



Nunavut Association of Municipalities

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Nunavunmi Nunaliit Katojikatigiigit

Submission

to the

**Expert Panel on Equalization
and Territorial Formula Funding**

September 2005

Introduction

The Nunavut Association of Municipalities (NAM) is making this submission because the recommendations of the Expert Panel on Equalization and Territorial Formula Financing will directly affect the future economies, social conditions, infrastructure and health of every community in Nunavut.

Territorial Formula Financing (TFF) was originally intended to provide territorial governments with sufficient revenue to offer their residents basic services that are reasonably comparable to those available to other Canadians, taking into account their particular spending requirements and the higher costs of delivering public services in the North.

But as territorial finance officials point out the TFF has not adequately taken into account the particular spending requirements and the higher costs of delivering services in the North for several years.

... there have been a number of arbitrary reductions to the GEB [gross expenditure base] and other alterations to the Formula Financing arrangements that make the adequacy assumption break down. Consequently, financing levels no longer correspond to the “expenditure needs gap” as defined in the original formula. By definition therefore, the Formula Financing Grant is inadequate.¹

The expenditure needs gap is not just a measure in accounting ledgers. It is also measured in inadequate housing, poor health, low education and inadequate infrastructure. It is referred to by various names including “social deficit” and “wellness gap”.

Nunavut's Wellness Gaps

	Nunavut Inuit	Canada
Life Expectancy (years)	68	82
Infant Mortality (per 100 thousand)	15	5.3
Suicide Deaths (per 100 thousand)	79	13
Tuberculosis (per 100 thousand/year)	92	1.3
Smoking (per cent)	61	22
No Education Certificate or Diploma (% 15 years and over)	66	33
Unemployment Rate (% 15 years and over)	22	7
Low Income (% 15 years and over)	24	16

¹The Departments of Finance: Nunavut The Northwest Territories Yukon, “ Joint Territorial Submission to the Expert Panel on Equalization and Territorial Formula Financing” P.3

In addition to providing essential public services of reasonable quality and promoting equal opportunities for the well-being of Canadians, Section 36 (1) of the Constitution Act also requires Parliament and the legislatures to further economic development to reduce disparity in opportunities.

The only financial base that Nunavut has on which to build a sustainable economy is its natural resource wealth. Devolution of resource management and revenue is key to furthering Nunavut's economic development. But the claw-back provision of TFF will simply drain the wealth and opportunities away as its resources are depleted. Without changing the claw-back provision Nunavut will be left with neither a sustainable economy nor the resources with which to build one.

Nunavut cannot afford to lose its one opportunity to build a sustainable economy nor is it in the interest of the rest of Canadians to turn the Territory into a perpetually dependent region with no remaining resources.

The policies of successive federal governments over several decades has been to further the economic and political development of northern Canada. But there has also been significant resistance to transferring jurisdiction over northern resources and resource revenues to northern governments. The TFF clawback ensures that the bulk of net fiscal benefits from northern resources would continue to flow to the federal government whether or not resource devolution proceeds.

The Nunavut Association of Municipalities (NAM) recognizes and supports the need for the Expert Panel to recommend means by which Aboriginal governments receive a fair share of public revenues. Revenue sharing is crucial to recognizing the inherent right of Aboriginal peoples to self-government. It is also important, because, as The Royal Commission on Aboriginal Peoples stated, attaining a significant measure of fiscal autonomy is a fundamental prerequisite for effective self-government. A people that do not possess the means of financing its own government will be dependent on the priorities of others.

It is equally true for municipal governments as it is for Aboriginal governments. It is NAM's view that revenue sharing with local governments including Aboriginal and municipal governments needs to reflect the growing breadth and scale of local government responsibilities.

This submission focuses on two issues, which are parts of the context that the Panel may want to consider. The first is background related to federal northern development policies and administration. Second is the importance of revenue sharing to the fiscal self-reliance needed to build stronger communities in Nunavut.

Northern Development Policy and Administration

In 1953, Prime Minister St. Laurent took the initiative to focus more federal attention on the North by creating the Department of Northern Affairs and National Resources. Jean Lesage, the first minister of the new department announced the policy.

