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***The Getting And Spending Of Public
Finances By Canada's Territorial
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Running the North

edited by

Rebecca Aird

The Getting and Spending of Public Finances by Canada's Territorial Governments



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Overview and Introduction

I. Purpose and Scope of the Publication

The articles in this book address aspects of the fiscal dynamics and spending decisions of Canada's two territorial **governments**-- the Government of the Northwest Territories (**GNWT**) and the Yukon Territorial Government (**YTG**). The publication is not intended to be a comprehensive review and analysis of this complex area. Its purpose is to help define a context and some possible frameworks for analysis, and to provide an examination of some key issues, thereby encouraging greater understanding and debate.

Since many of the articles straddle a range of topics, they are difficult to categorize under a single heading. They have, however, been loosely organized, according to the dominant theme or focus, as follows:

- 1) discussion of territorial political and administrative evolution and related impacts on spending powers, decisions, and outcomes (Cunningham and Dickerson, Dacks, Sorenson);
- 2) exploration of general economic, political, and policy contexts for territorial government decision making (**Jull**, Malone, MacArthur);
- 3) examination of major determinants of fiscal relations, including formula financing, resource revenues, and division (Smith, Guertin, Young, Heidenreich)
- 4) substantive analysis of economic development initiatives and government spending impacts (Aird, Duerden, **Moll**, Franks).

The purpose of this introductory chapter is to identify some of the key themes that thread these articles together, and to flesh out several important issues not addressed explicitly or in detail in the articles themselves. While both territories are discussed, more attention is focused on the **N.W.T.**, with its particularly high per capita government expenditures (refer to Figure 34 in the Appendix for a comparison of federal government transfers per capita), and its unique political system.

II. The Climate of Territorial Government Decision Making

Cynicism aside, no government operates in a vacuum. Decisions about policy, priorities, and spending reflect **biophysical**, demographic, **socio-cultural**, political, and economic environments.

1. *Biophysical, Demographic, and Cultural Factors*

Pressures on the territorial governments resulting from unique **biophysical** and demographic factors--vast area, sparse settlement, high birth rate, severe climate, unconventional resource base, limited infrastructure, etc.--are familiar to anyone with even a passing interest in the North. They are particularly significant for the Northwest Territories (**N.W.T.**). Cultural dynamics--such as those related to the large (in the **N.W.T.**, majority) aboriginal population, the continuing importance of traditional culture, the forces of change

introduced **by** southern white society, the differing aspirations of white versus native, young versus old, and transient versus permanent residents--are also familiar, though not well understood.

Interest in politics is conditioned by culture. In the North, those most integrated into the dominant culture will have a greater awareness of and access to the political structures which have been transposed there. A large proportion of native northerners, living in small and remote communities, continue to compose a relatively alienated subculture. The cultural roots of alienation are no doubt reinforced by the fact that the current resource base and infrastructure in the North is inadequate to enable widespread participation in, and benefits from, an industrial wage economy. On the other hand, unlike much of Canadian political culture (characterized by a tendency to **react** to government initiatives), northern native politics has been a proactive force in the shaping of government initiatives over the past decade.

2. Political and Fiscal Autonomy

Clearly, federal-territorial divisions of power and responsibility, and the ongoing process of political and administrative **devolution** to the territories, are also central to the context in which the territorial governments operate. Territorial government autonomy, both political and budgetary, is a key contextual theme throughout this volume. Though revenue

dependence on **the** federal government remains **high**, increasing political autonomy in the North is being reflected in the diminished role of the federally appointed commissioners, and in greater territorial spending discretion via formula financing and programme **devolution**. Smith examines the background mechanics and impacts of formula financing, particularly in the Yukon, while Guertin looks at its future from the perspective of the **GNWT**.

As this significant **devolution** of spending powers and programmed to the territories demonstrates, budgetary autonomy may be disengaged from fiscal 'viability". In other words, the territorial governments have acquired a large measure of control over spending even though they directly raise only a relatively small proportion of their budget. The federal government, however, has recently become more vocal in its opinion that "the political aspirations of the Yukon and the Northwest Territories are bound absolutely to the ability of the northern economy to generate **employment**".¹

On the heels of the **Meech** Lake accord, this economic **self-reliance** prerequisite casts long shadows over the ultimate "political aspiration" of **provincehood**. On the other hand, **Dacks** holds that the territories have made significant strides toward provincial-type powers, **and** can continue to work toward virtual full autonomy and responsibility, irrespective of constitutional status. It is important to recognize, though, that from the federal perspective, part of the impetus for **devolution** is to

divest itself of responsibilities that in recent history have carried a rapidly escalating price tag. Formula financing, for example, relieves the federal government of some of its political responsibility for decisions about the financing of the territorial governments, because it provides a mechanical basis of calculation. The territorial governments now bear the political responsibility for allocating the budget and holding costs down. None the less, the federal government continues to maintain ownership and control of land and the economically important non-renewable resource (minerals, and oil and gas) of the territories.

The territorial governments, and particularly the **GNWT**, argue that a northern energy accord that grants the territories direct oil and gas revenue-raising ability could be a key factor in fiscal and political **independence**.² The **GNWT** wants responsibility for the disposition and administration of oil and gas rights; regulatory control of oil and gas activity; the right to determine and collect resource revenues; and management of northern economic benefits. These provincial-type responsibilities for onshore resources would be complemented by shared responsibility offshore.

Sorensen's perspective on the sophistication in structure and role of the **N.W.T.** Legislative Assembly suggests a readiness to handle such responsibilities. **Jull's** article, however, indicates a **sceptical** perspective **on** the political dynamics of the devolution of resource control, particularly in terms of

conflicting white-aboriginal interests. Young's analysis of the impacts of oil and gas revenue dependency on Alaskan public policy and fiscal dynamics is also a note of caution against over-reliance on a single, volatile revenue source.³ The difficulties and potential dangers of pursuing rapid economic growth to satisfy the economic self-reliance "precondition" of political independence should be considered. The massive land area and small population of the territories is also an argument for the retention of some form of ongoing federal (national) interest.

3. Factors Affecting Distribution of Power within the N.W.T.

Another potential major impact on decision making and spending in the N.W.T. is division. Although the initiative has not yet recovered from the eleventh-hour **failure of** boundary negotiations in late 1986, many still feel that division is inevitable. **Jull** explores some of the rationale for and sources of resistance to division, while Heidenreich, integrating estimates from a range of sources, provides a comprehensive overview of the cost implications.

Other significant elements, reciprocally related to political, administrative, and fiscal dynamics in the territories, are land claims and decentralization within the territories (i.e., from the centre to the regions, and from regional headquarters to smaller communities). Land claims are not addressed in this volume. Interestingly, though agreement in

principle on the Dene-Metis land claim may be imminent, there was virtually no mention of land claims in the GNWT executive's recent *Directions* document.

