

Standing Committee on
Government Operations



Report on the Review of the 2021-2022 Public Accounts

19th Northwest Territories Legislative Assembly

Chair: Mr. Rylund Johnson

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**STANDING COMMITTEE ON
GOVERNMENT OPERATIONS**

**REPORT ON THE REVIEW OF THE
2021-2022 PUBLIC ACCOUNTS**

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September 28, 2023

SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Government Operations is pleased to provide its *Report on the Review of the 2021-22 Public Accounts* and commends it to the House.



Mr. Rylund Johnson
Chair, Standing Committee on Government Operations

STANDING COMMITTEE ON GOVERNMENT OPERATIONS
REPORT ON THE REVIEW OF THE 2021-22 PUBLIC ACCOUNTS

EXECUTIVE SUMMARY

In December 2022, the Standing Committee on Government Operations (Committee) publicly reviewed the 2021-22 Public Accounts. The Public Accounts are the financial statements that show the financial results of the Government of the Northwest Territories (GNWT) for a given year.

To address key issues identified in the review and by the Office of the Auditor General, Committee developed four recommendations to:

- Enhance reporting on the health sustainability plan;
- Evaluate and improve health governance;
- Reduce lapses of grants and contributions; and
- Require more detailed reporting from crown corporations.

This report also reiterates ten previous recommendations that the government has not implemented and includes observations regarding rising net debt, unauthorized spending at departments, and the revised *Fiscal Responsibility Policy*.

BACKGROUND

Earliest Review of the Public Accounts in Many Years

The Public Accounts are financial statements that show the financial results of the Government of the Northwest Territories (GNWT) for a given year.

Each year, the Standing Committee on Government Operations (Committee) reviews the Public Accounts. These reviews assess the credibility of the government's financial position and provide accountability for the government's financial results. Put differently, these reviews matter because they ask whether public money was spent prudently and as intended by the Legislative Assembly.

In November 2022, the Minister of Finance released the *2021-22 Public Accounts*.¹ These were the fourth and final Public Accounts that Committee reviewed during the 19th Assembly.

Within weeks, on December 5, 2022, Committee held the public portion of its review.

Committee invited officials from the Office of the Auditor General (OAG) and the Office of the Comptroller General (CG) to identify and clarify key issues.

This public review was the earliest in at least twenty years.² This timing meant Committee could review the 2021-22 Public Accounts ahead of the 2023-24 Main Estimates, in January, making the review more relevant and supporting more transparent public finances. Committee appreciates the OAG's and the Comptroller General's collaboration to move up this review. Committee encourages the 20th Assembly to continue and improve upon this practice.

PREVIOUS RECOMMENDATIONS

Ten Previous Recommendations Remain Unactioned

In recent years, the Comptroller General has brought incremental improvements to the Public Accounts. The changes are most noticeable in the financial highlights section, which now provide more details on variances. These changes have both been self-initiated by the Comptroller General and in response to recommendations from Committee.

However, many other recommendations from Committee in the 19th Assembly to enhance fiscal reporting and transparency are still outstanding. Outstanding recommendations include:

1. Classify the Stanton Legacy Project as a public-private partnership (P3);³
2. Enhance reporting on contingent liabilities, including identifying individual claims above a certain threshold;⁴
3. Quantify and disclose each cost driver of the operating deficit at the Northwest Territories Health and Social Services Authority (NTHSSA);⁵
4. Enhance reporting on the Environmental Liabilities Dashboard;⁶
5. Enhance reporting on resource revenues;⁷
6. Add reporting on tangible capital assets with zero book value;⁸
7. Move up the deadline for the Public Accounts;⁹
8. Publish in-year fiscal reports each quarter;¹⁰
9. Digitize the Public Accounts;¹¹ and
10. Add program-level spending information to the Public Accounts.¹²

Officials from the OAG have said that many of these proposed changes have merit, though may take time to implement. Committee stands by these recommendations and encourages the 20th Assembly to continue advocating for these changes.

NEW RECOMMENDATIONS

1. Enhance Reporting on the Health Sustainability Plan

In the six years since the NTHSSA was created, its accumulated deficit has almost quadrupled to \$194 million.¹³ Committee has expressed alarm at the size and persistence of the operating deficit. Last year, Committee recommended more transparency in this area. We asked that the government quantify and disclose each cost driver of the NTHSSA's operating deficit.¹⁴ This kind of break down – for example, showing the total cost of unbudgeted overtime or of locum staff across the entire health authority – is not available in the NTHSSA's annual report, its financial statements, or in the Public Accounts.

In its February 2023 response, the government said it knows the significant deficit drivers and listed each one,¹⁵ but stopped short of divulging dollar figures to each driver. Committee is not clear whether the government truly knows the cost of each deficit driver at a system level. The government should be more forthcoming in this area.

The government's response also emphasized the role of the Health and Social Services Systems Sustainability Plan (Sustainability Plan) to manage cost growth and find efficiencies. However, reporting in the department's business plan, its annual report, and in the NTHSSA's annual report provide only limited information about the targets, progress, and achievements of the Sustainability Plan. Committee expects more transparency and accountability. The Legislative Assembly and the public need to be able to scrutinize whether Sustainability Plan is delivering improvements to contain costs and improve health services. A public briefing on the Plan in August 2023, which is included in Appendix A, was a good opportunity to promote accountability. This information should be more accessible to all residents and updated on a regular basis.¹⁶ Committee therefore recommends:

Recommendation 1: That the Government of the Northwest Territories enhance reporting on the *Northwest Territories Health and Social Services System Sustainability Plan*, including measures, targets, timelines, financial outcomes, and other outcomes related to quality and operational efficiency.

2. Evaluate and Improve Health Governance

Committee's concerns about the NTHSSA's performance extend beyond the accumulated deficit. For example, last year the OAG reported that "many areas of internal controls needed improvement" at the NTHSSA and issued a management letter to this effect.

