

TERRITORIAL FINANCING FORMULA (TFF):

**SUMMARY REPORT:
THE EXPERT PANEL ROUNDTABLE
HELD AT YELLOWKNIFE,
ON AUGUST 25, 2005**

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Territorial Formula Financing (TFF) Roundtable

Introduction

The Roundtable on TFF was held on August 25 at the Explorer Hotel in Yellowknife, Northwest Territories. The Honourable Peter Lougheed served as the chair for the roundtable. All five members of the Expert Panel were in attendance. There were approximately 30 participants from the three territories - Yukon, Northwest Territories and Nunavut. Those participants included representatives of First Nations, Aboriginal organizations, government officials, academics and private-sector representatives. In addition, there were some observers from outside the territories.

Following the opening prayer by Michel Paper, an elder of the Yellowknife Dene First Nation, Panel member Dr. Mike Percy explained the format for the day's roundtable. Thereafter, Mr. Al O'Brien, the Panel Chair, briefly reviewed the mandate of the Panel and highlighted the key issues associated with the TFF on which the Panel was seeking advice through today's roundtable. To supplement Mr. O'Brien's summary, a one-page synopsis of the panel's mandate and the key issues associated with the TFF had been circulated to participants. The key issues were identified as:

- Canada's northern economic development prospects and how they affect territorial needs;
- indicators of trends in costs of providing services in the North;
- measurement of expenditure need and revenue capacity;
- principles to guide allocation decisions;
- stability and predictability of payments; and
- governance - permanent commission or other mechanism.

Structure of the Roundtable

Following Mr. O'Brien's overview, the roundtable discussion was opened by Mr. Lougheed. The core structure of the roundtable then involved four sessions.

Session 1. Economic Development Prospects in Canada's North.

This session was introduced by Kelvin Ng, President of NG North Inc. and former Deputy Premier and Minister of Finance in the Government of Nunavut. Mr. Ng pointed to the substantial development prospects such as oil and gas and diamonds in NWT and the high levels of exploration in Yukon

and Nunavut. He suggested that people consider the barriers to realization of those developments in terms of social infrastructure and human resources as well as the social, cultural and economic impacts of these developments. He posed the general question of how TFF might address these development issues.

Session 2. Territorial Formula Financing.

This session was introduced by Kathleen LeClair, Coordinator for TFF in the Panel's Secretariat and a former official of the Department of Finance in the Government of the Northwest Territories. Ms LeClair gave a brief general overview of TFF, its current status, and the new funding framework put in place in October 2004. She noted that with total funding to be predetermined over the coming years, one of the crucial issues on which the Panel had to advise the federal government was how to share that funding among the three territorial governments. She prompted participants to comment on that issue and related issues such as measurement of needs and what principles ought to be followed.

Session 3. Expert Panel Issues.

This session was introduced by Dr. Mike Percy, Dean of the School of Business at the University of Alberta, and member of the Expert Panel. Dr. Percy briefly identified some specific aspects of TFF on which the Panel would like to receive advice. For example, he raised the matters of revenue measurement, the use of Gross Expenditure Base (GEB) as the measure of territorial government budgetary requirements, how TFF could be made more stable and predictable, and whether some advisory body or commission ought to be established for governance of TFF.

Session 4. Economic Development and TFF

As with the first session, this session was introduced by Mr. Kelvin Ng. He noted that the focus of this session was also similar to the one that started the day. However, here the focus was more on the role of TFF in economic development rather than the broader issue of economic development generally.

In each of the respective sessions, following the brief introductory remarks, which were designed to initiate discussions, the roundtable's Chair opened the floor to the participants.

While the four sessions had distinct themes as well, much of the discussion overlapped. In part, that overlap reflected the inherent linkages across the themes, although the weight of subject matters did vary with the session. Nevertheless, the recurrence of many opinions and concerns across sessions makes it more appropriate to provide a listing of them without direct attribution or limitation to a single session or theme. That

listing is provided in the next section.

Key Messages Arising from the Discussions

The following presents the main issues/comments that were raised at the roundtable. In most cases these issues arose in more than one of the sessions, and to some degree overlap with one another. The order of the listing is arbitrary and does not reflect any particular ranking as to relative importance. In addition, the summary of each is meant to provide a sense of the opinions but not to imply that there was necessarily consensus on all of them.

- **Territorial Funding is Insufficient in Removing Barriers**

A number of people voiced the opinion that, despite the enormous potential of the North, there are many barriers to realizing that potential as well as ensuring that Northerners, especially Aboriginal people, have the capacity to fully participate in it. Territorial funding was seen as traditionally providing funds to maintain territorial governments and their normal public services but not being sufficient to propel the territories further.

- **Education and Training**

Closely related to the challenge of removing barriers, a recurrent and highly emphasized issue was the need for education and training. Despite progress on this front, the deficiency in education and training was identified as a major obstacle to social and economic development and a particularly difficult barrier for Aboriginal people. A number of people emphasized the need for more post-secondary education and training as well as better high school attainment and the merits of having more Aboriginal teachers.

- **Diversity of the Territories**

A number of participants pointed out that the three territories are different in many important ways. Challenges and potentials are different across the three as are the capacities of the territorial governments. At least one person suggested that the ability to participate in economic development varied across the territories and was correlated with the proportion of Aboriginal people in each territory. Even within the territories the gap could be quite substantial; one person expressed the view that there was an enormous difference between Yellowknife and the rest of the Northwest Territories.

