few selected areas and is not intended as a comprehensive review of the Department. Following from our work last year, in which we reported on some general accountability activities the Government was undertaking, we felt there might be some merit in exploring accountability issues within a department such as this one. We also thought it would be useful to provide summary level information on the Department at this time for the following reasons:

- There have been significant changes in the Department's operations in the last few years. On 1 April 1997, the delivery of regional social services of the Department was transferred from the Department to Boards of Management (boards), which resulted in approximately 135 staff being transferred to the boards and increased contributions to the boards to provide these services.
- The 1998-99 fiscal year was the first year of the 100 percent retention of the surplus and deficits policy for the boards. In 1997-98, 50 percent of surpluses and deficits were retained by the boards. Prior to 1997-98, all deficits of the boards were funded by the Department and all surpluses were returned to the Department.
- The Department had total operating and maintenance expenditures of $268 million in 1998-99, which accounted for 23 percent of the operating expenditures of the Government. In recent years the Department's expenditures have increased as a percentage of total operating expenditures of the Government (see Exhibit 3.3).
- Such information would be useful to new members of the Legislative Assembly whose knowledge of the Department may be limited.

3.6 As the roles and responsibilities of the Department and the boards have changed, so too must the ways to address accountability for the provision of health and social services. The devolution of responsibility to the boards for program delivery is a form of alternative service delivery (ASD) that presents additional challenges for the Minister and the Department in maintaining accountability to the Legislature. While other parties are more involved in delivering health and social services at the board and community level, and accountability is to some degree shared, the Department will remain accountable to the Legislature for the results achieved against its goals and objectives.

Background and Current Direction

3.7 Prior to the 1990s, there were two departments — the Department of Health and the Department of Social Services. The early 1990s saw some organizational review and restructuring, along with an audit of the Department of Health by our Office in 1992. The audit resulted in 28 recommendations concerning human resources, planning, management and administration. Following this, the Government began in 1994 to amalgamate the two departments to reduce overlap and foster program integration. While boards have existed in the North since the 1980s, new boards were being created and their roles defined during this time of growth and change.

3.8 In the past, health and social services were delivered to the public by combinations of the Department and other partners — boards , various facilities, and community agencies, with funding supplied by the Department. As of 1 April 1997, operations were consolidated under 12 boards of management (9 now remain in the NWT), with the expectation that more co-ordination of programs and increased collaboration of personnel at the regional and community levels would result.

3.9 At the same time, the Department's operating methods are changing. In its own words, "The Department is moving away from direct service delivery and will be focussing more of its activities on monitoring broad outcomes of service delivery (eg. changes in health status), Board support, and quality assurance."

3.10 As part of this process, the Department has established a list of the core services to be provided to NWT residents. All boards must offer these services, either directly or indirectly (for example, by agreement with another board). The list covers a complete range of services designed to protect and promote health, prevent illness and injury, and provide diagnosis, treatment and rehabilitation. The core services include:

- Health Promotion
- Health Protection and Preventative Services
- Emergency, Acute and Diagnostic Services
- Continuing Care
- Developmental, Rehabilitation, and Support Services
- Community Corrections

3.11 The Department has also identified priority areas where actions are needed to improve the overall function of the health and social services system. In its business plan covering the period 1997-98 to 1999-00, the Department has identified five of these priority areas:

1) shifting focus from treatment to prevention;
2) defining the business of the Department (what is funded and at what levels);
3) matching accountability with responsibility/authority;
4) developing an integrated NWT Health network/system; and
5) shifting away from facility-based program delivery to community-based delivery wherever appropriate.

3.12 The shifts that are occurring in the Department, such as the expanding focus on prevention, the movement toward more community-based treatment, and the devolution of services to third parties (mainly boards and other community agencies) pose new challenges and risks to the Department in the area of accountability. We will discuss these issues later in the chapter when we look at the Department's draft Accountability Framework.

Roles and Responsibilities

3.13 As the main players in the health and social services system, the boards and the Department have significant roles and responsibilities to carry out. These are set out in a ministerial directive signed 10 November 1998. Listed below are the key roles and responsibilities of the Minister of Health and Social Services and of the boards (Exhibits 3.1 and 3.2).

Exhibit 3.1

Roles of the Minister of Health and Social Services and Boards of Management

Minister	Boards
• Is the devolved authority for health service provision in the *Northwest Territories Act* and Transfer Agreements (1982, 1986, 1988) with the federal government • Is responsible for maintaining a relationship with the federal government and ensuring health and social services in the NWT continue to meet national principles and requirements • Must ensure that the NWT adheres to the five principles of accessibility, universality, portability, comprehensiveness, and public administration as they are set out in the *Canada Health Act* • Is accountable to the GNWT and the public for the provision of health and social services • Develops and implements policy and legislation, and co-ordinates the planning, management and delivery of health and social services through the Boards • Allocates health and social service resources to the Boards; the Boards shall retain any surplus or deficit incurred by their resource allocation • Develops, approves and issues standards and guidelines for the provision of services; in the absence of NWT standards, recognized Canadian standards are to be used • Renegotiates the Memorandum of Understanding for community corrections between the Department and the Department of Justice • Shall negotiate and consult with the Boards on any agreements with other GNWT departments for services not covered by the Contribution Agreement	• Are delegated authority under Section 13 of the *Hospital Insurance and Health and Social Services Administration Act* • Are accountable to the Minister and to the residents of their service areas • Have the authority and responsibility to provide health and social services in their service areas • Shall ensure Core Services are available to residents in their service areas; if services are not available within a service area, a Board must ensure that residents have access to services either within or outside the Northwest Territories • Shall plan, manage, deliver and integrate health and social services • Shall assess the health and social service needs of the residents they serve • Shall ensure that programs and services are delivered in a manner consistent with all other relevant federal and territorial legislation and regulations, GNWT policies, directives and agreements, and Departmental policies, directives, standards, guidelines and procedures • Shall submit a business plan to the Minister on an annual basis • Shall submit a budget to the Minister on an annual basis • Shall submit a report on operations to the Minister on an annual basis • Shall account to the Department for the funds expended in the Contribution Agreement • Shall deliver community corrections services as laid out in the Memorandum of Understanding between the Department and the Department of Justice • Shall manage, operate and control health and social services facilities in their service areas

Source: GNWT Ministerial Directive

3.14 Despite the differences between them, the boards and the Department are united by a set of shared goals and principles that guide the development, implementation and evaluation of health and social services in the NWT. The shared goals are:

- to improve the health status of NWT people;
- to improve social and environmental conditions for NWT people;
- to improve integration and co-ordination of health and social services, including services by government, non-government agencies, and private and volunteer sectors; and
- to develop more responsive, responsible and effective methods of delivering and managing services.