The Northwest Territories Health and Social Services Leadership Council (Leadership Council) plays an important role in holding the health authority to account. The Leadership Council's role is "to oversee the management and affairs of NTHSSA and to take reasonable steps to ensure that NTHSSA achieves its legislated mandate."¹⁷ This responsibility goes as far as appointing and replacing the NTHSSA's CEO as needed.

The depth, breadth, and persistence of performance issues at the NTHSSA raise questions of whether the Leadership Council has the tools, information, and supports to ensure accountability. Committee is also under the impression that the key players in the NTHSSA's governance framework – the Minister, the Department, the NTHSSA, the Leadership Council, and the Regional Wellness Councils – are not clear on their roles and how they relate to one another. Regional Wellness Councils do not appear to be empowered to meaningfully participate within the governance structure. With these concerns in mind, Committee recommends:

Recommendation 2: That the Minister of Health and Social Services commission a review and evaluation of governance at the Northwest Territories Health and Social Services Authority (NTHSSA) since amalgamation. The review should focus on the Leadership Council's responsibility to oversee the NTHSSA's performance, including strategy development and risk management oversight, as well as the role of the Regional Wellness Councils. The review should be led by an independent body, such as the Internal Audit Bureau or an external audit group.

3. Reduce Lapses of Grants And Contributions

The Public Accounts allow the Legislative Assembly to scrutinize the government's budget implementation. This scrutiny helps hold the government accountable for delivering the programs, services, and investments it committed to in the budget.

There are two significant areas of "lapsed" spending – where the government appropriated money through the budget process but did not spend the full amount by the end of the year. The first area is in capital expenditures. In 2021-22, the government appropriated \$476 million to acquire tangible capital assets but only spent \$261 million.¹⁸ The remaining \$215 million, or 45% of the budgeted amount, was left unspent. Committee is waiting to see whether the government's new capital budgeting approach – which caps the departmental portion of capital spending at \$260 million – will make the capital budget more achievable.¹⁹

The second significant area for lapsed spending was in grants and contributions (Gs and Cs). Gs and Cs are allocations to other individuals, organizations, businesses, or levels of government. They allow the government to deliver various services and support initiatives without providing the services itself.

In 2021-22, the government left millions of dollars unspent for key Gs and Cs.²⁰ For example:

Three funds for Indigenous Governments to support addictions recovery, aftercare, and on the land healing left \$1.1 million unspent, over 40% of its \$2.8 million budget. The Low Carbon Economy Leadership Fund, which supports the 2030 NWT Climate Change Strategic Framework, left \$5.4 million unspent, or 60% of its budget.

Figure 1: Examples of lapsed grants and contributions

(\$ thousands)		2021-22	2021-22	\$	%
		Authority	Actuals	Difference	Difference
Addictions G&Cs with unspent amounts					
1	HSS Addictions Recovery Peer Support Fund	180	56	-124	-69%
2	HSS On the Land Healing Fund	1,825	1,091	-734	-40%
3	HSS Addictions Recovery and Aftercare Fund	750	471	-279	-37%
Other Health G&Cs with unspent amounts					
4	HSS Respite Fund	475	224	-251	-53%
5	HSS Family Violence Prevention	395	211	-184	-47%
6	HSS Disabilities Fund	335	224	-111	-33%
7	HSS French Language Services	970	676	-294	-30%
8	HSS Northern Wellness Initiatives	7,932	6,804	-1,128	-14%
MACA G&Cs with unspent amounts					
9	MACA Recreation Contributions	450	34	-416	-92%
10	MACA High Performance Athlete Grant	100	48	-52	-52%
Other key G&Cs with unspent amounts					
11	ENR Fur Price Program	605	0	-605	-100%
12	ENR Water Strategy Action Plan	250	0	-250	-100%
13	ECE Indigenous Languages Revitalization	200	0	-200	-100%
14	INF Low Carbon Economy Leadership Fund	8,881	3,517	-5,364	-60%

Source: Office of the Clerk analysis from Volume II of the Public Accounts

Several reasons can contribute to allocated funds going unspent: inefficient planning, project delays, lengthy procurement process, onerous administrative requirements, or changing priorities, among others. In any case, when the Legislative Assembly authorizes spending on Gs and Cs, it expects those funds to be spent and to deliver results for residents. When significant amounts are left unspent, it is unclear whether the government can deliver results in those funding areas.

More work is needed to ensure effective budget implementation of grants and contributions. Committee therefore recommends:

Recommendation 3: That the Government of the Northwest Territories identify challenges and take steps to improve the distribution of budgeted funds for grants and contributions.

4. Require More Detailed Reporting from Crown Corporations

The Public Accounts are an important tool to promote transparency of the public sector. However, not all government entities have the same reporting requirements in the Public Accounts. Departments' reporting requirements in Section II of the Public Accounts surpass in many ways those of most boards, agencies, and crown corporations. Certain entities, notably the Northwest Territories Power Corporation (NTPC), do not report at all in the Public Accounts on a non-consolidated basis. While NTPC does separately release audited financial statements, this disclosure misses various categories of information that must be disclosed by departments.