With respect to political decentralization within the N.W.T., a report to be released by the regional and tribal council review committee should help clarify the further evolution between regional and territorial levels in terms of powers and authority. Administrative decentralization is briefly discussed as an economic development tool in Aird's article on the role of the territorial government in economic development.

4. *Economic Conditions*

As implied, the need for revenues--both to address the major problems of economic marginality, social pathology, and infrastructure inadequacy, and to respond to the varied aspirations of northerners--comes flush up against a beggared federal purse. To date, the territories have avoided the full brunt of federal restraint. None the less, even during periods of rapid growth in total federal spending,⁴ increasing levels of federal support to the territorial governments were seen by these governments to be inadequate to meet the needs arising from the North's special circumstances. Now, restraint on further growth in federal revenues is likely unavoidable. The escalator in the current grant formula is tied to the declining growth in total provincial-local expenditures.⁵ Moreover, the federal government--now emphatic that their spending in the North cannot

continue to grow--will undoubtedly drive a hard bargain in the next set of formula financing negotiations. (Though the potential allocation of up to \$12 billion for nuclear submarines has certainly been questioned by northerners, who feel that even a portion of this spending could go a long way to improving conditions for economic development in the North.)

Given the situation as outlined, it is hardly surprising that confronting economic realities, and exploring their significance for and responsiveness to public policy, has become an increasing preoccupation of the territorial governments. Through the Yukon 2000 strategy, and, in the **N.W.T.** through initiatives of the executive, the Legislative Assembly, the Department of Economic Development and Tourism, and others, both territorial governments have identified economic development as the dominant issue. As major spenders and employers in the territories, these governments are also increasingly concerned with the broader economic impacts of their own spending and activities.

Questions of whether and how the North is coming to terms with new economic realities underlie much of the analysis in this volume. Malone outlines some of the forces shaping the economic future of the **N.W.T.** and its government. MacArthur addresses the hopes and prospects of Yukon 2000, while Duerden examines some of the spatial implications of YTG spending. More specifically, Franks looks at the distance still to be covered by the GNWT in achieving a more equitable distribution of government employment.

The article by Aird broadly outlines economic conditions in the N.W.T., and explores some territorial government initiatives to better understand and direct the role of the territorial governments in the economy. There are certainly no imminent quick-fix solutions to territorial economic problems. The question of national fiscal responsibility towards the North, and the value of "paying the price", will continue to be relevant.

III. Formula Financing, Territorial Tax Effort and the Federal Agenda

From the federal perspective, one key rationale for formula financing was the perceived incentive for greater territorial tax effort that could be built into formula financing. (Figure 45 in the Appendix shows the tax rates of the territories compared to the provinces.) By providing a guaranteed source of funds, the deficit grants were felt to act as a disincentive to territorial governments to increase tax effort. According to the national average tax returns used by the Department of Finance to calculate provincial equalization payments, the GNWT could more than double its current tax revenues, and the Yukon could come close to a doubling. Much of these additional revenues would derive from a sales tax, which neither territory now imposes.

Increased tax effort by the territorial governments would serve the objective of greater territorial fiscal accountability (given, for example, the assumption that increases in the proportion of revenues contributed by internal taxes would

generate greater electoral interest in the spending behaviour of the territorial governments), and could relieve future pressure on the federal **purse**.²⁰ Moreover, a broader tax base reduces the susceptibility of government revenues to an economic downturn. While both territorial governments are well aware of the federal goal of encouraging increased tax effort, the extent to which they have internalized this federal objective is questionable. Neither territorial government has substantially increased tax effort in recent **years**.²¹ (Refer to Figure 48 in the Appendix for a summary of **N.W.T.** consumer tax rate changes.) Tax increases are not included in the **1988-89** budgets of either territory. Arguably, though, the YTG is more accepting of the eventual necessity of increasing its tax effort **as** a cost of the formula financing agreement.

According to an analysis introduced by **Drury** and expanded on by James Dean, the real tax burden of a similar nominal tax rate is significantly higher for northern residents than for provincial residents, due to much higher costs of living in the North. A recent consultant's report for the GNWT²² estimated that, based on an assumed **50** per cent higher cost of living in the **N.W.T.**, residents paid 25 per cent more in federal personal income taxes than they should have based on their real incomes. A recent study done for the Yukon (not yet public) is also said to support the claim of a higher tax burden. In his recent budget address **N.W.T.** Finance Minister Michael Ballantine argued that despite having the lowest territorial/provincial tax rates

in Canada, N. W.T. tax-payers pay higher taxes than southern Canadians .23 On the other hand, many N.W.T. residents also receive numerous benefits (e.g., housing subsidies) which do not have to be reported for income tax purposes. None the less, Ballantine argued that the burden imposed by federal taxation in the N.W.T. leaves little room for increased tax effort by the GNWT. In terms of a territorial sales tax, concerns have been expressed about the inequitable and perhaps untenable burden that it would impose on low-income (largely native) residents.

Another common argument is that tax increases would further drive business investment and consumer spending out of the territories. In terms of impacts on government revenues, this argument must be put in the context of the formula financing agreement: changes in territorial tax revenues due to rate changes do not affect the size of the federal grant, whereas volume increases and decreases are reflected respectively in a reduction or increase in the grant. In other words, the territories keep those additional revenues which are garnered from increased tax effort (and, conversely, are penalized by the failure of the grant to compensate for decreased effort), but neither benefit nor suffer when changes in the level of economic activity result in changes in tax revenues. The protection against a decline in territorial government revenues due to decreased tax revenues during periods of recession would also afford protection against the revenue impacts of a decline in economic activity due to tax rate increases.

This in itself does not represent an argument for arbitrary increases in territorial taxation, since the long-term focus must be on the creation of a viable territorial economy. Perhaps it is not even argument enough for some well-considered experimentation with tax rates, since the **GNWT**, at least, prides itself on the stability of its tax regime. The issue of balancing the revenue potential of taxation against equity considerations **and** the impacts on general economic conditions requires serious attention in the economic development planning of the territorial governments. In the assembly recently, Finance Minister Michael Ballantine stated that a review of all tax options available to the **GNWT** is being undertaken, and will be tabled before the SCOF during the current session. The **YTG** is also committed to a comprehensive examination of revenue sources and the rate structure of the tax system.

IV. Accountability: A Key Theme

The theme of accountability, broadly defined, is central to the analysis of any government's budgetary activities. In its broad sense, accountability applies not only to the relationship between budget allocations and actual expenditures (financial control), but also to the way budget decisions are made (openness and clarity of priority-setting and budget-setting processes) and the efficiency and effectiveness of spending (financial **management**).⁶ Systems of financial control in the **YTG** and **GNWT**

are quite comparable to those in other jurisdictions,⁷ and are subject to the scrutiny of the Auditor General. They are addressed only peripherally in this volume. Of more central interest here are the larger issues of the territorial governments' accountability in policy setting, the budgetary process, and financial management.