- **Need for A Northern Vision**

A broader issue was the notion that TFF needs to be developed and designed to reflect a vision for the North. However, there was a sense that the federal government either lacked such a vision or that there were competing visions in Ottawa. There was an opinion that the appropriate view or vision should see that helping the North is part of a national-building exercise and that the North should not be seen as a mechanism to primarily or solely benefit Southern Canada. A related view was that Northerners, through their respective governments, should have the greatest say in the pace and nature of economic development with assurance of participation in the resulting benefits.

- Cost-drivers and Territorial Financing

A number of roundtable participants were concerned that Territorial Financing did not take account of the substantially greater costs of delivering public services encountered in the North. Those costs were driven by the substantially higher costs of transporting goods and services to the North, the cost of attracting required human resources, and the greater cost of providing needed social services and infrastructure. One person pointed out that the Goods and Services Tax on some items in the North can exceed the full price of the same product in southern Ontario. In light of such concerns, another participant asked whether the Panel could make recommendations related to adequacy of the total amount of Territorial Financing that the federal government has announced.

- Clawbacks/Retention of Own-source Revenue

Some suggestions were made that the TFF should allow a greater share of own-source revenue, especially natural resource revenue, to be retained by territorial governments in order to provide them with more capacity to address development and infrastructure needs. It was pointed out that the Yukon's territorial government has a natural resource revenue-sharing agreement with the federal government but the share retained by that territory was very small.

As well as the criticism of the clawback on natural resource revenues, the existence of a "double clawback" in the Yukon was raised. There are circumstances when a territorial government transfers funds to an Aboriginal government, the federal government's funding for the aboriginal government is reduced. This could amount to a double clawback, possibly entailing a 100% clawback. To address this anomaly, one suggestion was that any territorial government funds transferred to aboriginal governments should be

exempted or sheltered in the TFF.

- GEB and Expenditure Need

Prior to the new framework announced in 2004, the approach to determining territorial funding was to specify a dollar amount of need based on an historical measure, as indicated by a measure known as the GEB (Gross Expenditure Base), and then to deduct from that amount the territorial government's own-source revenue plus some other federal government transfers. The resulting gap was the amount of territorial funding. The TFF Grants were determined separately for each territorial government. Many participants at the Roundtable criticized the GEB. That criticism was based on two arguments. The first was that the GEB was based on a survey of spending in 1982-3 and has not been appropriately updated since then so it has, despite various adjustments over time, become less and less accurate at measuring current expenditure need. A second line of criticism was that the GEB was not sufficient to support major economic developments expected in the North nor adequate to overcome the social and economic barriers faced by people of the territories.

While it was noted that there would be challenges in estimating expenditure needs, several people were of the view that a substantive review of the calculation of GEBs was required and that such a measure should be the basis for future territorial financing.

- The Fixed Envelope

At various points there were concerns raised regarding the federal government's plan for a fixed annual allocation (based on an initial amount, growing at 3.5% annually) for the three Territorial Governments. It was suggested that the annual growth of 3.5% was not high enough, given the cost-drivers faced by governments in the North. Some participants spoke against the idea of lumping the funding into one envelope, and expressed the view that each territory's financing should be addressed separately. In part, these views related to the interaction effects that would tend to occur with any allocation rule for the predetermined total financing. In other words, under the fixed envelope if one territory's entitlement were to increase substantially (say, due to a fall in its own-source revenues) then the two other territories would experience a smaller increase or possibly even a reduction in funding.

Additionally, a number of speakers referred to the joint submission made by the territorial governments to the Expert Panel. They noted that the Joint Submission identified 8 principles underlying the original TFF and argued that few were being met under the federal government's fixed envelope approach.

- A Commission

There was a mix of opinions regarding the desirability of establishing a commission or other institution to advise on, or determine, future allocations and adjustments to TFF and Equalization. One opinion was that typically intergovernmental discussions are dominated by the Equalization Program so a Commission would provide a mechanism of ensuring an appropriate focus on TFF. On the other hand, some speakers were wary of establishing another bureaucratic structure, something that might sideline the debate or move it away from the political process. Another opinion was that the need for a Commission would in part depend on what the Panel recommended. For example, a needs-based recommendation might require a commission or some other institution in order to study and determine the various levels of needs. Another participant suggested that at least some form of a dispute-resolution mechanism would be needed as a means of levelling the table between the federal government and the territorial governments.

- TFF in Relation to other Transfer Programs

A general concern that was raised by several people was that other transfer programs, both intergovernmental and personal, were structured on an equal per-capita basis nationally. This was criticized as inadequate because costs are so much higher in the territories. For example, the same per-capita Canada Health Transfer would not provide the same level of health care in the North and the standard Old Age Security pension has substantially less purchasing power. The implication was that if those other per-capita programs were not adjusted then Territorial Financing should be structured so as to offset those disadvantages.

- Aboriginal Self-government and Devolution

A number of people recommended that the Panel take account of the fact that there will be soon be devolution for the Northwest Territories and more agreements on Aboriginal self-government. These changes in governance and the associated changes in expenditure responsibilities, including the double-clawback problem, would require a degree of flexibility or accommodation in a future allocation mechanism within the TFF.

Concluding Remarks

It was acknowledged by participants that some of the matters discussed at the roundtable were beyond the Expert Panel's Terms of Reference. However, there seemed to be a consensus that all the matters raised were either directly relevant to the Terms of Reference or were important in so far as they provided an understanding of the Northern context. The latter was seen as something that the Panel ought to take into account in formulating its advice.