The federal Public Accounts Committee recently reviewed this issue and recommended that the federal government study enhanced spending disclosure from crown corporations in the Public Accounts.²¹ Committee believes this idea has merit and is relevant to the Northwest Territories. Committee therefore recommends:

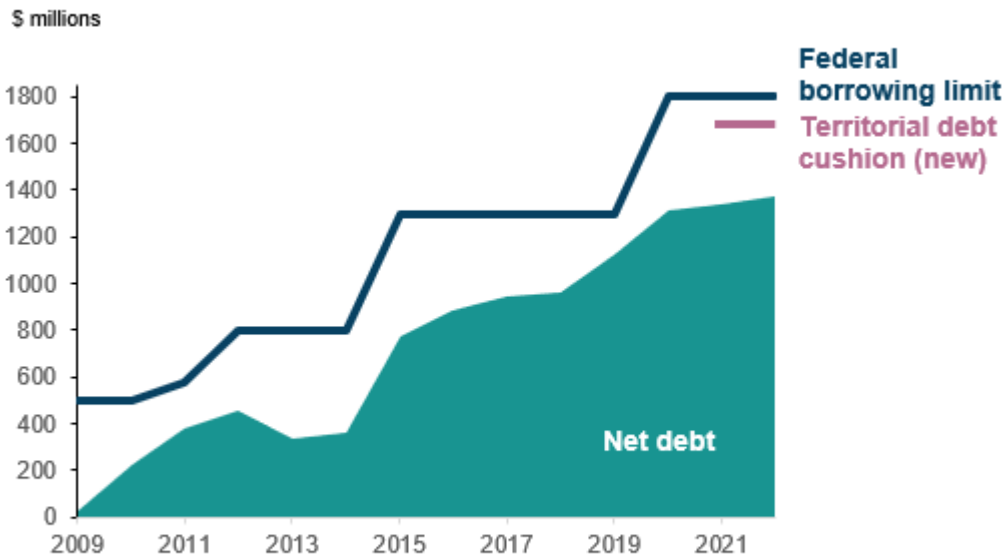
Recommendation 4: That the Government of the Northwest Territories consider requiring all Crown Corporations, boards, and agencies to divulge all expenditures in the same manner as territorial departments in Section II of the Public Accounts. The government should consult with stakeholders on how this change could be achieved, its advantages, and the potential administrative burden, and report back to Committee on the matter.

OTHER OBSERVATIONS

Rising Net Debt and Fiscal Rebalancing

In the year up to March 2022, the government's net debt grew by 2.5%, reaching \$1.37 billion. The net debt is approaching the federally-imposed borrowing limit of \$1.80 billion. It is even closer to the territorial debt cushion in the *Fiscal Responsibility Policy*, which basically limits net debt to \$1.68 billion.²²

The Auditor General observed that the government "will need to take action in the future to rebalance its finances". Committee is concerned by the fiscal constraints outlined in the Public Accounts, which do not include the fiscal impacts of the 2023 wildfire season. Committee is disappointed that one of the government's primary responses to the territory's fiscal challenges – the Government Renewal Initiative – has not delivered substantive results to improve budgeting in the 19th Assembly.²³

Figure 2: Net debt approaching borrowing limits

Source: Office of the Clerk analysis from Volume I of the Public Accounts

\$10 Million in Unauthorized Spending

Four departments collectively spent \$10 million in funds that the Legislative Assembly did not authorize. Those departments, and their unauthorized amounts, include:

- The Department of Municipal and Community Affairs (\$5.1 million);
- The Department of Environment and Natural Resources (\$3.1 million);
- The Department of Justice (\$1.2 million); and
- The Department of Finance (\$0.8 million).²⁴

Over-expenditures of this nature contravene the *Financial Administration Act* (FAA).²⁵ However, the FAA also allows the Comptroller General to “deem” these over-expenditures as a “supplementary appropriation”.²⁶

Committee asked officials from the OAG about the appropriateness of these overexpenditures and the practice of “deeming”. The OAG found the government’s explanation for these overexpenditures to be “reasonable” but noted that neither the Yukon nor Nunavut allow “deeming”.

Unactioned Input for the Revised *Fiscal Responsibility Policy*

Last year, the Minister of Finance invited Regular Members to provide input on revising the *Fiscal Responsibility Policy*. The *Fiscal Responsibility Policy* guides the government’s

debt management. The government was recommending seven changes to improve the policy.

In November 2022, the Standing Committee on Accountability and Oversight provided feedback on the seven recommendations, as well as 14 additional, detailed comments on how the government could further improve the *Fiscal Responsibility Policy*. These comments sought to align the Northwest Territories' fiscal approach with international best practices on fiscal rules and had implications for the Public Accounts.

In April 2023, the government released the revised *Fiscal Responsibility Policy*.²⁷ Committee was disappointed that the revised policy did not incorporate any of the additional comments. This input has been included as in Appendix B of this report. Committee hopes it will be considered by the Minister of Finance in the 20th Assembly.

CONCLUSION

This concludes the Standing Committee on Government Operations' *Report on the Review of the 2021-22 Public Accounts*. Typically, Committee includes a recommendation in each report requesting a response from government within 120 days. The recommendation is then moved as a motion in the House and Cabinet is required to respond.²⁸ However, since the 19th Legislative Assembly will dissolve in less than 120 days, Committee has decided to leave out this recommendation and requests that the government provide a public response to this report, even of a preliminary nature, before the beginning of the 20th Assembly.

ENDNOTES

¹ Available at:

https://www.fin.gov.nt.ca/sites/fin/files/resources/2021-2022_public_accounts_section_i.pdf.

https://www.fin.gov.nt.ca/sites/fin/files/resources/2021-2022_public_accounts_section_ii.pdf

https://www.fin.gov.nt.ca/sites/fin/files/resources/2021-2022_public_accounts_section_iii.pdf

https://www.fin.gov.nt.ca/sites/fin/files/resources/2021-2022_public_accounts_section_iv.pdf.

² The 15th and 16th Assemblies did not review the Public Accounts. The 17th Assembly generally reviewed the Public Accounts 10-12 months after the end of the fiscal year. The 18th and 19th Assemblies – except for this year – generally reviewed the Public Accounts 13-15 months after the end of the fiscal year.

³ See recommendation #1 from the *Report on the Review of the 2018-19 and 2019-20 Public Accounts*.

Available at: https://www.ntassembly.ca/sites/assembly/files/cr_23-192_report_on_the_review_of_the_2018-19_and_2019-20_public_accou.pdf#page=7.