Department of Health and Social Services Expenditure Trends

3.15 Looking at information available in the Public Accounts of the GNWT, certain trends in expenditures were occurring within the Department prior to division, including the following:

- Total expenditures rose by 10 percent ($25 million) between 1995-96 and 1998-99 (see Exhibit 3.3). When inflation is taken into consideration, expenditures rose by approximately 6 percent.
- Expenditures as a percentage of total Government expenditures rose by 2.4 percent between 1995-96 and 1998-99 (see Exhibit 3.3).

Exhibit 3.2

Responsibilities of the Minister of Health and Social Services and Boards of Management

Minister	Boards
• Implement and administer legislation and regulations, GNWT policies, directives and agreements, and Departmental policies, directives, standards, guidelines and procedures for health and social services provision • Describe Core Services to be provided • Set strategic direction and priorities for the NWT health and social services system • Develop a human resource plan consistent with the Department's and Board's strategic goals • Set and evaluate compliance with territorial requirements for service delivery in order to achieve improved health and well being • Carry out site visits, reviews, inspections, evaluations and audits to assess and evaluate Board operations as deemed necessary by the Minister • Gather data related to health and social service delivery in a timely and effective way • Consult with the Boards regarding legislation, policy and directives pertaining to Boards' authority, responsibility and accountability prior to making changes which impact on the Boards and the terms and conditions of the Contribution Agreement • Monitor population health and service delivery outcomes	• Provide services that are consistent with the strategic direction of the Department, Core Services, the appropriate standards and the needs of its residents as reflected in the Board's Business Plan • Develop, set and evaluate compliance with standards for service delivery in order to achieve improved health and well being • Ensure that money is spent in the pursuit of improved health and well being, administering the health and social services system in an manner that does not threaten its ability to meet basic human needs over the long term • Establish and maintain a proper system of records and accounts of assets and liabilities in accordance with the *Financial Administration Act* • Consult with the Department regarding any changes to Board policies which would impact on the Department and the terms and conditions of the Contribution Agreement • Monitor regional and community health and social service delivery outcomes

Source: GNWT Ministerial Directive

- Contributions as a percentage of operations and maintenance expenditures grew by 21 percent between 1995-96 and 1998-99 (see Exhibit 3.4).
- Expenditures per capita rose by 13 percent between 1996-97 and 1998-99; taking inflation into account, the increase is 11.9 percent (Exhibit 3.5).

3.16 If we compare the estimates for the West alone for 1999-2000 to the pre-division numbers, we see that much of the combined East/West information is comparable to the West information. For example, contributions as a percentage of Operations and Maintenance in 1998-99 were 70 percent and are estimated to be 70 percent for 1999-2000. Therefore the trends summarized above for the pre-division Northwest Territories have relevance for the post-division Northwest Territories.

3.17 There are likely explanations for some of the trends observed. For example, increases in contributions to the boards since 1997 reflect the fact they have assumed responsibility for delivering social services. Also, in 1997-98 funding was being transferred to the Department from various sources, including from the Department of Public Works and Services for user pay/user say initiatives. Other areas of increase include program areas to address health and social needs. Nevertheless, as Departmental expenditures continue to represent a significant amount of Government spending, expenditure trends need to be identified, analyzed and understood so they can be communicated to stakeholders, specifically MLAs and the public.

Exhibit 3.3

NWT Department of Health and Social Services Expenditures 1995-96 to 1999-00

Year	HSS O&M		HSS Capital		HSS Total	
	$ thousands	% of GNWT O&M	$ thousands	% of GNWT Capital	$ thousands	% of GNWT Total
1995-96	244,088	22.68	8,836	4.29	252,924	19.73
1996-97	237,499	23.33	5,432	3.09	242,931	20.34
1997-98	253,082	24.76	6,963	4.41	260,045	22.03
1998-99	269,048	25.51	9,249	5.61	278,297	22.14
1999-00	159,421	25.02	7,025	8.14	166,446	23.01

Source: GNWT Public Accounts 1995-96 to 1998-99; GNWT Main Estimates 1999-00

Exhibit 3.4

Department of Health and Social Services Contributions as a Percentage of Departmental Operations and Maintenance Expenditures

Year	Contributions	Other O&M	Total O&M	Contributions as a Percentage of Total of O&M
	($ thousands)			
1995-96	120,347	123,741	244,088	49
1996-97	144,887	92,612	237,499	61
1997-98	177,390	75,692	253,082	70
1998-99	198,729	70,319	269,048	74
1999-00*	110,970	48,451	159,421	70

*After division

Source: GNWT Public Accounts 1995-96 to 1998-99; GNWT Main Estimates 1999-00

Exhibit 3.5

Department of Health and Social Services Operations and Maintenance Expenditures Per Capita

Year	HSS Expenditures	Population Estimate*	Per Capita Spending
	$		$
1996-97	237,499,000	67,531	3,517
1997-98	253,082,000	67,646	3,741
1998-99	278,297,000	67,597	4,117
1999-00	159,421,000	41,807	3,813

*Population estimates from NWT Stats Bureau as of October 1 of each year

Source: GNWT Public Accounts 1996-97 to 1998-99; GNWT Main Estimates 1999-00

3.18 With the information available to the Department from the boards, we would expect the Department to analyze and evaluate reasons for increased expenditures on an ongoing basis, to take whatever steps are appropriate to address the situation, and to plan for the future accordingly. Given the Government's overall financial situation, increases in Departmental expenditures may lead to some concern about the sustainability of the health and social services system.

Health and Social Services Board Funding

New surplus/deficit retention policy

3.19 The Department instituted a new policy on surplus and deficit retention as of 31 March 1999. Generally speaking, boards are now being held responsible for any surplus or deficit they incur. Specifically, the policy stipulates that if a board has an operating surplus, 50 percent of that surplus must be put into a reserve fund to offset any future deficit, and any capital surplus may be used only for capital expenditures. Boards cannot budget for a deficit, and are responsible for any deficit they do incur.