The objective of government policy is relatively easy to define. It is to give the Eskimos the same rights, privileges, opportunities, and responsibilities as all other Canadians; in short, to enable them to share fully the national life of Canada.

The broader needs - and they are immediate needs - are health, education and a sound economy. They are not separate problems; each is related to the other.

In 1966, Prime Minister Pearson separated jurisdiction over national resources which was vested in the Department of Mines and Technical Surveys from that of northern resources which he transferred to the Department of Indian and Northern Affairs. He said that the new department had responsibilities of a provincial character with respect to the development of resources in the territories. It is, he said, in reality, operating with regard to the territories in essentially a trust relationship, having in mind, the probable development some day of one or more provinces there. For this reason, he went on, the essential basis of the line of division in resource matters that the government wanted to establish between that department and that of what was then Mines and Technical Surveys, now Natural Resources Canada, is the kind of division that exists between the functions and jurisdictions of the provinces and those that are federal.

The intent is reflected in Sections 4 and 5 of the *Department of Indian Affairs and Northern Development Act*

4. The powers, duties and functions of the Minister extend to and include all matters [] relating to Indian affairs; the Yukon Territory, the Northwest Territories and Nunavut and their resources and affairs; and Inuit affairs.

5. The Minister shall be responsible for...
(b) undertaking, promoting and recommending policies and programs for the further economic and political development of the Yukon Territory, the Northwest Territories and Nunavut.

Jurisdiction over such major programs as education, social services, housing and health were transferred from the federal government to the Yukon and Northwest Territories governments during the next two decades.

Prudhoe Bay Oil

The potential of northern resources was brought home when the Prudhoe Bay oil and gas field was discovered on the north slope of Alaska in 1968. Three years later the first significant oil and gas discoveries were made on the Mackenzie Delta.

The Prudhoe Bay producers favoured transporting the oil by pipeline across Alaska to the port of Valdez then loading it onto tankers to take it down the Pacific Coast of Canada to US ports.

The Canadian government attempted to persuade the Prudhoe Bay producers and the US government to transport Prudhoe Bay oil by pipeline to the Mackenzie Delta so Delta oil could be tied in to a line down the Mackenzie Valley and into the North American pipeline grid. In addition, the trans-Alaska alternative raised concern in Canada and the United States about potential oil spills along the coast from tanker traffic. The Prudhoe Bay producers favoured the trans-Alaska route, however, because the cost would be lower.

Both routes crossed territory subject to unsettled Aboriginal land claims and both required detailed assessments of environmental impacts.

A fundamental difference existed between the two routes, however. Alaska had become a state in 1959 and under the terms of statehood it would receive 90% of the royalties and other revenues from its oil and gas, excluding federal corporate taxes. As a result Alaskans could see that they could receive tangible public benefits that would far outweighed the cost of producing Alaskan oil. For Alaskans, the effort to quickly resolve land claims and address the environmental issues was worthwhile.

Consequently, Alaskan land claim negotiations were expedited and environmental assessments were undertaken. The Native Land Claims Act was passed in 1971. Having negotiated a significant share of resource revenues in the Claim settlement, Native Alaskans supported the trans-Alaska project. An environmental Impact Statement was filed in March 1972 and environmental approval was granted the following August.

In contrast, the Yukon and Northwest Territories were only beginning to gain province-like responsibilities. Sharing resource revenue with territorial governments or Aboriginal groups was not a consideration. All resource revenues would continue to flow directly to the federal government. The first Aboriginal land claim settlement in the territories, with the Inuvialuit, was not ratified until 1984 – some seven years after the trans-Alaska pipeline became operational.

Berger and the Mackenzie Valley Gas Pipeline

Having missed the oil pipeline opportunity, the federal government supported proposals to have Prudhoe Bay natural gas transported, along with Mackenzie Delta gas, down the Mackenzie Valley. An independent public enquiry was established in 1974, lead by

Thomas Burger after opposition to the proposals was expressed by Aboriginal leaders along the route,.