1. *Impact of Federal-Territorial Fiscal Relations*

The fact of the territories' uniquely high revenue dependence on the federal government has long dominated public awareness, academic interest, and federal concern about territorial fiscal regimes. The reliance on revenues from another level of government has removed from territorial governments some of the normal opportunities and requirements for fiscal responsibility and accountability.

As noted, multi-year formula financing and further **devolution** of resource control and programme responsibility are expected to help redress this situation. Through these changes, the federal government hopes to wean the territories of the expectation of federal financing for new or expanded initiatives. Responsibility for the fiscal trade-offs necessitated by a limited public purse will force greater accountability on the territorial governments.

On the face of it at least, the YTG appears more prepared to accept the challenge of greater fiscal self-reliance. In part, this is a reflection of the inter-related historic advantages of

the Yukon with respect to economic development, infrastructure, and political autonomy, as well as the relatively more manageable size and population distribution of the Yukon.

2. Impact of "Consensus" Government in the N.W.T.

The unique political system within the N.W.T. has sometimes been criticized for limiting the potential for fully responsible government. On the other hand, many northerners feel that the system of so-called consensus government^s is more appropriate than party politics to the needs of the North and the traditional decision-making processes of the majority aboriginal population. Members of the executive must seek the support of the assembly for any proposals requiring approval of the legislature. With eight of 24 members, the executive cannot carry through a decision without substantial support from regular Members of the Legislative Assembly (MLAs). In a sense, then, the regular assembly members are seen as the "opposition", a perspective recently reinforced by the appointment of a "shadow cabinet" consisting of MLAs. Members of the executive may thus seek support for proposals by "lobbying" individual MLAs.

Perhaps one of the chief drawbacks of the system is the temptation for behind-the-scenes horsetrading with MLAs who may focus on constituency issues to the neglect of broader questions of government directions and priorities. A tendency to parochialism may be reinforced by the fact that, without party

loyalties to guide the voting **behaviour** of the electorate, political representatives are--to an even greater extent than in other **jurisdictions**--elected largely on the perception of their ability to promote the interests of their constituency.

None the less, **N.W.T. MLAs** do have the opportunity to hold government accountable in a way that "**backbenchers**" in other jurisdictions do not. Various channels are outlined by Sorensen in her article on the role of a **N.W.T.** MLA in influencing and policing government spending. In the budget session, the Main Estimates are reviewed by the Legislative Assembly, providing **MLAs** with a chance to review spending plans in light of policies, and put forward motions for changes. As a review of **Hansard** reports of the Legislative Assembly session indicate, some **MLAs** do participate vigorously on issues of broad relevance.

The Legislative Assembly's role in defining the "fit" between broad priorities, departmental mandates, and budget is largely carried out by the Standing Committee on Finance (**SCOF**). This responsibility is understandably hampered by the absence of a clear government policy framework, a situation **SCOF** has often noted but has not yet been able to rectify. The role of the Standing Committee on Public Accounts is to review government spending in terms of financial control and management.

The rationale that **SCOF** applied to the review of the 1988-89 **budget**⁹ demonstrated recognition of the need to subject departments to a rigorous and comprehensive programme review.

However, a number of factors--including the fiscal framework for budget-setting, the absence of a coherent data base for programme evaluation, the time and resource constraints on SCOF, and the point in its development at which the budget is made available to SCOF for scrutiny--limit the extent of real participation of the legislature in budget setting.

3. *Improving Accountability*

In sum, then, some of the key conditions that promote accountability cannot be said to exist in the territories: although the territorial governments have gained considerable control over spending decisions, they do not raise most of their revenues from their electorates. Decision-making processes and information flow do not always enable genuine political participation in budget setting or in scrutiny of actions and achievements. As this implies, the challenge of increased accountability must be met through appropriate administrative and information structures. Accountability also requires a political will to commit to a policy framework and set of priorities, the basis against which to gauge achievements. Policy directions and evaluation systems of the territorial governments are the subjects of the following sections.

V. Policy Development and Priority Setting in the Territories

Though the territorial governments now have a high level of control not only over their own revenues, but also over those contributed by the federal government, they are still faced with massive infrastructure and programme needs. For example, Gordon Wray, Minister of Municipal and Community Affairs, recently estimated that full implementation of the capital programmed of that department would cost in the order of \$300 million, and this would cover only the development of very basic municipal infrastructure (roads, water and sewer, recreation facilities, etc.). The overarching question bearing down on the GNWT and the YTG is how to reconcile such needs with revenue limitations. Ideally, the goal is to create conditions that satisfy the need for increased government revenues to address public needs, and at the same time reduce the dependence of individuals and communities on government.

Within the boundaries of responsibility defined by Canadian political culture, neither territorial government is dogmatically wedded to a particular ideology on the role of the state. For example, there is, even among northerners leaning to the political right, widespread acceptance of the inevitability of a mixed economy; and among those of the social democrat persuasion, perhaps a growing sense that this "mix" should be dictated by pragmatism (i.e., fiscal and economic realities).

A lack of ideological rigidity and the presence of unique cultural and **socio-economic** perspectives would seem to offer hope for creative solutions to the major economic and social problems the territories now face. But an openness to a different policy mix does not remove the need to develop goals, priorities, and operational plans. Yukon 2000 is YTG's attempt to move in this direction. Some very recent and as yet vague initiatives from the GNWT indicate a readiness to do some hard policy thinking there. Neither initiative has been sufficiently operationalized to permit evaluation.

1. ***Dynamics of Priority Setting in the GNWT***

Because of the absence of party politics in the N.W.T., there is no party platform taken to the electorate as a whole, and no party line which candidates for political office must uphold. Moreover, the government leader and the members of the executive are elected by the newly constituted Legislative Assembly from among their numbers. Thus, the leader can wield neither party discipline nor control of appointment to Cabinet as a means of ensuring Cabinet adherence to a given set of priorities.

The lack of mechanisms for ensuring Cabinet coherence was perhaps more acute prior to 1986, when the chairmanship of the Executive Council was held by the federally appointed commissioner. There was the perception of excessive discretion to individual ministers in establishing policy and spending priorities, as well as a sense that the fate of a department

during the budget-setting process was inordinately dependent on the skill and power of its minister relative to the other members of the **executive**.¹⁰ The government leader now has at least the title of authority to exercise discipline in the **executive**.¹¹

The Legislative Assembly, and particularly **SCOF**, have expressed concern over the lack of policy direction. Early in the Ninth Assembly, **SCOF** expressed the intent of establishing spending priorities for the Legislative Assembly. Although its initiative did contribute to several organizational developments (e.g., creation of the Energy portfolio, and establishment of the Development Impact Zones policy), no clear sense of an overall policy framework emerged.