Unrecorded annual deficits

3.20 As 1998-99 was the first year that boards implemented the 100 percent surplus/deficit retention policy, it was the first year that deficits of boards were not accrued in the Government's financial statements. In 1998-99, six out of the nine boards had operating deficits for the year (see Exhibit 3.6). The total operating deficit of these six boards for the year ended 31 March 1999 was $967,000.

3.21 Although under the new surplus/deficit retention policy boards are responsible for their own annual deficits, it is important that the Government closely monitor the boards' financial position. If the boards continue to run annual deficits, it will not take long for them to be in serious financial difficulty and to request additional Government assistance. The Government will then be in a difficult situation as considerable pressure may be placed on it to help the boards. The Government will likely be seen as still having overall responsibility for providing NWT health and social services. Thus, although board deficits no longer show up as part of the deficit in the Government's financial statements, they could become liabilities in the future.

Comparison of annual deficits and surpluses

3.22 Under the old funding policy, as surpluses were returned to the Government and deficits were recouped from the Government, the potential for inequities in funding was reduced. Under the new policy, some boards can find themselves in a better financial situation than others in a short period of time. As Exhibit 3.6 shows, annual surpluses and deficits differed significantly from board to board in 1998-99, which may have an impact on the services they are able to provide in the future.

Board contributions

3.23 We have also included information on contributions to each board and on the estimated population of the areas the board serves (Exhibit 3.6). There are many reasons why one board's contribution would be different from another's, particularly in the case of boards with higher expenditures. For example, some boards have hospitals, and thus receive more funding than boards that do not operate hospitals. Similarly, the Stanton hospital board's funding reflects the fact that it serves the entire territory.

3.24 Despite the reasons for differences, comparing contributions on a board-by-board or per capita basis can serve as a point of reference for discussions of funding allocations, particularly those to smaller boards. Exhibit 3.6 shows the fairly wide range of funding being provided to each board.

Where funds are being allocated

3.25 We have included information on the programs for which the boards have received departmental contributions (see Exhibit 3.7). As with contributions, there are reasons why program allocations would be different from board to board, particularly among the boards with higher expenditures. However, comparing these program allocations can serve as a starting point for discussions on program spending, leading to discussions on program performance. This table shows that the boards allocate funds differently, depending on the program. For example, one board has allocated 80 percent of its funding to the Territorial Health Insurance Services (THIS) program area, while another board has allocated 54 percent of its funding to the same program area.

3.26 Rising expenditures, potential unrecorded liabilities, and the balancing act of board funding all present challenges to the Department in its management of the health and social services system. The Department is aware of these challenges and, with respect to funding allocations, has indicated that improvements are needed. Board funding has been tied to mandate and traditional spending patterns, but not linked to population and other indicators. In its Strategic Plan, the Department reports that funding to boards should reflect the populations they serve, and should be set in a fair and understandable manner. To that end, the Department indicates that it continues to work on developing a board funding formula.

Exhibit 3.6

Health and Social Services Boards in the NWT 1998-99

Board	Population(1) Estimate	Contribution(2) ($)	Surplus(3) ($)	(Deficit)(3) ($)
Lutsel K'e HSS Board	360	830,029		(70,279)
Deninu Community HSS Board	552	970,230		(144,257)
Fort Smith HSS Board	2,525	7,864,432		(16,192)
Dogrib Community Services Board	2,713	4,652,377		(373,615)
Deh Cho HSS Board	3,315	7,530,650	398,603	
Hay River Community Health Board	3,685	8,221,565	532,785	
Inuvik Regional HSS Board	9,420	29,227,824		(350,218)
Yellowknife HSS Board	17,477	12,206,396	52,452	
Stanton Regional Health Board	N/A	35,466,860		(12,575)
Total	40,047	106,970,363	983,840	(967,136)

(1) 1998 population estimates; not including communities less than 50 people or unorganized areas; when included NWT population is 41,015.

(2) Excluding retroactive pay.

(3) Operating surplus (deficit) for year ending March 31, 1999.

Source: GNWT Public Accounts; Territorial Statistics Bureau population estimates; audited financial statements of the boards

Accountability and Alternative Service Delivery

3.27 Accountability is a significant issue for public stakeholders, elected representatives and public servants. As was suggested earlier, transferring responsibility for program delivery to boards has changed the relationship between the boards and the Department, thus resulting in the need to redefine accountability for the health and social service system. An important part of accountability, recognized by legislative committees of the NWT, is the need for reliable information and effective reporting.

3.28 Both the Standing Committee on Social Programs and the Standing Committee on Government Operations (now known as the Standing Committee on Accountability and Oversight) have commented on measures they believe will improve accountability. These include the need for clear reporting systems, data collection for monitoring purposes, and accurate and timely performance information to allow management to track and adjust operations as required throughout the course of a year.

3.29 Our Office has recently turned its attention to the subject of accountability in various types of new collaborative arrangements between the federal government and provincial governments, as well as between other public and private-sector partners. Some of the lessons learned during these audits are relevant to the Department and other GNWT departments that are involved in initiatives to improve accountability. Following recent audits, our Office has reported that:

- data collection from partners needs to be compatible, accurate, relevant and verifiable;
- measuring only outputs is inadequate; entities need to measure and report on outcome expectations, making clear what has been accomplished in relation to objectives; and
- elected representatives do not always have the performance information they need to assess the effectiveness of alternative service delivery arrangements as public policy tools.