The enquiry was, “ appointed to consider the social, environmental and economic impact of a gas pipeline and an energy corridor across our northern territories, across a land where four races of people--Indian, Inuit, Metis and White--live, and where seven languages are spoken. The Inquiry was also empowered to recommend terms and conditions that ought to be imposed to protect the people of the North, their environment, and their economy, if the pipeline were to be built.”

In 1977 the enquiry concluded that no pipeline should ever be built across the northern Yukon and that no pipeline should be built along the Mackenzie Valley for 10 years while Aboriginal and Cclaims were negotiated.

Attempts to Entrench Federal Control of Northern Oil and Gas

The same year that Volume 1 of the enquiry report was released, the Department of Energy Mines and Resources (EMR, as it was then called, which is now Natural Resources Canada - NRCan) attempted to regain control over northern resources from the Department of Indian Affairs and Northern Development. Prime Minister Trudeau rejected the proposal however, responding that such a rearrangement of the jurisdictional responsibilities of the Minister of Indian Affairs and Northern Development would be seen as an attempt to separate northerners from their resources as well as separating social policy from economic development policy in the north.

Again in 1981, Trudeau reaffirmed his position when EMR proposed once more to have jurisdiction over subsurface resources transferred from Indian Affairs and Northern Development to itself.

Following adoption of the Progressive Conservative government's 1985 Frontier Energy Policy, the Department of Indian Affairs and Northern Development began exploring the feasibility of transferring oil and gas management and revenues to the territories through discussions with other federal departments, territorial governments, northern Aboriginal groups and the oil industry.

Fundamentally different views within the federal government about future jurisdiction over oil and gas management and allocation of northern resource revenues quickly became apparent.

Debating Control of Northern Oil and Gas

One position was that northern oil and gas resources should remain under permanent federal control with the primary objective changed to one of serving national interests. It was proposed that a federal-territorial board be established to manage northern oil and gas resources on which federal statutory authority and board representation would be greater than that of the territories and the administration would be federal.

The main arguments in support of the position were:

- The territories are not provinces. One major attribute of provincial status is responsibility for resource development. To have such power would be to gain provincial status through the back door. The territories, having no constitutional status, should not have equal status with the federal government on hydrocarbon resources.
- The federal government has a huge investment in exploration for northern oil and gas resources. It should retain control to get a return on its investment.
- The territories have no fiscal capacity to invest in resource development. Since the required investment will be federal, it follows that control should be as well.
- The territories are vast areas with few people. This imbalance is the reason why Canada and other federations have territories without provincial or state status that remain under federal control.
- The scale of the resources is of national importance and the government of Canada must control elements affecting Canada's larger national and international interests. The larger interest, (larger than that of the territories) of the government of Canada must be protected.
- Fiscal (royalty) regimes have a major effect on pace and location of exploration and development. Control of fiscal regimes in the east coast offshore was transferred to the provinces. The much larger scale of northern resources requires, however, that the federal government keep control of the fiscal regime to manage the pace and location of northern exploration and development to serve the larger national interest when it conflicts with northern priorities.
- Giving the territories more autonomy than what the east coast provinces have in their Accords may destabilize the east coast region.
- Northern oil and gas resources need to be under direct federal control to counter any future attempt by producing provinces to restrict supplies to the rest of Canada.

The other position was that Northern control of northern resources is necessary to create political stability for major oil and gas development. It was proposed that the territorial governments have province-like jurisdiction over their onshore oil and gas resources and authority equal to that of the federal government in the offshore.