⁴ The government has partially implemented this recommendation. For the first time in 2021-22, the Public Accounts disclosed seven categories of claims according to their “nature”. However, there is no dollar figure assigned to each category, as is the case in British Columbia. The Public Accounts also do not identify large individual claims, as is the case in Ontario and Committee has recommended. For more information, see recommendation #2 from the *Report on the Review of the 2018-19 and 2019-20 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/cr_23-192_report_on_the_review_of_the_2018-19_and_2019-20_public_accou.pdf#page=9.

⁵ See recommendation #1 from the *Report on the Review of the 2020-21 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/publicaccounts_report2020-21_v3.pdf#page=6.

⁶ See recommendation #3 from the *Report on the Review of the 2020-21 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/publicaccounts_report2020-21_v3.pdf#page=8.

⁷ See recommendation #4 from the *Report on the Review of the 2020-21 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/publicaccounts_report2020-21_v3.pdf#page=8.

⁸ See recommendation #5 from the *Report on the Review of the 2020-21 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/publicaccounts_report2020-21_v3.pdf#page=9.

⁹ See recommendation #6 from the *Report on the Review of the 2020-21 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/publicaccounts_report2020-21_v3.pdf#page=11.

¹⁰ See recommendation #7 from the *Report on the Review of the 2020-21 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/publicaccounts_report2020-21_v3.pdf#page=12.

¹¹ See recommendation #8 from the *Report on the Review of the 2020-21 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/publicaccounts_report2020-21_v3.pdf#page=13.

¹² See recommendation #8 from the *Report on the Review of the 2020-21 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/publicaccounts_report2020-21_v3.pdf#page=13.

¹³ As reported in the NTHSSA’s 2021-22 Annual Report. Available at: https://www.nthssa.ca/sites/nthssa/files/resources/nthssa2021-2022-annual_report.pdf#page=38.

¹⁴ See recommendation #1 from the *Report on the Review of the 2020-21 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/publicaccounts_report2020-21_v3.pdf#page=6.

¹⁵ See the *Government of the Northwest Territories Response to Committee Report 36-192(2): Report on the Review of the 2020-2021 Public Accounts*. Available at:

https://www.ntassembly.ca/sites/assembly/files/td_861-192_fin_gnwt_response_to_cr_36-192_report_on_review_of_2021-2022_public_accounts.pdf.

¹⁶ Available at: <https://www.youtube.com/watch?v=T5Kc0ftTqsA>.

¹⁷ More information on the Leadership Council’s role and responsibilities is available in its terms of reference. Available at: https://www.nthssa.ca/sites/nthssa/files/resources/governance_manual_-_august_2019_-_final.pdf#page=11.

¹⁸ See Section I of the Public Accounts. Available at: https://www.fin.gov.nt.ca/sites/fin/files/resources/2021-2022_public_accounts_section_i.pdf#page=16.

¹⁹ More information available in the Minister of Finance’s Minister Statement on the 2023-24 Capital

Estimates. Available at: <https://www.gov.nt.ca/en/newsroom/caroline-wawzonek-2023-2024-capital-estimates>.

²⁰ See Section II of the Public Accounts. Available at: https://www.fin.gov.nt.ca/sites/fin/files/resources/2021-2022_public_accounts_-_section_ii.pdf#page=61.

²¹ Available at: <https://www.ourcommons.ca/DocumentViewer/en/44-1/PACP/report-20/page-78#20>.

²² See provision 5(c) in the *Fiscal Responsibility Policy*. Available at: https://www.eia.gov.nt.ca/sites/eia/files/content/fiscal_responsibility_policy-final.pdf.

²³ More information on the Government Renewal Initiative is available in the Minister of Finance's Minister Statement from October 30, 2020. Available at: <https://www.gov.nt.ca/en/newsroom/caroline-wawzonek-government-renewal>.

In her 2023 budget address, the Minister of Finance acknowledged that substantive results from the Government Renewal Initiative were not ready to help with the final budget of the 19th Assembly. Available at: <https://www.fin.gov.nt.ca/en/services/budget-2023/budget-address-2023>.

²⁴ For more information, see note #23 in Section I of the Public Accounts. Available at: https://www.fin.gov.nt.ca/sites/fin/files/resources/2021-2022_public_accounts_-_section_i.pdf#page=55.

²⁵ Specifically, section 71 of the *Financial Administration Act* says "no person shall incur an expenditure that causes the amount of the appropriation set out in the Estimates for a department to be exceeded." Available at: <https://www.justice.gov.nt.ca/en/files/legislation/financial-administration/financial-administration.a.pdf#page=50>.

²⁶ Specifically, deeming is allowed by section 77 of the *Financial Administration Act*. Available at: <https://www.justice.gov.nt.ca/en/files/legislation/financial-administration/financial-administration.a.pdf#page=52>.

²⁷ The revised (April 2023) *Fiscal Responsibility Policy* is available at: https://www.eia.gov.nt.ca/sites/eia/files/content/fiscal_responsibility_policy-final.pdf.

The previous (June 2016) version of the policy is available at: <https://www.fin.gov.nt.ca/en/resources/fiscal-responsibility-policy>.

²⁸ As required by Rule 9.4(5) of the *Rules of the Northwest Territories Legislative Assembly*. Available at: https://www.ntassembly.ca/sites/assembly/files/td_527-192.pdf#page=40.