An *ad hoc* approach to priority setting and policy making is also reflected in the bureaucratic systems meant to contribute to the broad coherence of policy initiatives. A key role of the Priorities and Planning Secretariat (**PPS**) is to advise the executive on policies, priorities to guide resource allocation, and long-term strategies. However, the secretariat's ability to fulfil this role is thwarted by a variety of actors, including: day-to-day demands for the analysis of specific issues, initiatives, and programmes; the complexity and changing nature of the political and administrative climate; and the traditional inability of the executive to commit to a broad-based plan and set of priorities. The Catch 22 is that without a central policy framework to guide it, the **PPS** has no consistent criteria to apply to the assessment of proposals developed by departments for

consideration by the executive. The analysis is guided largely by considerations of impacts on existing policy directives (themselves the product of an incremental, *ad hoc* process) and operations. In fact there have been criticisms from the legislature on the apparent emphasis within the executive, and therefore within the PPS, on administrative rather than "political" policy making. However, there does seem to be a general sense that the executive is moving toward a more structured policy-setting process.

2. *Priority-Setting Initiatives of the N.W.T. Executive*

In the early 1980s, in an effort to produce greater clarity and unity of purpose, the executive initiated a process to "determine the programme and policy objectives to be achieved by the government over [its] term [of office]", and thereby "provide overall direction to the government and distribute resources to achieve specific priority objectives" (GNWT, February 1985). The first *Priorities* document (GNWT, May 1983) was published in the last months of the Ninth Legislative Assembly, the timing thereby being inappropriate to the stated intention of directing government decision making to 1985.

Although the priorities identified in the 1985 *Priorities* document remain similar to those identified in the 1983 document, in terms of clarity and specificity, the 1985 *Priorities* document is a substantial improvement. Proposed as a three-year plan, it sets out 10 priorities under three goals: economic renewal,

improved housing and community services, and increased community self-reliance. General objectives were tied to some specific **programme** and policy initiatives for the 1985-86 fiscal year.

In sum, however, the **N.W.T. Priorities** exercise was of dubious effect in the stated goal of providing ongoing guidance to executive members and officials in policy and **programme** planning and resource management. Neither **Priorities** document is mentioned in the GNWT annual reports that followed their release. When the subject was raised with senior bureaucrats, it tended to draw either a blank, or the opinion that the process had made little real impact on planning and spending decisions, and had, in fact, created more problems than it solved by raising unrealistic expectations. The 1985 document, ostensibly a vehicle for guiding policy and planning until 1988, disappeared from mention after the 1985-86 fiscal year.

The attempt to establish an overarching government direction has now been revived, albeit under a different guise. In February 1988 the executive released a document entitled **Direction for the 1990s**. As with the **Priorities** papers, the goal of **Directions** is to enable the executive to begin "the process of setting its overall direction for the next four years . . . [to set] the basis for policy and **programme** decisions throughout the term of this government" (Michael Ballantine, 1988-89 Budget Address to the Legislative Assembly).

3. *Priority Setting in the Yukon*

Party politics in the Yukon, as elsewhere in Canada, offers the electorate some sense of an incoming government's goals and priorities. However, the present YTG has introduced a new public forum beyond the election process for the identification of long-term **socio-economic** objectives. From the comprehensive, **multi-sectoral** Yukon 2000 planning exercise, an economic development agenda identifying **sectoral** and regional objectives is taking shape. The recently released *Yukon Economic Strategy begins* by identifying the basic aspirations and goals of Yukoners, as well as some fundamental characteristics of the Yukon economy. It lays out government actions to be taken, in keeping with a set of principles identified for a range of sectors and industries. Elements of the non-wage economy are included, bringing recognition to the unique mix of economic activities in the Yukon.

This policy framework and strategy should provide a context for longer-term financial planning and for annual budget decisions, as well as a means of assessing achievements against intentions. However, a dearth of measurable objectives in Yukon 2000 may make this assessment difficult.

4. *Impact of Priorities on Spending*

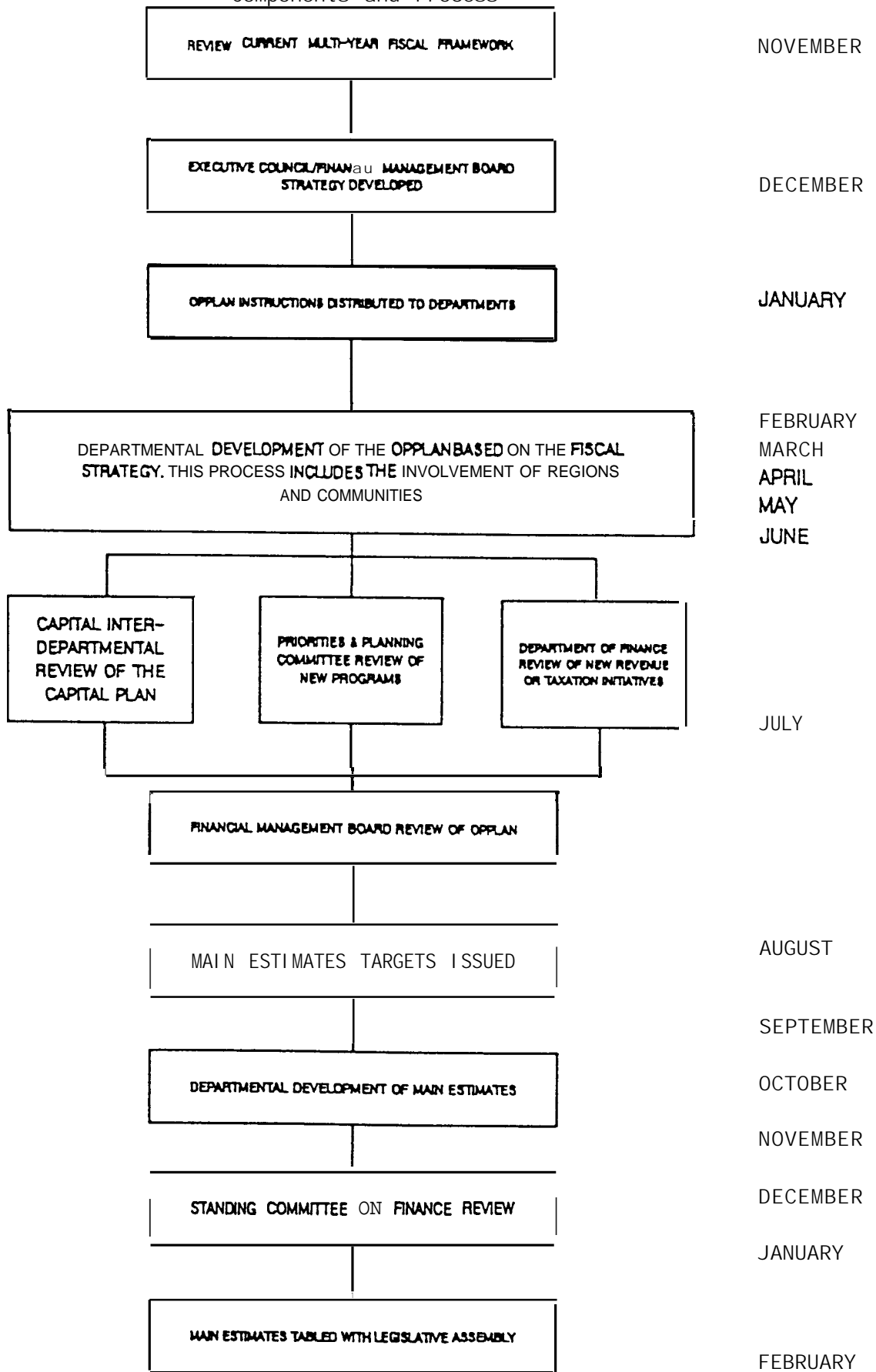
As noted, neither of the GNWT **Priorities** documents appears to have left much of a lasting impression in those bureaucratic circles (e.g., the Priorities and Planning Secretariat, the