The main arguments supporting this position were:

- Northerners have made clear that the federal government is unacceptable as the guardian of their interests related to oil and gas.
- With no control over the resources and no share of the revenues, northerners use their political skill to block activities or delay them until communities or special interest groups negotiate locally beneficial deals with developers or the federal government.
- The results are inequitable for northerners, a threat to the viability of territorial governments, unpredictable for investors and the industry and counter productive for national energy supply objectives.
- Territorial governments need the authority and responsibility to protect northern interests in oil and gas in the way that every other region's interests are protected by provincial governments.
- The decision is a political one not an administrative one.
- Officials in most federal departments involved oppose the transfer, and from their perspective, with good reason. It means loss of federal powers (powers that the federal government holds in no other part of Canada).
- It is key to northern political development, providing regionally accountable authority, a principle of Canadian federalism that has served the national interest in energy security well; and replacing the anachronism of northern oil and gas resources being managed from Ottawa and oil and gas revenue staying in Ottawa.
- DIAND was given jurisdiction over northern oil and gas in 1966 to protect northerners' interests in the resources until territorial governments are given the authority to protect their own interests.
- Territorial governments have taken on the bulk of provincial-type responsibilities and are ready to take on the remainder.
- Protection of northern interests in oil and gas management and revenue sharing requires as much territorial government authority as protection of provincial interests require provincial government authority.
- Complete transfer of authority is consistent with Canadian federalism, the Frontier Energy Policy and is the most important step in implementing the government's 1988 Northern Political and Economic Framework.
- There is need for regions to have enough independence to accommodate their cultural differences within the Canadian federation. The need for this flexibility is every bit as great in the north as it is in the rest of Canada.

- If it is not the time to give the territorial governments the authority to manage northern oil and gas and the related fiscal regime, protection of northern interests may require delaying oil and gas development.

After considerable debate the federal cabinet approved a mandate to negotiate the transfer of resource management and revenue sharing to the territories. In 1988 Northern Accord Agreements-in-Principle were signed between the federal government and both territorial governments.

Yukon Devolution

Following on the Agreement-in-Principle, the Canada-Yukon Oil and Gas Accord the federal government agreed to transfer legislative jurisdiction over oil and gas to the Yukon in 1993. Eight years later, in 2001, the Yukon Government, Yukon First Nations and the federal government signed the Yukon Devolution Transfer Agreement, which allows the Yukon government to keep the first \$3 million dollars of annual resource revenues. Each dollar of revenues beyond \$3 million will, however, be offset by an 80¢ reduction in the Yukon's annual TFF grant. Yukon First Nation are eligible to receive 10% of the resulting Yukon net fiscal benefit.

Northwest Territories Devolution

In May 2001 the Government of the Northwest Territories, the Aboriginal Summit and the federal government signed a memorandum of intent to negotiate a devolution and resource revenue sharing agreement. Negotiations have been underway for some time but progress has been slow.

The federal government has insisted that the negotiation of resource management devolution will be conducted under the authority of the Minister of DIAND but that the negotiation of resource revenue sharing will be conducted under the authority of the Minister of Finance. To-date Finance has proposed the same terms to the Government of the Northwest Territories and the Aboriginal Summit that were agreed to in the Yukon.

DIAND's Diverging Statutory Responsibilities and Departmental Missions

As quoted earlier, the DIAND mandate, reflected in Section 5 of the Act: includes furthering the economic and political development of the Territories. Key divisions of the Department seem to have lost sight of their role as the trustee of northern interests in northern resources and instead have become the proprietors of northern resources.

In 2003 DIAND's Oil and Gas Directorate's mission statement was, "To manage the oil and gas resources on "federal lands" in the [territories] and in the northern offshore on behalf of all Canadians."

This mission does not recognize that these lands are not ordinary federal lands. As Pearson pointed out, these lands are in trust for the territories and identified as their resources in the DIAND Act.

Moreover, DIAND has no authority to manage northern oil and gas resources on behalf of all Canadians. The scope of the Act is limited to, the territories. Nation-wide responsibilities are those of other Departments.

The other part of the Directorate's stated mission was, to seek practical solutions which address the interests of northerners, aboriginals and Canadians generally and promote a competitive climate for investment.

DIAND's mandate is to further political development in the territories, not to seek practical or administrative solutions that define the territories and their residents as a third party in relation to their resources or as a northern interest group.

Promoting a competitive climate for oil and gas investment is an extremely limited economic mission if it does not account for the contribution that the territories oil and gas resources can make towards meeting DIAND's responsibility for furthering territorial economic and political development.