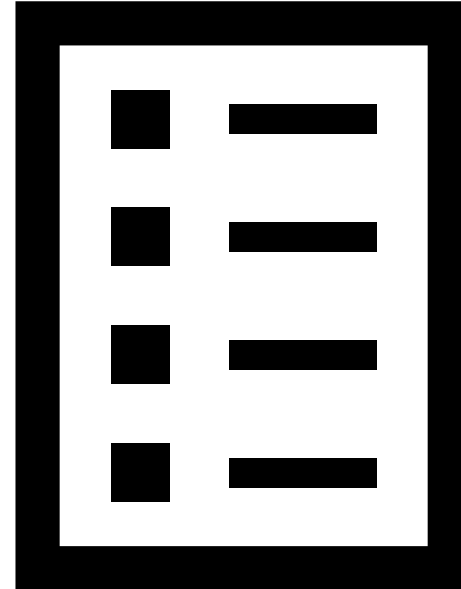


HSS System Sustainability Briefing

Background & Progress

Agenda

- HSS System Sustainability Plan
 - Background & principles
 - Tiers
- Work Completed to Date
 - Internal controls and cost containment initiatives (Tier 1)
 - Operational review and quality improvement activities (Tier 2)
 - Funding and service level reforms (Tier 3)
- NTHSSA Financial Position
- Path Forward



HSS System Sustainability Plan

Background & principles

- December 2020 – HSS System Sustainability Plan (“the Plan”) was approved to address the NTHSSA’s deficit
- Late 2021– NTHSSA established the HSS System Sustainability Office (SSO)
- Early 2022 – An Executive Director was hired to directly lead the Sustainability Plan activities
- November 2022 – Finance Operations-related sustainability initiatives were moved to the office of the Chief Financial Officer (CFO) as a step in embedding sustainability into the organizational structure
- Funding for the SSO was obtained through the Territorial Health Investment Fund (THIF), received from the Federal Government
- A Steering Committee comprised of Leadership from the Departments of HSS, Finance, and the NTHSSA provides high level oversight of the System Sustainability Plan

The Plan’s four principles to guide sustainability strategies:



Accountability for results



Value for money



Fair and timely access



Appropriateness

HSS System Sustainability Plan

Tiers

The Sustainability Plan was designed to guide actions and establish options for savings, reflecting operational efficiencies, quality improvements, and service scope adjustments. Planned activities are categorized in three tiers, and each is further broken down into Areas, Key Actions and Activities

1

Internal controls and cost containment initiatives designed to decrease future costs. Examples include:

- Controllable OT usage
- Billings practices and receivables
- Procurement processes and service contracts
- Inventory controls

2

Operational review and quality improvement activities designed to maximize value by finding efficiencies. Includes reviewing:

- Data to facilitate benchmarking exercises
- The NTHSSA's management structure and non-clinical support services to ensure appropriate sizing, funding and organization

3

Funding and service level reforms to align current and projected demand for services with the appropriate org structure. Areas of focus include:

- Unfunded programs and services
- Referral pathways
- Strategic HR planning

Work Completed to Date

Internal controls and cost containment initiatives (Tier 1)

Controllable Overtime (OT) Usage

- Regularly distributing new payroll reports to management to monitor OT at a program and organizational level
- Further analysis and forecasting of OT is being prepared to support program analysis

Billing Practices & Receivables

- NTHSSA is executing a plan to shorten the time it takes to bill for its services – bad debts reduced by ~50%
- The Accounts Receivable and Collections team were reorganized to better address the high volume of billings

Procurement Process and Service Contracts

- A suite of twelve documented processes were created – streamlining contracting and procurement activities
- Review of agreements with various governments is ongoing to recover costs. E.g. agreement with Government of Nunavut recently signed to recover administrative costs of providing them services

Asset Management

- Standard Operating Procedure created – ensuring vehicles are safely used, tracked, and replaced as needed
- NTHSSA is monitoring its office and accommodation leases to ensure no space or associated spend is wasted

Work Completed to Date

Internal controls and cost containment initiatives (Tier 1) *cont.*

Budgeting, Planning & Forecasting

- NTHSSA has improved its budgeting process through several reviews with NTHSSA leadership to improve accuracy and timeliness
- Variance process has been improved resulting in more timely financial data and improved ability to identify deficit pressures
- NTHSSA's chart of accounts (financial accounts) has been revised and implemented for the 2023-2024 fiscal year for more accurate allocation of costs to budgets

Finance Operational Improvements

- VISA control policies were created and implemented to better manage credit card purchases
- Long-term care costing and billing processes were improved to ensure timely billing and collections
- Finance function has been reorganized to better support program needs

Position Management

- NTHSSA has begun a Consolidated Hiring Pilot Project for Nurses to streamline hiring processes and improve retention
- A dedicated hiring manager has been established under this pilot and hiring of nurses is ongoing
- A database has been setup to track the results

Work Completed to Date

Operational review and quality improvement activities (Tier 2)

Data and Benchmarking

- NTHSSA is working to improve the range and quality of data it provides under its commitments to the Canadian Institute for Health Information (CIHI)
- NTHSSA's recent financial data submission to CIHI was completed

Operational Review

- NTHSSA engaged MNP to conduct an Operational Review with a focus on improving the efficiency of the HSS System's management structures and non-clinical support services
- A second contract for Business Process Reviews is also underway, to obtain detailed process documentation and process-specific recommendations
- Both contracts are expected to be completed by late Summer 2023

Quality Improvement

- A Quality Improvement Framework Pilot following a process called EPIQ (Evidenced-based Practice for Improving Quality) is underway to give employees the skills to identify and undertake initiatives that will improve program effectiveness and efficiency.
- To date, 53 staff have been trained on the framework and scoping on pilot initiatives has been conducted

Work Completed to Date

Funding and service level reforms (Tier 3)

Referral Coordination Project

- To better coordinate the medical referrals of patients, processes have been mapped and initial scoping work has been completed to identify key focus areas
- Five key focus areas have been identified for further in-depth scoping in order to implement solutions in fiscal 2024-2025

Delivery of Uninsured Services

- Consideration of generating revenues by charging for uninsured services and increased recovery of long-term care resident room and board costs

Work Completed to Date

Funding and service level reforms (Tier 3) *cont.*

Non-Insured Health Benefits (NIHB)