Exhibit 3.7

1998-99 Health and Social Service Board Contributions: Percentage per Program Area Per Board

Program Area	Deh Cho	Deninu	Dogrib	Ft. Smith	Hay River	Inuvik	Lutsel K'e	Yellowknife	Stanton
	Percentage								
THIS Income	68	80	66	54	78	66	78	26	73
Children in Care	3	2	8	15	2	4	6	23	0
Early Intervention	2	1	0	0	0	1	0	2	0
Community Wellness	15	8	6	8	6	8	10	25	2
Independent Living	11	10	19	14	14	7	5	24	2
Physician Services	0	0	0	0	0	4	0	0	15
Medical Travel	0	0	0	5	0	10	0	0	7
MTA for Depts.	0	0	0	4	0	0	0	0	0
Total	100	100	100	100	100	100	100	100	100

Does not include retroactive pay

Source: GNWT

3.30 We have developed our thinking on accountability through discussion papers produced in 1998. One paper, entitled "Modernizing Accountability Practices in the Public Sector", was produced jointly with the Treasury Board Secretariat, while another, produced solely by the Office, was called "Assessing Alternative Delivery Arrangements". From this work, our Office established a list of five principles of effective accountability that provided a basis for developing criteria for audits in this area (see Exhibit 3.8). We do not offer a formal assessment of the Department's Accountability Framework based on these principles at this time. Rather, we hope that these principles will serve as a meaningful guide to all those engaged in the work of furthering accountability in the GNWT.

3.31 Members of the Legislative Assembly, particularly those serving on standing committees, have an important role to play by keeping the Government focussed on the important issues and questions that accountability regimes raise regarding alternative service delivery. Some issues to keep in mind are the following:

- When and how will we know if the desired results have been achieved?
- How reliable is the information?
- Is the right kind and right amount of information being reported to the Legislature and the public?
- Are we focussed on learning and improving when publishing negative trends in outcomes, or are we just laying blame?

Progress toward an accountability framework

3.32 Over the past two years, the Department has evolved the way it operates and has identified many areas for improvement in the health and social services system. The Department's strategic plan and business plan include areas of priority and strategic directions. For example, the Department acknowledges that a lack of integration between some databases in the health system has made it difficult to monitor and evaluate programs and to analyze expenditures. Because the Department lacks some of this information, it is hard to determine what sort of program changes are needed.

Exhibit 3.8

Five Principles of Effective Accountability

Clear Roles and Responsibilities

The roles and responsibilities of the parties in the accountability relationship should be well understood and agreed upon.

Clear Performance Expectations

Parties need to clarify, understand and agree on the objectives being pursued, the accomplishments expected and the constraints to be respected. Each party ought to agree on what to contribute to the end result, including inputs and outputs to achieve the desired outcomes.

Balanced Expectations and Capacities

The performance expectations of each party need to be clearly linked to and in balance with their capacities (authorities, skills and resources).

Credible Reporting

Parties need to report credible and timely information to demonstrate the performance achieved and what has been learned.

Reasonable Review and Adjustment

Enlightened and informed review and feedback on the performance achieved should be carried out by the accountable parties, where achievements and difficulties are recognized and necessary corrections made.

Source: Office of the Auditor General of Canada

3.33 The Department is making progress. In 1999, the Board Operations staff began to review and organize information on accountability, and issued a draft version of "An Accountability Framework for the Health and Social Services System". This document focusses on giving the background and current context of accountability activities in the Department, and suggests ways of supplementing and improving current practices. It includes an action plan and timeframe for implementation.

3.34 The overall approach suggested in the Framework is that the Department can improve accountability by requiring boards to set out their intentions for the delivery of core services in regular business plans, by requiring them to find ways of measuring success, and by having boards report on results in a consistent manner. The Framework recommends an accreditation or audit process for health and social services, board governance reviews, financial reporting, production of board minutes and reports, and specific program reviews.

3.35 According to the Framework, the Department would be required to establish or identify service standards, review programs for adherence to standards, indicate the key information and planning requirements for boards, and review and provide feedback to boards on the information and plans provided. The Department would have to ensure that board business plans, financial and performance information, and annual reports feed smoothly into the Department's own plans, information and results reporting. Reporting for both the Department and the boards would be regular and public.

3.36 There are additional issues the Department will have to consider as well. For example, not all boards are established under the same legislative authority. While most have the *Hospital Insurance and Health and Social Services Administration Act* (HIHSSA Act) as their legislative base, one board was established under the *Societies Act,* one was created under the *Cities, Towns and Villages Act,* and another falls under the federal *Indian Act.* This results in a slightly different relationship between the Department and these three boards, especially regarding some of the mechanisms for holding boards accountable. This may be an issue to consider further in the Framework.

3.37 The Department's draft Framework is a start toward a more coherent and effective accountability regime, but it will take effort, resources and a great deal of co-operation between the Department and the boards to make the vision a reality. At present, the Framework presents a broad outline and approach, which will require more specific action in order to make real progress. For example, the implementation of a performance measurement system will require much work — from determining appropriate indicators and measures, identifying which parties will be involved in data collection, and reviewing and evaluating the quality and accuracy of performance information. All parties will have to work together in a co-operative and co-ordinated manner to ensure that accountability and the people of the NWT are properly served.

Role of non-government organizations

3.38 One area not covered by the Department's draft Accountability Framework is the role of non-government organizations (NGOs) in the delivery of health and social services. Some of these may be private for-profit agencies, but most are likely non-profit agencies operating in a specific community or region. They are part of the alternative service delivery arrangements for delivering health and social services.

3.39 As reported earlier, the Department used to fund a variety of community groups and agencies to deliver selected health and social services. Funding was supplied through contributions, and the contribution agreement established the responsibilities of both parties in the arrangement. There are still a handful of contributions for NGOs that deliver programs across the territory, such as the Canadian Mental Health Association. However, the Department estimates that there are upward of 50 contribution agreements between boards and other NGOs, with funding now flowing from the Department through the boards for these particular arrangements.

3.40 This situation warrants attention. According to a GNWT press release, the Yellowknife Health and Social Services Board disburses $6 million in funding to health-oriented NGOs, nearly half of the Board's total expenditures. Thus, funding of the operations of those parties involved in direct service delivery is yet further distanced from the scrutiny of legislators, who approve the use of public funds in the first place.

3.41 In addition, a recent internal review of some mental health services revealed problems in the administration of service agency contracts. The review found weaknesses in service monitoring, data collection/reporting and evaluation, among other areas. Reviewers noted problems in transferring the agreements and the responsibility for overseeing them from the Department to the board involved, leading to confusion about roles and responsibilities. The reviewers made several recommendations to address the weaknesses.