The Directorates vision included:

- “a vital petroleum sector in Canada's North”, but according to the DIAND mandate the territories' resources are to be developed to further territorial economic and political development not to build an economic sector for its own sake or for the sake of Canadians in general.
- “an informed and supportive northern community,” but the DIAND mandate is not to gain third party support from an abstract northern community for an external resource development vision. It is to advance the political and economic development of the territories.

The Department modified its mission statement somewhat after the contradictions between its statutory mandate as trustee and its adopted mission, which duplicates that of NRCan as proprietor of national resources but there is no reason to believe that its operating orientation has changed to reflect its statutory mandate.

During the past four years of devolution negotiations with the Northwest Territories, the federal government has insisted on linking the management of Delta onshore resources with the offshore management regime and has given no indication that it is prepared to relinquish any authority over the offshore Beaufort. The vast majority, over 80%, of Northwest Territories oil and gas resources are under the Beaufort Sea and the Mackenzie Delta

Despite the effort of successive Northwest Territories aboriginal and government leaders to gain a fair share of the territories resource wealth, the federal government's position on resource revenue sharing is the same as what it negotiated with the Yukon government.

The following table illustrates how the Yukon regime would apply to one annualized revenue scenario for the Mackenzie Gas Project.

An Illustration of Revenue Allocation Under the Yukon Regime (\$million)

	Territorial Property Tax	Federal Income Tax	Territorial Income Tax	Royalties	Total
Federal Revenue	-	116			116
Territorial Revenue	11	-	70	107	188
TFF Reduction	8.8		56	82.6	150.4
Net Federal Benefit	8.8	116	56	85.6	266.4
Net Territorial Benefit	2.2		14	24.4	40.6

Under this scenario the Territories' net benefit would be 11% of public revenue compared to the federal government 89% share.

Resource Revenue Sharing in Other Countries

There is a growing consensus in the international community that sharing resource revenues with governments in resource producing regions serves national interests as well as regional interests. The revenues can provide regional and local governments with the resources to build a sustainable economy and improve education, health and housing even where the resources are non-renewable and will eventually be depleted.

When regions agree that the benefits from resource development outweigh the costs, they are likely to support resource development, which in turn contributes to the national resource base and the economy of the whole country.

The international organization Save the Children has pointed out that the link between resource extraction and child poverty is often a paradoxical one. Oil and gas and mining can generate enormous wealth from natural resources held in trust by the state for the ordinary citizens. Yet regions rich in minerals tend to have poor economic growth, literacy rates are low and child welfare levels are low. Where resource revenues are diverted away from the region inadequate investments are made in basic services such as health, education and sanitation.

The Stefansson Arctic Institute, a circumpolar research centre, recently released a report on Arctic Human Development saying that some northern communities are benefiting from economic spin-offs, especially if they have revenue sharing agreements. But for the

most part, it says the wealth heads out of the North with only a fraction of the income and profits remaining.

Jeffrey Herbst, Professor of Politics and International Affairs at Princeton University has another perspective.

Where resources account for a major share of export earnings and a large share of government revenue, the allocation of resource revenues is a critical political issue. Tensions over the division of resource revenues have repeatedly been a major source of political instability in many countries. In contrast, those countries that develop fair and equitable mechanism for distributing revenue have the potential to solidify national ties.

This background is important to the municipalities of Nunavut because Nunavut is about to enter into devolution and resource revenue sharing negotiations and it too has large oil and gas resources onshore and offshore which may provide the most significant opportunity that Nunavut has for greater fiscal and political self-sufficiency.

Nunavut cannot afford to let our resources be depleted and have the wealth from the resources siphoned away through the TFF.

Revenue Sharing with Local Governments

An increasing number of countries are sharing their resource revenues more fairly with the resource producing regions. Increasingly too, the revenues are being shared with local governments as they become more democratic. In part this is because there are practical reasons why governments closest to the people are in the best position to serve them to the extent that they have the capacity to do so and if they operate in transparent and accountable ways.

Northwest Territories

The Government of the Northwest Territories is committed to sharing resource revenues with Aboriginal governments. As with Nunavut, however, sharing with local Aboriginal governments will have little meaning if the federal government refuses to fairly share the net fiscal benefits from the Northwest territories resources.