- The most recent administrative agreement with Indigenous Services Canada (ISC) expired March 31, 2023. ISC has been notified that the GNWT will not continue to deliver the NIHB program under the terms of the previous agreement, which did not allow for full recovery of costs. The Department is in the process of negotiating a new agreement with ISC that addresses the funding gap and more accurately captures administrative costs

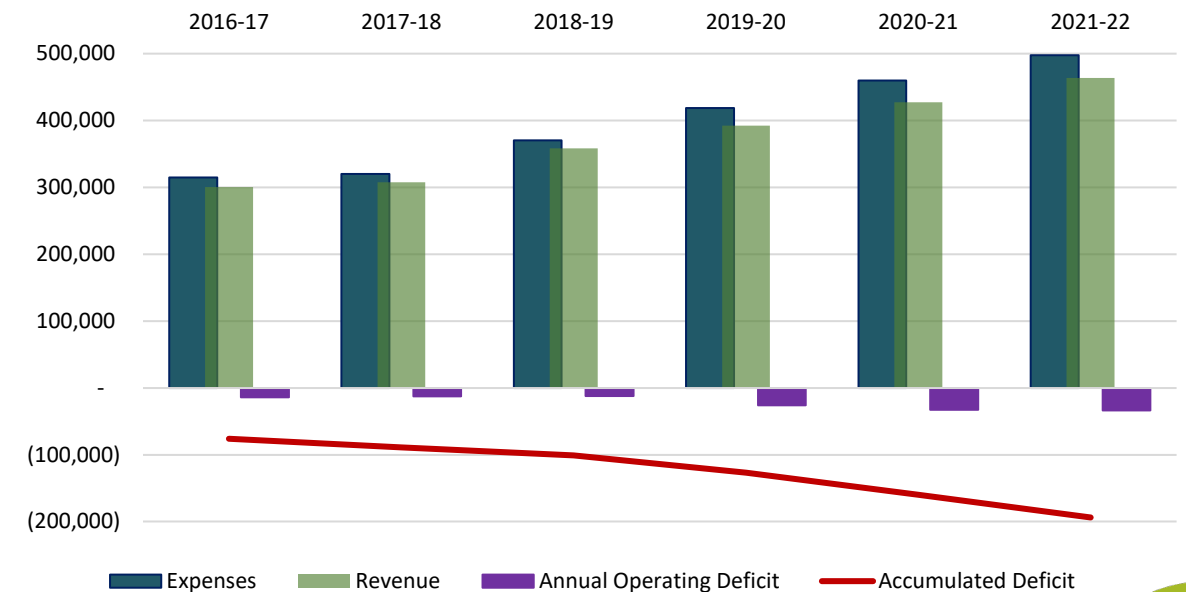
Product Listing Agreements (PLAs)

- DHSS continues to be successful in negotiating PLAs through the Pan-Canadian Pharmaceutical Alliance (pCPA). A PLA is a negotiated agreement between a drug plan and a drug manufacturer to cover specific drugs at a reduced price, usually through a rebate. Final reimbursements for 2020-2021 totaled approximately \$1.7 million and invoicing for 2021-2022 was over \$2.0 million

NTHSSA Financial Position

- Upon amalgamation in 2016, a **\$50.8M** deficit was transferred to the NTHSSA. Each year since, the NTHSSA has incurred annual deficits in carrying out its activities, resulting in an increasing accumulated deficit.
- NTHSSA incurred a deficit of **\$33.8M in 2021-22** bringing its accumulated deficit to **\$194M**. While the audit of 2022-23's financial statements remains ongoing, **this deficit trend is expected to continue** without additional funding or reduced costs.
- Improvements to the NTHSSA's finance function have enabled it to better identify and obtain funding for arising deficit drivers, resulting in over **\$20M** in one time funding for the 2022-23 fiscal year. Work is underway to secure ongoing funding.
- Examples of unfunded and underfunded areas include medical travel, physician services, various recruitment and retention initiatives, relocation costs, emergency response, and overall cost increases noted in compensation, travel, and supplies.

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue	300,698	307,491	358,321	392,411	427,130	463,893
Expenses	314,874	320,159	370,392	418,540	460,061	497,655
Annual Operating Deficit	(14,176)	(12,668)	(12,071)	(26,129)	(32,931)	(33,762)
Accumulated Deficit	(76,123)	(88,791)	(100,862)	(126,991)	(159,922)	(193,684)



Path Forward

NTHSSA's deficit reduction plan

- The Sustainability Plan was designed to address the deficit by establishing options for savings and efficiencies, however at this time NTHSSA's deficit continues to grow.
- In addition to the Sustainability Plan, a Deficit Reduction Plan was prepared by the NTHSSA's Leadership Council Chairperson in response to their mandate letter from the Minister of Health and Social Services. This document has identified actions intended to address NTHSSA's deficit.
- The Sustainability Plan will align with the NTHSSA's Deficit Reduction Plan, to directly address the growing deficit.
- All work will continue to be aligned with the Sustainability Plan's four guiding principles:
 - *accountability for results,*
 - *value for money,*
 - *fair and timely access, and,*
 - *appropriateness*

November 18, 2022

HON. CAROLINE WAWZONEK
MINISTER OF FINANCE

Fiscal Responsibility Policy Review Report

Introduction

On October 6, 2022, you provided the Standing Committee on Government Operations with the *Fiscal Responsibility Policy Review*. The Standing Committee on Government Operations subsequently referred the correspondence to the Standing Committee on Accountability and Oversight for review. Under the Committee Terms of Reference in Appendix C of the Rules, the Standing Committee on Accountability and Oversight (Committee) reviews issues which have government-wide implications, including all issues related to devolution implementation, and the overview of the budget and fiscal framework.

Committee welcomes the Department's work to review and improve the *Fiscal Responsibility Policy* (FRP). We are pleased to see the Department follow-up on recommendations from the Office of the Auditor General, in its management letter(s), and from the Standing Committee on Government Operations¹ to review the FRP and ensure its rules meet the objective of long-term fiscal sustainability.