3.42 In light of the review's findings, the Department and the boards should monitor the practice of using NGOs in service delivery, to ensure that these and other concerns are being identified and addressed. The Department needs some assurance that the groups and agencies that boards are contracting to deliver programs and services are operating in such a way that the chain of accountability is maintained. As reported by the Auditor General in Chapter 23 of his 1999 Report to the House of Commons (*Involving Others in Governing: Accountability at Risk*), involving others in providing public services can put accountability at risk. We suggest that a framework such as the one broadly outlined in Exhibit 3.9, developed as part of the Office's audit work on the issue of accountability, may assist the Department and boards in establishing good governance practices and accountability regimes.

3.43 Without an examination of NGO involvement in the health and social services system, some accountability issues might go unaddressed. For example, what financial and performance information will boards require from NGOs? What information will boards be asked to provide to the Department about the organizations with whom they are contracting to provide services? Can these organizations fulfil the accountability requirements? How will all these partners and their efforts be co-ordinated to achieve the Government's objectives and to deliver the best possible results?

Exhibit 3.9

A Governing Framework for New Arrangements

To ensure credible reporting:

- Clear public objectives
- Concrete performance objectives
- Appropriate performance measurement and reporting regime

To establish effective accountability mechanisms:

- Clear roles and responsibilities
- Performance expectations that are balanced with capabilities
- Well-defined management structure
- Appropriate monitoring regime
- Partner dispute resolution mechanisms
- Specific evaluation provisions
- Procedures to deal with non-performance
- Appropriate audit regime

To ensure adequate transparency:

- Public access to information
- Communication of information on key policies and decisions

To protect the public interest:

- Citizen complaint and redress mechanisms
- Public consultation/feedback mechanisms
- Policies to promote pertinent public sector values

Source: Report of the Auditor General of Canada, Chapter 23 - *Involving Others in Governing: Accountability at Risk*, November 1999.

3.44 It is beyond the scope of this chapter to examine all the issues surrounding the use of NGOs to provide services. There are many issues to be considered. Across the country, information is evolving on provincial experience with alternative service delivery in health and social services. As well, a national panel has recently issued a report on improving governance and accountability in the voluntary sector, which may soon lead to changes in this area. Suffice it to say that the feasibility of using performance measurement to evaluate the effectiveness of health and social service interventions is a primary concern and a major challenge. Yet it is a challenge that must be met.

3.45 There is growing recognition now that social service agencies, like governments, are improving the way in which they account for their performance. Agencies and governments are moving toward a process that looks something like this:

- Their programs have intended objectives.
- They have a finite amount of resources to use in achieving their objectives.
- They develop strategies designed to facilitate reaching their goals.
- They carry out their plans, and deliver their programs and services.
- They collect information on their activities (inputs, outputs) and their clients (outcomes).
- They analyze, evaluate and report publicly on the results they have achieved, against the results they intended.
- Depending on their success, they make necessary adjustments and begin the process again.

Conclusion

3.46 Over the past few years, the health and social services system has changed in significant ways. Boards have been given primary responsibility for program delivery, while the Department has moved into the position of providing funding, policies, guidance and evaluation. In the same time period, the Department's operating expenditures are rising, and the prospect of increasing deficits is a worrisome trend for the boards. As the premier himself has suggested, what is spent on health and social services limits the amount that can be spent on other priority areas.

3.47 It is therefore critical that the Department develop an effective accountability framework at this time — a significant challenge. The Department must continue to improve the way it manages the health and social services system so as to ensure fairness and sustainability. A functioning accountability system will support this improvement. To make wise and timely decisions, the partners in the health and social services system must have access to the best information obtainable. Managers need such information to establish what they would like to achieve and how they plan to achieve it, and to be able to report results to the public.

3.48 With three distinct organizational levels involved in the health and social services system — the Department, boards, and NGOs — co-operation will be a key to success. Each partner needs to be clear about its roles and responsibilities. All parties must remain accountable to each other, to the Legislature, and to the public, who count on receiving affordable, high-quality health and social services.

3.49 The Department of Health and Social Services should:

- **ensure that the method for board funding allocations is fair, understandable and linked to performance and other meaningful indicators;**
- **consider jointly with boards and non-governmental organizations the roles and responsibilities of the latter in providing health and social services in the Northwest Territories, and reflect this joint consideration in the Department's Accountability Framework; and**
- **take steps to implement the Accountability Framework as soon as possible.**

Department's response:

With respect to board funding allocations, the Department is in agreement that we must ensure that the method for providing funding is fair and understandable. It should be noted that a great deal of work has already been completed in this area, and work is ongoing. A draft funding formula has been developed. A subsequent independent review of the draft formula supported the departmental approach whereby funding would be based on population considerations rather than traditional spending *patterns. Further refinements to the draft formula will be developed in consultation with the boards, and based on developments in self government and any other regionalization initiatives, which may have an impact on our service delivery model.*

We also agree in principle that funding should be linked to performance and other meaningful indicators, but believe this is an area where we must proceed with caution. One of our concerns with this area is the potential for imposing financial penalties on boards that perform poorly. This would require those boards to reduce the level of services to the public, which would in turn have a detrimental impact on constituents' health and well-being. We must ensure that we do not establish any disincentives towards creating a healthier population, and would suggest that there may be other measures that would be more appropriate to deal with performance issues.

The Department agrees that it is important to ensure the roles and responsibilities of all stakeholders is clearly understood and is reflected in our Accountability Framework. The Memorandum of Understanding agreements between the Department and the various boards do set out the roles and responsibilities of each party, which serve as a good framework to define accountabilities.

The Department is also developing a Roles and Responsibilities Framework Document, which defines how all the partners in the health and social services system, including the Legislative Assembly of the Northwest Territories, other Government of the Northwest Territories departments, the Department of Health and Social Services, the health and social services boards, non-governmental organizations and the federal government, work together.