Nunavut

A priority in the second mandate of the Government of Nunavut is healthy communities. It recognizes that building the capacity of communities and all levels of government working together is essential to strengthening Nunavut.

In anticipating the development of Nunavut's resource base it is worthwhile to look at the experience of local governments in other regions with longer and more intense experiences with resource development.

British Columbia

The British Columbia Chamber of Commerce makes the observation that,

"Many areas of the province are resource based, or single industry based. This can lead to a boom or bust economic cycle with high unemployment and reduced economic impact. This problem is compounded because many of these areas have provided revenues to the provincial government vastly in excess of benefits, which have been returned to the areas. This imbalance is impacting the region's balance of payments and is providing an unlevel playing field for improving the local economy by siphoning much needed revenue outside of the region."

The Union of British Columbia Municipalities is proposing a province-wide resource revenue sharing program that will assist communities to provide the necessary infrastructure and services to sustain their communities and facilitate resource development. It points out that it is the communities that provide the roads, water, sewer and other services that facilitate resource development but their economic return is generally marginal compared to their provincial counterparts.

Northern Ontario

The Northern Ontario Association of Municipalities has called for exploration into the concept of a Resource Revenue Retention Fund based on the region's forestry and mineral resources.

It points out that the production of wood and mineral resources results, for the most part, in small communities developing close to the natural resource sites to house employees and service the industry. Residential and small business taxes cannot cover the costs of municipal services and even where resource interests can be taxed, the revenues collected fall far short of growing municipal service costs.

Northern Forum of the Federation of Canadian Municipalities

In 2003, the Northern Forum of the Federation of Canadian Municipalities, comprising representatives from communities north of the 55th parallel and Labrador, approved a policy statement, which was adopted at the FCM annual conference, on resource revenue sharing saying:

Revenues from natural resources are a substantial part of the northern economy. Royalties from natural resource revenues are paid to provincial governments, and in the case of the territories,

to the federal government. Municipal governments are an essential part of the process of attracting development and industry to the north. Municipal governments provide and administer community infrastructure for residents, including owners and employees of natural resource sector companies. They also maintain good relations with the private sector. In these and other ways, municipal governments are entitled to a share of the royalties from natural resources. FCM welcomes all opportunities to work with the government of Canada to establish a more equitable distribution of resource revenues to the territories. Provincial/territorial municipal associations are encouraged to come to similar agreements with provincial/territorial governments for northern communities.

Federation of Canadian Municipalities

The Federation of Canadian Municipalities (FCM) has been making the case that the fiscal and legal framework of municipal government as it was cast more than 150 years ago is inadequate to meet the current needs of Canadian communities.

Former federal Finance Minister, Paul Martin, speaking at the 2002 annual FCM conference pointed out that the scope of the issues goes beyond cities. That changes in the local powers and revenue sources should not be a, "...side deal for large cities that cut out the pressing needs of our rural towns and villages. We are talking about all municipalities, large and small."

The Benefits of Self-Government for Communities

Among the most important reasons for giving more authority to the local levels of government are greater efficiency and accountability; the positive effect such authority shifts have on local development; the enhancement of democracy and the greater ability to protect rights and cultural values.

- ***Efficient and Accountable Administration***

Local governments have the potential to perform more effectively than the territorial government but better local administration is not automatic. If they are properly equipped to fulfill their responsibilities, the chances of achieving better government through local authority rather than territorial authority increases. Local government can be more accessible, more sympathetic and quicker to respond to local needs. Programs and services can be more easily adapted to particular local circumstances and needs because local authorities are more knowledgeable about a local situation than are authorities who are far away from realities at the community level. As a result, the necessary information to plan programs and services is more readily available and the chances of success are consequently higher.

The close relationship between citizens and government at local levels fosters accountability. It is easier to hold local administrators and elected officials accountable

for their actions than to impose accountability on politicians at higher levels of government.

The combination of local information available and the higher degree of accountability will lead to a better use of available resources.