Financial Management Secretariat, the various agencies of the executive, and the deputy ministers' offices) responsible for translating them into policies and spending patterns. The **Priorities** exercise did not stimulate explicit linkage of priorities to spending beyond the current fiscal year,¹² and such a linkage cannot be determined in hindsight. In retrospect, this is hardly surprising. As clearly revealed in the heated debate on the 1987-88 deficit budget, only very rudimentary longer-term fiscal planning exists in the GNWT. The broad-brush expenditure and revenue forecasts contained in the fiscal framework, as tabled in the assembly in February 1987 (Tables 1 & 2), extend for only two years beyond the current fiscal year. Moreover, the fiscal framework primarily reflects expected forced growth spending needs rather than broad policy directions. Without detail at the programme level, and in the absence of policy considerations, this framework is not a **plan**.¹³

Interestingly, and perhaps for the first time, a willingness to make some of the hard political decisions necessary to focus on new priorities is at least intimated in the **Directions** document. Resource limitations mean that new priorities can only be reflected in budget decisions via a redeployment of finances. The document suggests that new initiatives for economic and political development will receive spending priority. Thus social programmes "may not expand as quickly as in the past", and a willingness to "restrain spending, cut back programmed, restructure organizations and reallocate resources" is expressed.

Part I
 GNWT Financial Management Function
 Planning and Resource Allocation
 Components and Process

MULTI-YEAR FISCAL FRAMEWORK



Source: Northwest Territories 1988-89 Main Estimates Financial Management

TABLE 2

Government of the
Northwest Territories
FISCAL FRAMEWORK

	1995-86	1986-87	1987-88	1988-89	1989-90
Total O&M Funding Available	526,668	568,803	599,516	632,381	671,022
O&M FUNDING REQUIRED:					
1. Operational Base	493,365	485,953	551,313	624,002	649,147
2. Growth & Adjustments		49,065	54,054		3,000
3. Inflation Allowance		16,295	18,635	25,145	28,939
TOTAL O&M	493,365	551,313	624,002	649,147	681,086
4. Supp Reserve		23,884	4,000	4,000	4,000
5. Lapse Estimate (2.0%)		(13,004)	(14,060)	(13,063)	(13,702)
TOTAL O&M REQUIRED	493,365	562,193	613,942	640,084	671,385
OPERATIONAL SURPLUS/ (DEFICIT)	33,323	6,610	(14,426)	(7,703)	(362)
Total Capital Funding Available	107,243	120,349	121,982	125,763	133,566
CAPITAL FUNDING REQUIRED:					
1. Capital Base	118,501	127,936	165,760	110,000	135,500
2. Capital Supp Reserve		16,605	2,000	2,000	2,000
3. Estimated Lapse (2-0%)		(2,891)	(5,033)	(3,360)	(4,125)
TOTAL CAPITAL REQUIRED	118,501	141,650	162,727	108,640	133,375
CAPITAL SURPLUS/(DEFICIT)	(11,258)	(21,301)	(40,745)	(17,123)	(191)
TOTAL SURPLUS/(DEFICIT)	22,065	(14,691)	(55,171)	(9,420)	(171)
ACCUMULATED SURPLUS	60,234	42,042	(16,628)	(7,209)	(7,380)

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However, the *Directions* document was tabled mid-session during the review of the 1988-89 budget, with the recurrent result that the current budget does not reflect the changing priorities. Moreover, the success of the territorial initiative is still seen to be closely tied to the federal purse, as indicated by references to the dependence of strengthened social and health programmed on "renegotiation and enhancement of our formula financing agreement with the federal government" (Dennis Patterson, Government Leader's Introduction), the need for "additional federal funds so that we can improve our transportation system", and the additional resources necessary to follow through on new management responsibilities.

The Yukon government has also had very limited success in reallocating spending to new priorities. The current New Democrat government, after coming to power in 1985, established a number of broad goals, and identified some specific programmed to achieve them. Some of these programmed were phased into the multi-year planning process but did not find their way into the budget. Initiatives reflective of the new government's priorities include the Yukon 2000 process, and the opening of business development offices in **Dawson** and Watson Lake. More recently, the Yukon 2000 strategy was publicly released after the 1988-89 budget was brought in, and is not strongly reflected in this budget. (In his budget address, Government Leader and Minister of Finance Tony Penikett spoke of "an additional \$1.3 million" being committed to the Yukon 2000 process).

5. *The Paradox of Lapsed Budgets and Accumulated Surpluses*

Paradoxically, both territorial governments are squeezed to free up funds for new initiatives, yet experience apparent difficulty in spending the revenues currently available. Both retain an accumulated surplus, a legacy from the first year of formula financing. Because Treasury Board approval of the formula grants came in the spring of 1985, both governments had already introduced 1985-86 budgets based on projected annual grant revenues. Not having budgeted for the additional funds brought in by formula (almost 17 per cent--about \$63.4 million--to the GNWT), both governments were left with a significant annual surplus. In the N.W.T., despite the fierce battle waged to bring down a 1987-88 deficit budget which was to result in an accumulated deficit, an accumulated surplus **remains**.¹⁴ The government argues that the 1987-88 deficit is significantly smaller than projected largely because of underestimated revenues. However, these revenues are partly attributed to the rolling over of unexpended capital funds from the previous year. In the Yukon, the Auditor General's requirement for the inclusion of the land inventory in assets boosted the apparent surplus, but the cash surplus alone is in the order of \$40 million. Lapsed budgets, particularly in capital spending, inevitably led to some questioning of the real need for more funds, and of the government's ability to manage existing resources.