The Department is in agreement that the Accountability Framework should be implemented as soon as possible. Since the Office of the Auditor General has conducted its review, the Department has finalized our Accountability Framework and begun implementation. Work that will continue on an ongoing basis includes:

- *the continued refining of the business planning process, so as to better coordinate board and departmental planning activities;*
- *the emergence of a system-wide Performance Measures Framework, which is being drafted by the Department for board review in mid-September 2000;*
- *the development of improved information collection systems, which will lead to data that is accurate, relevant and verifiable through systems, such as the Child and Family Information System and HealthSuite;*
- *the utilization of a 3-Year Cycle reporting framework, which includes a "Health Status" report in Year 1, a "Health Services" report in Year 2 and special reports on particular health issues or concerns in Year 3; and*
- *the standardization of the Annual Report format/process.*

Chapter 4

Other Audit Observations — NWT Development Corporation

Introduction

4.1 This chapter contains matters of significance that are not included elsewhere in this report and that we believe should be drawn to the attention of the Legislative Assembly in accordance with section 30(2) of the *Northwest Territories Act*. The matters reported should not be used as a basis for drawing conclusions about matters not examined.

4.2 The NWT Development Corporation underwent a complete turnover of senior management in April 1999. The investment decisions noted in this report were all made by previous management.

Inadequate Procedures Related to a Venture Investment

> The Northwest Territories Development Corporation (the Corporation) invested in a Northern company using money borrowed from the Aurora Fund. The company could not maintain its monthly repayments according to an agreed schedule, yet the Corporation must pay back the loan to the Aurora fund.

Background

4.3 In May 1998, the Corporation received a proposal from a Northern company operating in a seasonal business cycle. The company proposed the purchase of additional equipment to enable it to compete with national firms to obtain contracts in the resource development sector. In return for a $500,000 investment, the company offered to issue non-voting, redeemable, and cumulative interest-bearing preferred shares to the Corporation.

4.4 In June 1998, the Corporation asked the company for updated financial statements before continuing with a review of the company's request. The company supplied unaudited financial statements in July 1998, and the Corporation subsequently reviewed them.

4.5 Based on his financial statement review, the Corporation's business advisor indicated that the company was in a cash crunch, and had lost money over the previous two years. Without having seen the proposal, he recommended that the Corporation review the company's current business plan before making its decision, particularly to determine whether future contract prospects held enough promise to provide for sustained activity and growth.

4.6 In August of 1998, the company revised its request upward to $1.6 million for its equipment needs and debt refinancing. The Corporation's Board of Directors was presented with the revised investment proposal in a 22 September 1998 meeting, and approved the investment of $1.6 million. Based on a submission from the Corporation, the Financial Management Board (FMB) approved its request to invest $1.6 million in this company on 4 November 1998. The funds were disbursed in December 1998. The repayment plan agreed to by the company required a monthly redemption of preferred shares, plus dividends of 9 percent on the remaining shares.

4.7 The funds that the Corporation proposed to invest in the company were to come from outside the Government. The FMB authorized the Corporation to borrow up to $6 million from the Aurora Fund on 26 June 1998. On 14 September 1998, the Corporation was approved for a loan of $3,000,000 from the Aurora Fund, at seven percent interest, to be paid back over five years. However, the Corporation drew upon only $1.6 million to finance its investment. The Aurora Fund is a government-administered venture capital fund that provides loans to establish, purchase, expand or maintain NWT businesses and commercial ventures.

4.8 In its decision to approve borrowing from the Aurora Fund, the FMB also directed that:

- the money could be used only to make equity investments in new joint ventures or new subsidiaries, provided no ongoing operating subsidy was required;
- each proposed investment must be submitted to the FMB for prior approval; and
- investment returns and future uncommitted contributions must be used to repay borrowings to the Aurora Fund.

4.9 On 16 June 1999, the company wrote to the Corporation indicating its concern about its ability to maintain the repayments. In August 1999, the Corporation agreed to defer the September payment, after receiving only eight monthly payments. Following discussions with the company, the Corporation decided to allow the company to postpone future payments until after June 2000, the company's year-end. At that time, the Corporation intends to review the company's audited financial statements to determine its course of action. The value of shares left to be redeemed is close to $1.5 million.

4.10 Meanwhile, the Corporation must pay $27,000 each month into a sinking fund as required by the Aurora loan agreement, as well as pay interest on the loan at seven percent. If the redemption of shares had proceeded as planned, the Corporation would still have over $300,000 worth of shares in the company at the end of the five-year agreement period. The company would then have the option of paying this out, or continuing dividend payments at nine percent.

Issues

Evaluation of investment proposals

4.11 According to the *Northwest Territories Development Corporation Act* (the Act), the Corporation's investment activities are guided by some fundamental principles. For example, section 17(3), which deals with investment from the Venture Investment Fund, states,

> The Corporation may, for each job directly or indirectly created in a business enterprise, purchase shares or otherwise invest in a business enterprise (a) in an amount not exceeding the prescribed maximum; and (b) in an amount greater than the prescribed maximum with the approval of the Financial Management Board.

Investments from the Corporation's Capital Fund and Subsidy Fund carry with them the same basic requirements — investment up to or beyond the maximum (with approval) for each job created.

4.12 Similarly, the Corporation's investment guidelines call for an analysis of the costs and risks of any proposed investment. In the case of investments from the Venture Investment Fund, the Board of Directors is required to consider the cost of each job created, whether revenue and expenditure projections are reasonable and the overall level of risk inherent in making the investment.

4.13 The Corporation's investment guidelines clearly indicate that potential investments are to be carefully considered. The risks must be identified and weighed against potential benefits, the likelihood of success must be judged, and all assessments must be supported by appropriate analysis and documented before the Board of Directors makes a decision.

4.14 Our concern in the case of the company under discussion is that no documentation was provided to us on risk/benefit analysis or on the number of jobs created or their socioeconomic value. We also could not find analysis related to the reason for increasing the investment request from $500,000 to $1.6 million. All analyses should have been completed prior to the Board of Directors meeting that approved the request for funds, and should have been part of the submission to the FMB for final approval of this project.

4.15 What was provided to the Corporation's Board and subsequently to the FMB was a two-page analysis that contained information on the company's request for financing, limited information on the review methodology, results of the review and a recommendation. However, no documentation was included to support the analysis of potential opportunities in the related industry sector, or the company's likely future contract prospects. Also, the analysis suggested that the company's current monthly equipment payments were quite high. The analysis further suggested that the Corporation's investment would allow the company to purchase new equipment, and to consolidate existing equipment payments, for which the company would reduce its monthly payments by close to 40 percent.