Government resources can be allocated most efficiently if responsibility for each type of public expenditure is given to the level of government that most closely represents the beneficiaries of the outlays. If local people feel that it is their money being spent, they are likely to keep a tighter lid on expenditures and use resource more efficiently.

- ***Better Local Development***

Decentralization removes institutional and legal obstacles to self-help, allowing diverse solutions to emerge in response to general problems. By letting the local people determine how a particular program should be designed, involvement of the local government enhances the sense of ownership and responsibility for the project. Citizens are more likely to invest their time and resources in to furthering the project's goals. This in turn helps to produce better results than if the development activities were decided up from distance territorial or federal governments

- ***Democracy and Protection of Culturally Diverse Groups***

Although the right to elect national or territorial governments is certainly part of the democratic principle, democracy also includes the ability to influence the decisions that directly affect a person's life. Local governments are able to provide these aspects of democracy in a way the territorial and federal governments often cannot. The right of citizens to participate in decision-making procedures on a local level furthers democracy.

The intent of giving more autonomy to local governments is to assure self-determination and the rights of culturally diverse groups and their members against abuse by regional or national majorities. For this to be assured, however, local governments have to be organized in ways that allow for real participation and regional and national authorities must not tolerate the creation of autocratic and authoritarian forms of local government.

Distribution of power to different levels of government and the competition between these levels allows for a system of checks and balances that is likely to set limits on the territorial and federal governments if they attempt to overstep or abuse their powers.

Thus enhanced local government also constitutes a specific and extended expression of the basic constitutional principle of the separation of powers.

Self-government's Need for Resources

A local government with a secure status, a high degree of autonomy and a qualified staff will still fail if resources are lacking, just as resourceful local government with weak institutions or too much control from above will fail. Sharing resource revenues equitably with local governments is an opportunity to address the need for independent local fiscal capacity.

Summary

The terms of reference of the Expert Panel say that it,

will be tasked to examine and provide advice to the Government of Canada on the allocation among territories of the annual TFF allotment set in legislation, including consideration of the current gross expenditure base approach, the treatment of various territorial revenue sources, such as natural resources, the measurement of territorial tax effort, other approaches to measuring fiscal capacity including those based on macro-economic variables, and if appropriate alternative indicators of expenditure needs. Such allocation to be evidence-based, and derived from a formula.

As the Joint Territorial Submission to the Expert Panel on Equalization and Territorial Formula Financing” explains the gross expenditure base has been arbitrarily reduced and no longer sustains a fundamental objective of the program. This does indeed need to be corrected.

But the interests of Nunavut communities and their future go well beyond closing the current gross expenditure gap. In addition to basic services, Section 36 of the Constitution Act also requires Parliament and the legislatures to further economic development and to reduce disparity in opportunities. The claw-back provision of the TFF, as currently administered, prevents future economic development and increases disparities in opportunities between Nunavut and other, often more wealthy resource dependent regions where no claw-back exists.

Moreover the statutory mandate of the federal government under the Department of Indian Affairs and Northern Development Act is to further the economic and political development of Nunavut, not to continue taking its resource wealth as if it were its own.

While the fiscal capacity to build a sustainable and more self-sufficient territory is overwhelmingly in the interests of Nunavut it is also in the interests of all Canada. It is clear that the more self-sufficient, resource-rich regions of Canada are important economic engines for the whole country and contribute significantly to federal revenues. Nunavut can also become a much more significant contributor to the national economy and to federal revenues if it is not prevented from doing so.

Resource exploration and development are in many respects localized activities that often make large and immediate demands on individual communities. It is at the community level that evidence-based needs are most readily identified and impacts most quickly

recognized. An effective evidence-based TFF formula needs to take communities into account, especially in Nunavut where they are remote and often have weak transportation links. Communities need greater political and fiscal autonomy to anticipate and respond to the needs of their residents as well as to the local needs of business and industry.

Just as a stronger Nunavut economy and government will strengthen Canada, so too will stronger local economies and governments strengthen Nunavut. Resource revenue sharing with communities is important to developing Nunavut as a sustainable political and economic region of Canada.