(Interestingly, in defending the **GNWT's** 1987-88 deficit budget,

the argument that an accumulated surplus created difficulties in negotiating for funds with the federal government was raised.)

The territorial governments argue that the accumulated surplus is but a small portion of total annual expenditures (more true in the **GNWT's** case), and that it has taken time to "gear up" to spend the additional revenues. The problem of lapsed budgets in the Yukon is indeed diminishing, in part because such politically saleable initiatives as the Local Opportunities Program were brought in to soak up some of the lapsed funds.

In sum then, notwithstanding political and fiscal evolution, the linkage at the centre between priorities and the fiscal management process remains limited. In the **GNWT**, the only consistent guidance provided to each department for **budget-** setting is the fiscal framework prepared by the Financial Management Secretariat. **As** evidenced by discussion in the legislature on the 1988-89 budget, without implementable policy direction, attempts at budgetary restraint tend to take the form of proportional belt-tightening across all departments. Perhaps in the absence of a clear rationale for changing the distribution of spending among departments, the technically equitable approach of imposing the same restraints is the only way to avoid perceptions of arbitrariness.

VI. Evaluation Systems: A Missing Link

The preceding discussion indicates that there are important factors beyond the control of the territorial governments which affect accountability, and the ability to plan **programmes** and spending in accordance with broad policy. None the less, there are numerous ways in which the capability in both these areas can be improved. In terms of fiscal management, improved evaluation systems are an important step.

Analysis of the alignment of spending with stated priorities must take account of spending flexibility and budget management. When the **Priorities** process was initiated in the N.W.T. in 1983, the Financial Management Secretariat (EMS) was to undertake to incorporate the process into the budgeting system. As suggested in the preceding section, achievement of this goal remains elusive, despite the anticipated formula financing benefit of increased territorial fiscal autonomy. The removal of federal control over territorial budgets has not resulted in a realignment of spending toward more exclusively territorial priorities. This expectation turns out to be a bit of a chimera because, for a variety of reasons, increased budgetary autonomy has not been accompanied by an increase in spending flexibility in either territory.

From the territorial governments' perspective, flexibility is significantly constrained by the needs and expectations which existing territorial **programmes** both respond to and **entrench**.¹⁵

Once "forced growth" in existing programmed is budgeted, few funds remain for new initiatives. For example, the "forced growth" basis of the GNWT'S operational plan assumes **programme** cost increases based on population **growth**,¹⁶ eligibility, benefit levels, and **programme** criteria, thereby virtually ensuring incremental **programme** growth. Generally, only new programmed, or increases to existing programmed that exceed those allowed under this forced growth model, come under scrutiny.

Recent budget addresses from both governments indicate a tendency to see capital budgets as providing greater flexibility than operations and maintenance spending. The desire to boost capital spending as a short-term stimulus for a sluggish economy is understandable, but there is a danger in assuming that boosted capital spending can stimulate the economy without risking ongoing costs.

Financial management in general, as well as the process of reallocation of funds to finance new initiatives, is constrained by what the N.W.T. Legislative Assembly's Standing Committee on Finance has referred to as "a huge gap in the management of government. . . I cannot recall one department of government which had an ongoing system of program evaluation in place." (Brian Lewis, *Hansard Official Report*, 15 February 1988, p.94). Thus, expressed political will is not backed up by a consistent **programme** evaluation process as a basis for decisions about trade-offs of existing programmed.

In the **N.W.T.**, the Financial Administration Act assigns to the Financial Management Board (**FMB**) responsibility for evaluating programmes in terms of economy, efficiency, and effectiveness. (A separate department devoted to **programme** evaluation has been long since defunct.) The GNWT'S general accounting system, the Financial Information System (**FIS**), was implemented in 1980. Following some serious implementation problems, it now seems to serve the function of financial reporting of financial reporting (financial control) admirably. However, while it can serve as a management tool, it is apparently not used as such by the FMB. Each department remains in effect, responsible for evaluating its own management and **programme** effectiveness. The peripheral accounting systems used internally by departments may or may not feed into the **FIS**. Attempts to institute consistent accountability-based budgeting across all departments have not been very effective, despite the fact that Tom Butters, the **N.W.T.** 'S first finance minister, identified "refinement" of this system as a major concern in the 1981 budget speech. The criticism of Lewis and other SCOF members about the lack of evaluation systems suggest that the management for results system,¹⁷ which was initiated by the executive and was to have been established in most departments in 1987, has in most cases not yet been implemented or is not **effective.**¹⁸ There is no Cabinet committee, central agency, or interdepartmental co-ordinating committee devoted to developing

or co-ordinating government operations (administration, procedures, etc.).¹⁹

Moreover, neither territorial government has, through an effective zero-base budget review, provided the foundation for a more comprehensive assessment and reallocation of spending. A zero-base review is as much a planning and management tool as a budgetary system. Rather than focusing only on the incremental increases to each department's budget, it assumes the need to examine the entire expenditure base from scratch. Thus, it can generate consistent information across departments on need, effectiveness, and efficiency (as against stated objectives) of programmed, and identify possible alternatives for meeting the objectives. This type of review, particularly if undertaken in the context of a **plan** such as Yukon 2000, might have revealed more effective options for responding to stated **programme** objectives, or even uncovered **programme** activities based on obsolete or low-priority objectives. However, rather than working from the assumption that the rationale and approach for all **programme** activities should be freshly assessed, the governments continued to focus largely on new increments to the existing expenditure base of programmed.

SCOF, in its review of the 1988-89 budget, called for a base review on the rationale that, to enable ongoing restraint budgeting while retaining some flexibility to respond to changing needs and objectives, cuts to the base-level funding of departments would be necessary. Clearly, an effort to prioritize

programmed and remove ones that are ineffective would be more sensible than across-the-board percentage cuts. This was concurred with by MLA Brian Lewis, (*Hansard Official Report*, 15 February 1988, p.93) who noted that "The key to our fiscal policy in future must be a careful evaluation of programs and the political will to drop or cut programs that are not working well." In his controversial 1987-88 budget, then Finance Minister Tom Butters sought to allay fears of ongoing deficit financing by claiming that the executive had given him the authority to conduct a zero-base review of government expenditures to enable the identification of programmed that could be "sunsetting or diminished". A recent GNWT programme review (presented to the executive almost a year ago, but not yet tabled) did not address the fiscal requirements of programmed, but also recommended a zero-base review of all expenditures.