4.16 The analysis is questionable, given that the company proposed to consolidate debt of less than $250,000 and its financial statements showed only modest monthly payments for equipment. Decision makers must have comprehensive, reliable analysis of investment proposals in order to understand how much is being invested for each job created, whether the figure is reasonable given the circumstances, and whether success is likely. Had the corporation done a more extensive analysis in this case, or had they challenged the existing analysis, the results might have been different.

4.17 As part of the investment proposal evaluation, the Corporation was aware that the company had received a loan from the NWT Business Credit Corporation (BCC). In 1997, BCC loaned the company almost $500,000, which was secured by a debenture on certain equipment and buildings. As part of the terms of the loan, the company had to:

- obtain the consent of BCC for capital expenditures in excess of $25,000;
- obtain the consent of BCC prior to selling, exchanging, encumbering, mortgaging, charging, pledging, transferring, assigning or disposing any of the items secured by the loan; and
- obtain the consent of BCC prior to redeeming any shares or paying dividends on any class of shares.

4.18 While the Corporation was aware of the loan, it did not advise BCC of the potential impact of its proposed investment on conditions of the BCC loan. The company was allowed to redeem shares and pay dividends to the Corporation without the prior consent of BCC, which was required under the loan terms. In addition, the company traded in some of the equipment secured by the loan, and purchased more than $1.4 million of new equipment without the prior consent of BCC. Had the analysis and evaluation of the company's investment proposal been more diligent, the Corporation would have been aware of the terms of the BCC loan, and would have communicated with BCC and the company regarding the necessary consents required to proceed with the Corporation's investment plan.

4.19 Sections 20(1) and (2) of the Act and the Corporation's investment guidelines also indicate the establishment of an investment committee, whose function is to:

- review proposals for investment by the Corporation; and
- make recommendations to the Board on investment proposals it has reviewed.

4.20 At the time of this company's proposal, the Corporation's Investment Committee did not appear to be functioning. The last meeting minutes on file for the Committee were dated September 1995, although other minutes note that new members were appointed to the Committee in November of 1996.

4.21 By not maintaining the Investment Committee as required by the Act, the Corporation is undermining the processes it has put in place for the analysis and review of investment proposals. In our opinion, this could lead to investment decisions based on inadequate analysis of proposals. As we have noted, the Corporation did not provide the analysis to support the number of jobs created before approving the investment in this company. If the limit established by the FMB was respected in this case, the investment should have created at least 16 jobs.

4.22 The Corporation's Board of Directors is responsible for making investment decisions. For each proposed investment, the decision should derive from a reasonable process of analysis and evaluation, and meeting minutes should document all discussions, concerns and justifications offered in support of approving a particular proposal. All board members, not just those sitting on the Investment Committee, have a responsibility to review, understand and, when necessary, challenge the analysis done in connection with an investment proposal. The Board should be concerned when the process of reviewing and approving investment proposals does not follow the Act and approved guidelines, and thereby results in a decision that proves costly to the Government.

Implications of funding source

4.23 Because of the high-risk ventures that the Corporation invests in, there is a chance that investments may not always be recoverable. By borrowing money from the Aurora Fund to finance investments in business ventures, the Corporation relieves some of the Government's burden to provide investment funding, but this type of financing adds to the risk assumed. When investment funds are obtained through loans from the Aurora Fund, the Corporation becomes committed to paying back the loan plus interest, regardless of whether the company it invested in pays anything back to the Corporation.

4.24 Thus, if the Corporation finances other investments through loans from the Aurora Fund, it may be jeopardizing its ability to carry out its normal business activities of investing in new ventures, or to subsidize the operating needs of subsidiaries without increased Government assistance. More investments like this would leave the Corporation with more loans to pay back, using funding that otherwise could be used to finance other ventures.

Security of investment

4.25 When it invested in the company, the Corporation obtained the following securities:

- Unanimous Shareholder's Agreement: It outlines certain restrictions and conduct of the shareholders.
- Debenture: It acknowledges the indebtedness of the company to the Corporation by pledging certain assets.
- Guarantee, Indemnity and Postponement of Claim: Through a debenture covering certain assets belonging to the company, it secures the Corporation's investment in preferred shares.

4.26 In October of 1999, the Corporation obtained legal advice on the security of its preferred shares in the company. This indicated that should the company become insolvent, the Corporation may have difficulty in recovering its investment because of the nature of its relationship with the company. Thus, by choosing to invest in preferred shares, the Corporation has put its investment at risk.

Conclusion

4.27 We are aware that the Corporation invests in some high-risk ventures as a normal course of doing business. However, in the case we reviewed, the Corporation did not follow the process required by the Act to deal with the risks of this venture. We wish to emphasize that the Corporation should maintain proper investment review and approval procedures to ensure that the risks associated with a given venture are identified and understood in order that they may be minimized. Investment decisions should be based on comprehensive, documented analysis.

4.28 Considering the financial situation of the Government and its ability to support economic development opportunities, investments made without benefit of effective evaluation procedures pose a risk of becoming a drain on the Corporation's and the Government's finances.

4.29 The Corporation should:

- **re-establish the Investment Committee called for under the *NWT Development Corporation Act*;**

Management Response

The Investment Committee was recreated by Board motion #99-05-17 on May 23, 1999. The Board subsequently approved the terms of reference for the Investment Committee by motion #00-03-21 on March 3, 2000.

- **ensure that the Investment Committee meets regularly to review investment proposals;**

Management Response

The Committee's terms of reference state that the Investment Committee must meet a minimum of at least three times per fiscal year. The Investment Committee met on July 6, 1999; August 9&10, 1999; November 25&27, 1999; February 3-5, 2000 and on June 3, 2000.

- **ensure that staff and members of the Board of Directors involved in analyzing, evaluating and recommending investment proposals follow the approved Investment guidelines;**

Management Response

The Corporation's investment and divestment guidelines were approved by Board motion #99-11-27-06 on November 27, 1999 and by the Financial Management Board on February 17, 2000. All staff and members of the Board of Directors are taking these guidelines into consideration when analyzing, evaluating, recommending and approving investment proposals.

- **obtain analysis and opinions on investment security prior to making a decision on an investment proposal;**

Management Response

The Corporation had put out a public request for proposals to select qualified business consultants who are able to provide independent professional advice on business proposals. A consultant would be matched to a particular proposal based on their competencies and that consultant will provide analysis and opinions on the proposal for the Investment Committee.