Committee appreciates your invitation to provide initial comments on the seven (7) recommendations in the report.

Committee's response to the recommendations

Committee generally supports Recommendations #1, #2, #4, #5, #6, and #7. We found these recommendations are good steps to improve the *FRP*. However, we also found that these recommendations fail to address certain issues and could go farther in several areas. Committee has offered detailed comments to further improve the *FRP*, for your consideration, in **Appendix A**.

¹ See Recommendation #3 of the *Report on the Review of the 2018-19 and 2019-20 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/cr_23-192_report_on_the_review_of_the_2018-19_and_2019-20_public_accou.pdf#page=9.

Committee strongly disagrees with Recommendation #3, which would require Members to approve a fiscal strategy at the beginning of the Assembly. Committee has several concerns:

- Members don't have enough capacity and familiarity with fiscal matters at the start of the Assembly to make these decisions well.
- Members don't have access to independent fiscal advice prior to approving a fiscal strategy. Advice from the Department is not independent.
- The recommendation is underdeveloped, leaving out important considerations such as when and how a Fiscal Strategy is reviewed.

Fundamentally, Committee believes Cabinet must be responsible for any fiscal strategy. Regular Members must be able to scrutinize and criticize it during the life of the Assembly.

Additional comments

1. **Research and consultation.** Committee requests more information on what research informed the Review Report's recommendations and who was consulted. It would be helpful know whether the Report was prepared internally and whether any sort of a peer review was carried out.
2. **Tłıchq̓ region.** Committee reiterates a long-standing request to distinguish the Tłıchq̓ region as a separate region within the fiscal processes and documents. This change matters because the Tłıchq̓ region's distinct fiscal needs and characteristics are hard to perceive when lumped together with the much larger Capital region. Committee believes this change will support better fiscal decisions, and accountability for those decisions, for the Tłıchq̓ region.
3. **FAA Review.** Committee asks when the *Financial Administration Act* (FAA) is scheduled for review. Committee also wants to know how the proposed changes to the *FRP* impact the FAA. Committee believes reviewing the FAA is a logical extension of the ongoing *FRP* review.
4. **Public Consultation.** Given the importance and significance of fiscal sustainability, Committee strongly encourages the Minister to carry out public engagement as part of the process to develop a better and improved *Fiscal Responsibility Policy*.
5. **Infrastructure Replacement Costs.** It is not clear how the *FRP* will consider infrastructure replacement costs as part of the overall picture of fiscal sustainability.

Conclusion

Committee appreciates this opportunity to provide initial comments on the *FRP* review. We request the opportunity to review more formal proposals to change the *FRP* when those are forthcoming. We expect this part of the process to include a public element, so Committee can pursue a public review and retain our own technical expertise to assist with that.

We look forward to further engagement on this important topic.



Kevin O'Reilly,

Chair

Standing Committee on Accountability and Oversight

- c. Members of the Legislative Assembly
Members of the Standing Committee on Accountability and Oversight
Principal Secretary
Secretary to Cabinet / Deputy Minister, Executive and Indigenous Affairs
Secretary to the Financial Management Board / Deputy Minister, Finance
Deputy Clerk, House Procedures and Committees
Director, Research and Committee Advisory Services
Clerk, Standing Committee on Government Operations
Advisor, Standing Committee on Government Operations

APPENDIX A – MORE DETAILED COMMENTS

Comparing the FRP to principles of well-designed fiscal rules

To provide meaningful input, we assessed the FRP’s existing and proposed provisions against international best practices on fiscal rules. We relied on the best practices identified by the International Monetary Fund (IMF). The paper, entitled *Second-Generational Fiscal Rules: Balancing Simplicity, Flexibility, and Enforceability*,² studied fiscal rules in almost 100 countries to identify the principles and traits that make fiscal rules successful. The IMF found that fiscal rules can be effective to constrain excessive deficits, improve fiscal performance, and preserve fiscal space – but only when those rules are well-designed.

The IMF found that effective fiscal rules have three main principles. In the table below, we provide a summary of those principles, as well as Committee’s comments as those principles relate to the *FRP*.

Principle	Summary	Comment
Simplicity	<p>Fiscal frameworks should include a debt anchor establishing a medium-term objective.</p> <p>This is combined with a small number of operational rules, which guide annual fiscal policy.</p>	<p>Comment #1: Fiscal anchor</p> <p>Consider recognizing the federally-imposed debt limit as the GNWT’s primary fiscal anchor in the <i>FRP</i>. Committee believes this is the GNWT’s ultimate backstop and should be recognized as such.</p> <p>Comment #2: Expenditure rule</p> <p>Consider simplifying and revising the Infrastructure Financing rule, or adding a new operational rule, that targets <u>all expenditures</u>.</p> <p>The current Infrastructure Financing rule is not straightforward and treats certain expenditures differently than others. To date, the Infrastructure Financing rule has not prevented GNWT debt levels from approaching the federal limit. Committee wants to see a broad-based operational rule based on all expenditures.</p> <p>Comment #3: Hierarchize rules</p> <p>Consider distinguishing between and giving priority in the <i>FRP</i> to fiscal rules that are measurable benchmarks of compliance (i.e., the Infrastructure Financing rule, the Affordable Debt rule, and the proposed Debt Cushion rule) and those that are not (the rest). This change would more clearly identify the smaller number of rules that matter for compliance reporting.</p>

² International Monetary Fund (2018). *Second-Generational Fiscal Rules: Balancing Simplicity, Flexibility, and Enforceability*. Available at: <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2018/04/12/Second-Generational-Fiscal-Rules-Balancing-Simplicity-Flexibility-and-Enforceability-45131>.