The YTG has for many years employed a system of comprehensive review. The goal of comprehensive review is to rationalize delivery of services and to ensure consistency (both within and between programmed) and value for money. Though the YTG's attempt at comprehensive review was useful for some internal departmental purposes, it has been of limited value for centrally co-ordinated review. According to Charles Sanderson (acting Deputy Minister of Finance), the volume and form of the information was not digestible by the FMB. The 1985-86 Operations & Maintenance Budget Address claimed that a full-scale review of all spending had been initiated with the more specific

purpose of maximizing local economic and employment benefit (including private sector employment) from government programmed and capital projects, but there appears to have been no follow through. There was also a recent attempt, initiated by the Department of Finance and overseen by an interdepartmental committee, to implement **programme** evaluation using the services of external consultants. This exercise was expensive, and was also of limited value, in part because the consultants tended to become identified with the departments being reviewed. The YTG is now implementing a simplified budget review and **programme** evaluation process. It involves the internal audit agency in the evaluation of specific **programme** components, rather than attempting to involve each department in a comprehensive **self-**evaluation. The utility of the YTG's new budget review and **programme** evaluation process for facilitating the redirection of funds remains to be tested.

Endnotes

1. Speech Notes for **DIAND** Minister Bill **McKnight** for the Ninth Northern Resources Conference, Whitehorse, 22 October 1977.
2. According to **N.W.T.** Government Leader Dennis Patterson, "The Northern Accord is the big one upon which all our political hopes ride" (Matthew Fisher, *The Globe and Nail*, 4 January 1988, p. 49). He intimates that estimates of revenue potential (presumably the royalty revenue projections which have been prepared for the **GNWT** Energy, Mines and Resources Secretariat) suggest that the **GNWT** could become **self-sufficient**. More moderate expectations of the Northern Accord are expressed in the *New Directions to the 1990s* document of the **N.W.T.** executive. While definitive estimates are not possible, the sharing of information from projections done for the territorial and federal governments could certainly **help** form the basis of a more reasoned and public analysis.
3. The Alaskan experience and the potential territorial situation are not directly comparable. Differences include federal-state-municipal fiscal relations, and revenue arrangements which balance Alaskan revenues heavily toward the front-end lease value of the oil and gas properties, versus ongoing oil and gas production. None the less, the fundamental caution remains valid.
4. Territorial revenues derived from the federal purse have taken various forms over the **last** two decades, but essentially consist of grants, transfer payments (including established programme financing), and recoveries. Between 1970 and 1985, total federal contributions to territorial revenues increased, in nominal dollar terms, by a factor of around 15.
5. In recent formula extension negotiations, a cap was put on the escalator. But given the trend, this would seem to primarily serve a psychological function.
6. According to the Auditor General of Canada, financial control means:

Ensuring that Canadians' dollars are spent for the purposes and in the amounts approved by Parliament. . . [Financial management means that the decision makers should be fully aware of the financial implications of their decisions, make sure that public funds are spent with due regard for economy, efficiency and effectiveness, and ensure that information is available so that they can be held fully accountable for the way they have spent the taxpayers' money. (Report of the

Auditor General of Canada to the House of Commons, fiscal year ended 31 March 1987, 1.16).

7. Budget information available to the public in the Main Estimates and Public Accounts, particularly those of the **GNWT**, are quite clearly presented. These allow activity by activity comparison of actual spending against allocated budget. None the less, neither territorial government is innocent of a litany of financial management problems similar to those which plague other governments. For example, the **GNWT'S** current Financial Information System had a rather inauspicious introduction in the early 1980s, when problems with the computer programme derailed the government accounting system. Some of the sins of the **YTG** financial management system were recounted by the recent report of the Auditor General.
8. As applied here, the term "consensus" does not conform to common modern usage (i.e., unanimous agreement arrived at by open dialogue), as the not infrequent complaints of **MLAs** indicate. For Example, **MLA** Henry Zoe recently raised questions about the notion of consensus when his request for the tabling of a study on decentralization in his riding was refused. **MLAs** are certainly not privy to all the information sources, decisions, and actions of the executive. Motions raised in the legislature are decided by majority vote, not consensus.
9. According to **SCOF'S** report to the Legislative Assembly on the 1988-89 Main Estimates, the rationale for the department by department budget review was:
 - 1) to clarify the mandate of the department;
 - 2) to determine the policy objectives of the department;
 - 3) to ascertain whether programmes are meeting the policy objectives adequately;
 - 4) to determine whether there are any criteria for the addition or deletion of programmed according to some system of evaluation.

The four main issues identified **were:** policy development, budgetary growth, person-year utilization, and decentralization and delegation.
10. **MLA** and past government leader Richard Nerysoo expressed some concern in the recent session of the legislature about the unusual degree of direct and substantial participation of all **N.W.T.** ministers in budget-setting.

11. MLA Tom Butters (*Hansard Official Report*, 19 February 1988, p.259) conveyed a sense that the intention of this development has not yet been achieved. "The Executive Council [is] no longer a collectivity of equals. . . [since] we now [have] a First Minister. . . Our expectation was that First Minister would be responsible for the total administration of government."
12. For the 1985 *Priorities* document, ten million dollars ("diverted from existing programs") was allocated to the *Priorities* in the 1985-86 fiscal year. Allocations are identified by department and priority, and funds for individual programmed and projects are also specified (e.g. , \$500 000 to a venture capital fund, \$250 000 to the outpost camp programme, \$275 000 for the design and construction of waste heat recovery systems for public buildings). In a few cases, planned policy initiatives are also identified (e.g. , privatization, affirmative action, strategic resource planning). These initiatives serve as an important reminder that priorities can be reflected in ways other than substantial budget allocations.
13. A thorough, if idealized, description of the budget process of the **GNWT** is contained in Appendix B of the 1988-89 Main Estimates.
14. According to Jamieson and **Amirkalkhali** (1986), a government's budget balance is determined by both discretionary and non-discretionary factors. Discretionary factors include policy initiatives, which affect expenditures, tax rates, tax incentives, etc. **Non-**discretionary factors include cyclical (e.g., economic impacts on government expenditures and tax receipts) and **non-cyclical** elements. The appropriateness of a government's budgetary deficit and resultant debt position is related to the impact of inflation, the government's tax capacity, and other factors. In particular, when a government expects a future increase in its tax capacity, a case may be made for deficit financing. This kind of argument was not made by the **GNWT** executive.
15. In his recent Budget Address to the Legislative Assembly, Finance Minister Michael Ballantine asserted that "close to 50 per cent of our budget is targeted to departments that have as their sole responsibility the delivery of essential services [health care, education, social services, housing] to residents of the Northwest Territories." (*Hansard Official Report*, 11 February 1988, p.30) He also suggested that the current year's **O&M** expenditure growth has been largely limited to unavoidable population growth demand and inflation, and that "operations and maintenance expenditures will be limited to forced growth with all new initiatives

met through reallocations within existing departmental budgets." (ibid. , p.30)