- **ensure that the Corporation is the most appropriate vehicle for providing financing, as part of the up-front analysis of investment proposals;**

Management Response

Business plans are evaluated against the decision guidelines detailed in the investment guidelines. Based on this evaluation, recommendations would be made as to whether or not the proposal should be approved for financing from the Corporation.

- **contact the Business Credit Corporation (BCC) when investment proposals reveal prior financing from BCC to obtain detail on loans made;**

Management Response

Communications with officials of the BCC have improved. Where confidentiality issues are not jeopardized, the Corporation will contact BCC to obtain detail on loans when appropriate.

- **and, prior to approving investment proposals from companies that have loans from BCC, assess the potential impact of the proposed investment to minimize the risk to both BCC and the Corporation.**

Management Response

The "cost and risk of the investment" is one of the decision guidelines that have to be considered before approving an investment. The business proposal will include details pertaining to the amount and sources of financing and an assessment of the level and nature of the risks associated therewith. As public moneys are involved, the risks to the BCC and the Corporation will be taken into consideration.

Reporting and Accountability

> The NWT Development Corporation does not collect data to support the number of jobs its investments create, which would allow it to determine if it is meeting or exceeding investment limits set by the Financial Management Board. It also does not comply with the NWT *Financial Administration Act* in meeting content requirements of corporate plans and submission of annual reports.

Background

4.30 When the Corporation was created in 1990, it came with high expectations. One of the expectations was to provide economic opportunity by investing in companies — often in communities where such opportunities are few – and to make those companies viable. The hope was that these profitable entities could then be sold to the private sector.

4.31 In its lifetime, the Corporation has spent over $55 million on investments and subsidies in a wide variety of enterprises from Pangnirtung to Nahanni Butte, and from Aklavik to the NWT southern border. It has invested in industries such as the fur trade, the harvest of meat and fish, crafts, stores and saw mills.

4.32 Except for one viable subsidiary that the Corporation is hoping to sell, none of the other subsidiaries has been financially successful, and they still need significant annual subsidies to keep operating.

4.33 Since 1996, the Corporation has not collected statistics on its operations that would allow it to report how many jobs it has created or maintained, even though this is a condition set out in its Act for justifying initial investment limits and subsequent operational subsidies. Section 16 of the *Northwest Territories Development Corporation Act* (the Act) allows the Corporation to make capital investments in subsidiaries, and to grant operating subsidies each year up to limits to be set out in regulations. The Corporation has never made any regulations.

4.34 However, in 1989 the FMB set investment and subsidy limits by way of a directive that allows the Corporation to invest up to $100,000 per job created, and to pay annual operating subsidies of up to $10,000 per job created. Similar levels were set for investments in ventures (that is, businesses in which the Corporation does not have a controlling interest), but the Corporation cannot pay annual operating subsidies to ventures.

Issues

4.35 Each year, the Corporation gets FMB approval to make either investments or provide subsidies, based on the number of jobs that it anticipates will be created. But unless the Corporation actually measures what it has done, in accordance with the FMB directive, it has no way of knowing whether it has paid too much money through investment or subsidies.

4.36 Ironically, this creates interesting issues for the Corporation:

1) Given that it does not measure jobs at all, are the payments of subsidies valid? Technically, should the Corporation repay the contribution it received from the Government? Similarly, should each subsidiary that received a subsidy have to repay it to the Corporation because it did not prove it created a certain number of jobs as required by the Act?

2) Even if the Corporation verifies the number of jobs created, is it responsible for repaying subsidies to the Government if the actual number of jobs created falls short of the estimates on which the initial payment was based?

In a practical sense, it seems unlikely that the Government would demand repayment of funded subsidies, but this is one question that needs to be clarified.

4.37 At the heart of this dilemma is the reality that nobody accountable seems to be adequately monitoring compliance with the Act. This then leads to further compliance issues. Accountability could be improved by strengthening the monitoring role of the central agency officials over the Corporation.

4.38 Another disturbing problem is the lack of any substantial accountability reporting, by the Corporation either to the Minister, the FMB or the Legislative Assembly, or indeed the lack of any consequences to the Corporation for such non-reporting.

4.39 The *Financial Administration Act (FAA)* sets out requirements that all territorial corporations must follow concerning corporate plans (section 91), annual budgets (sections 92 and 93) and annual reports (section 96). These sections of the *FAA* make it mandatory for territorial corporations to prepare and file these reports and plans.

4.40 The Corporation's new management notes that the FMB approves its spending annually; this is in the nature of an annual budget under sections 92 and 93. However, the Corporation's budget for 1998-99 was approved retroactively, in November of 1999. Although the Corporation has submitted corporate plans in previous years, our analysis determined that they did not meet the content requirements set out in the *FAA*.

4.41 Similarly, section 96 of the *FAA* makes it mandatory for every public agency to prepare and submit to the appropriate Minister an annual report with prescribed contents. In the past, the Corporation has not done this. The present management of the Corporation has submitted annual reports for the years 1996-97 and 1997-98, and has indicated its desire to issue all the necessary reports as required by the FAA.

4.42 The FAA requires the territorial corporations to file these documents with the appropriate Minister. It does not require them to file anything with central agencies, although arguably a central agency monitoring function could be a valuable aid to the ministers.

4.43 Currently, there are no consequences for failing to comply with the legislation. However, it might be appropriate for each corporation president's performance objectives to include a legislative compliance goal. Then, in a case of non-compliance, the appropriate Minister could be held to account before the Legislative Assembly.

Conclusion

4.44 While there has been turmoil in the Corporation in the last 12 months, with a wholesale change in management plus territorial division, the Corporation needs to be more diligent in preparing and filing non-discretionary plans and reports, and in collecting accurate data early on to ensure that it is complying with all legislation. Logically, there is also a need for a central agency compliance review to monitor all entities and assist them in meeting their statutory responsibilities, with effective consequences for non-compliance; otherwise the current legislation is weakened along with public accountability.

4.45 The fact that this situation was allowed to continue over a period of years raises questions about the seriousness of the Government's commitment to transparency and public accountability. Citizens may question where their tax dollars are going, and whether the dollars spent are achieving the positive outcomes that the Government intends.