Principle	Summary	Comment
Flexibility	Use “escape clauses” to precisely define when fiscal rules can be broken – generally for big events that are outside the government’s control, like a natural disaster.	<p>Comment #4: Escape clauses</p> <p>Consider adding escape clauses to each fiscal rule to allow discretionary fiscal support when needed. While the current and proposed rules provide guidance on the path back toward numerical limits, they do not describe the specific circumstances when government can and should break the fiscal rules.</p>
Enforceability	Raise reputational costs for noncompliers and create more tangible benefits for compliers.	<p>Comment #5: More reporting</p> <p>Consider reporting on projected and actual compliance with fiscal rules in more fiscal documents. Recommendations #4-7, which increase reporting requirements, are a good step in this direction. Committee wants to see reporting on projected and actual compliance in more places, such as within in-year fiscal updates, supplementary estimates, capital estimates, and special warrants that should be released publicly as soon as possible (not wait for the next sitting).</p> <p>Comment #6: Penalties</p> <p>Consider introducing penalties and/or measures for more Ministerial accountability in instances of non-compliance with the <i>FRP</i>. 4 of the 7 provinces studied in Appendix B of the Review Report either cut Ministerial pay or require a public plan to address non-compliance. Similar requirements here would raise reputational costs for non-compliance.</p> <p>Comment #7: Legislation</p> <p>Consider legislating the <i>FRP</i>. 6 of the 7 provinces studied in Appendix B of the Review Report either use or are exploring the use of legislation to codify fiscal rules. Similar legislation here would provide stronger accountability.</p>

Comparing the FRP to other traits of successful fiscal rules

The IMF also found several recurring traits in case studies of countries with effective fiscal rules. In the table below, we summarize those traits and comment on better aligning the *FRP* and the Department's fiscal approach more generally with those traits.

Trait	Summary	Comment
Broad coverage	Fiscal aggregates have few loopholes that could undermine credibility of the rule.	<p>Comment #8: Counting P3s</p> <p>Consider recognizing P3s as capital expenditures within the Infrastructure Financing rule. P3s are multi-year contracts, generally associated with capital assets, with financial obligations. Ensure that all arms-length entities including NTHSSA, NTPC and others are included and disclosed proactively in all <i>FRP</i> analysis and reporting.</p>
Counter-cyclical	A fiscal rule encourages saving during upturns and allows more spending during downturns.	<p>Comment #9: Counter-cyclical</p> <p>Consider reviewing whether existing and proposed fiscal rules allow and encourage counter-cyclical fiscal policy and, if not, consider changes. Fiscal rules should accommodate counter-cyclical spending, such as support to residents and airlines during the COVID-19 Pandemic.</p> <p>Of concern: The Affordable Debt rule, which requires principal debt repayments if debt servicing costs exceed 5% of revenue, may not be counter-cyclical. A breach of the rule could be due to an economic downturn. But to return to compliance, the rule could compel the GNWT to redirect program spending to repay debt – fiscal tightening during a downturn.</p>
Calibration	Fiscal ceilings are set in a prudent way, preserving buffers to accommodate shocks.	<p>Comment #10: Cushion adequacy</p> <p>Please provide more information and analysis on the calculations that determined \$120M provided enough cushion for “<i>all but the most extreme cases of unexpected spending.</i>” Committee is skeptical of this result; the cost of this year's flood (\$174M) is more than the proposed cushion and this year's supplementary reserve put together.</p>
Supporting institutions	Independent fiscal institutions provide analysis and advice on compliance with fiscal rules. They can also magnify the reputational cost of breaking a fiscal rule.	<p>Comment #11: Independent analysis</p> <p>Consider how to increase the presence of independent fiscal analysis and advice in the NWT. The NWT lacks an independent fiscal institution, like the Parliamentary Budget Office for Canada or the Financial Accountability Office for Ontario.</p> <p>Members intend to learn more about one such option: A change in federal legislation so the PBO's mandate includes the territories, like how federal legislation provides the Auditor General of Canada a mandate in the territory.</p>

Trait	Summary	Comment
Good public financial management systems	Effective budget planning, execution, accounting, and reporting practices improve compliance.	<p>Comment #12: More detail on P3s</p> <p>Consider providing more guidance on P3s in the <i>FRP</i>, through a new fiscal rule (e.g., a cap on P3 financing) and/or (a) new performance measure(s) in the <i>FRP</i> that ensures analysis and disclosure of P3 financing impacts on operations spending. Committee is concerned that P3 repayments may impair the ability of future Assemblies to spend on programs and services due to growing P3 payments. Committee wants to see more transparency and fiscal guidance on the use of P3s as a tool to finance capital projects.</p> <p>Comment #13: Improve budget reporting</p> <p>Consider improvements to budget reporting to compliment changes to the <i>FRP</i>. Committee wants to see improvements including:</p> <ul style="list-style-type: none"> - In-year fiscal reports on budget implementation, released on a quarterly basis, within a month. The Standing Committee on Government Operations also made this recommendation recently.³ - A public, pre-election fiscal update. - Detailed medium-term budget projections by department, key activity, and program. - More and better reporting on non-budgeted expenditures. For example, in 2021-22 NTHSSA's expenditures exceeded its budget by millions of dollars, but its financial reporting did not disclose how much key cost drivers (e.g., overtime, locums) contributed to the over-expenditure. Members want to see more detailed information to understand why expenditures sometimes exceed the budget, especially at arms-length government entities.
Political buy-in	Public and political support is the most effective aid to rules-based fiscal policy.	<p>Comment #14: Political buy-in</p> <p>Consider ways to build public and political support for the changes to the <i>FRP</i>, outside of Members' approval of a fiscal strategy at the start of each Assembly.</p>

³ See Recommendation #7 in *Report on the Review of the 2020-2021 Public Accounts*. Available at: https://www.ntassembly.ca/sites/assembly/files/publicaccounts_report2020-21_v3.pdf.