16. The **N.W.T.** population grew by 14.2 per cent from 1981 to 1986, the highest provincial/territorial growth rate in Canada. During the same period the Yukon's growth was only 1.5 per cent, the second lowest in Canada. Net migration for the **N.W.T.** has been negative since the 1985 downturn in the economy. (*Northern Indicators, DIAND*, Strategic Planning Directorate, March 1988).
17. The components of a management for results system are: mission statement, objectives, goals, measurable criteria, and evaluation of results.
18. According to discussions in January with Department of Economic Development and Tourism officials, their management for results system had been devised, and was awaiting data input. Many departments may undertake internal programme evaluations, but do not release these to the public.
19. It is also important to note that all members of the executive currently sit on both the Priorities and Planning Committee (**PPC**) and the Financial Management Board (**FMB**). On the one hand, participation of all ministers may limit the potential for achieving agreement on priorities and procedures. On the other hand, if a sense of consensus does emerge, there may be less of a felt need to formalize and record it, since the fiscal requirements and implications are dealt with by the same group in the **FMB**.
20. It deserves note, however, that despite relentless and seemingly massive annual increases, if one excludes the Petroleum Incentive Program grants of the early 1980s, the level of northern expenditures as defined in **DIAND's** Northern Expenditure Plan (which includes direct spending of all relevant federal departments in and on the North, as well as transfers to the territorial governments) has remained a fairly constant proportion of total federal expenditures in recent years. On the other hand, transfers to the territorial governments have increased as a proportion of this total spending.
21. The 1988-89 GNWT budget proposes no tax increases. There was some criticism in the legislature for the failure to expand the property tax, on the grounds that this undermined the plan of the previous government to *gradually* increase the school tax levy to more realistic levels. Finance Minister Michael Ballantine told the legislature that he will be proposing a whole tax package for next year, including an expanded property tax.

22. **The report, *An Assessment of the Impact of Federal Tax Reform Proposals on the Economy of the Northwest Territories*, 28 August 1987, was prepared by the DPA Group Inc. for the GNWT Department of Economic Development and Tourism.**

23. The facts are cast in different ways depending on the interests at stake. It should be noted, however, that the only way in which a lower overall tax rate could result in higher nominal taxes is if there are more people in higher tax brackets. The territorial government argues, with some legitimacy, that higher incomes are necessitated by higher cost of living. Ultimately, the basic issue in terms of tax equity is whether the disposable income of territorial residents is comparable to the Canadian average for any given income level. Even more fundamental is whether an N.W.T. resident can afford a comparable standard of living as someone with the same job position in southern Canada.

I. POLITICAL AND ADMINISTRATIVE EVOLUTION
AND IMPACTS ON FISCAL ISSUES

Administration, Government, and Financial Arrangements
in the **N.W.T.**

James Cunningham
Mark O. Dickerson

I. Federal Administration in the **N.W.T.**

1. **Introduction**

The administration of what is today the Northwest Territories (**N.W.T.**) began in 1912, after the Yukon was carved out in 1898, Alberta and Saskatchewan were created in 1905, and the boundaries between the **N.W.T.** and Manitoba, Ontario, and Quebec were extended to their current northern limit in 1912. The existing **N.W.T.** continued to be administered under the Northwest Territories Act, which was passed in 1875 and amended in 1905 to provide for a commissioner and four appointed **councillors**. (Prior to 1905, the Lieutenant Governor was responsible for the **N.W.T.**, but in other respects the governing apparatus was quite similar.)

At the time, three different government organizations had jurisdiction in the region. The territorial commissioner and appointed council were responsible for passing necessary ordinances for the area. The Department of the Interior was responsible for a variety of functions pertaining to the land in the region, and the Department of Indian Affairs was responsible for the welfare of Indians. This tripartite arrangement lasted until the responsibilities of northern administration and Indian

affairs were rolled into the Department of Indian Affairs and Northern Development (**DIAND**) in 1966.¹ Although the three agencies performed different functions, they administered the **N.W.T.** as an interlocking directorate because of the overlap of personnel from different departments on the **N.W.T.** Council.

The appointed **commissioner-in-council** structure lasted until 1951. The council in effect legislated "ordinances" for the N.W. T.--regulations governing activities such as hunting and trapping, the sale of alcoholic beverages, the licensing of non-native hunters and trappers and business establishments--and provided support for schools and hospitals initially run by Anglican and Roman Catholic missions. For 30 years, then, the three agencies were responsible for governing a third of the land mass of Canada.

2. Departments Responsible for Indian and Inuit Affairs

In the 1930s, a dispute between the government of Canada and the government of Quebec over the **Inuit** in that province led the two governments to ask the Supreme Court of Canada to rule on the legal status of these people. The court's decision in 1939 held that the term "Indian" included the **Inuit** (called Eskimos at that time).² Therefore, the federal government has long administered programmed for both **Inuit** and Indians. But although the Supreme Court upheld the federal government's responsibility for the **Inuit**, the administration of Indian and **Inuit** affairs have often been handled separately for a number of reasons.

Administratively, many people in government argued that the two peoples were very different and should be treated differently; many did not want to assume the same responsibility for the **Inuit** they had for the Indians. Technically, treaties had been made with the Indians of northern Alberta and the south-western parts of the **N.W.T.** in 1899 and 1900 (Treaty 8), and with most of the remaining Indians in the **N.W.T.** in 1921 (Treaty 11). No treaty exists between the government of Canada and the **Inuit**.

It is obvious that between 1936 and 1966 the government of Canada was uncertain as to how Indian affairs were to be administered. Responsibilities included health, education, and welfare. In 1945 health responsibilities were transferred from the Indian Affairs Branch to the Department of National Health and Welfare. But it was not until 1966 that the government of Canada considered that Indian affairs and northern affairs should be on an equal footing in one department.

3. *Departments Responsible for Northern Administration*

From 1873 until its abolition in 1936, the Department of the Interior was responsible for administration of the **N.W.T.** Finally, by 1953, northern activities began to take on a more prominent position in governmental affairs, and a Department of Northern Affairs and National Resources was created. The Northern Administration and Land Branch within the department had equal status with three other branches, and by

1956 it had arctic and educational divisions. This reflected a growing concern for education and health and welfare policies in the North. In 1966, the present Department of Indian Affairs and Northern Development (**DIAND**) was created.

As noted above, **DIAND** brought together responsibilities for native people and northern development. As discussed in the following section, however, the functions of this new authority were soon to be challenged with the movement of the capital of the **N.W.T.** to **Yellowknife** in 1967 and the growing desire for autonomy within the Government of the Northwest Territories (**GNWT**).

A number of things stand out about federal government administration in the North. From 1920 to 1953, there was very little government presence in the **N.W.T.** Over five years (1935-40), the three principal federal departments involved in administration--Interior (later Mines and Resources), Indian Affairs, and the Solicitor General (**RCMP**)--spent an average of \$254 945, \$171 296, and \$153 313 per year respectively.⁴ Even in **pre-World** War II dollars, this is not a command performance in terms of administering one-third of the land mass of Canada.

In fact, the bureaucrats on the council or in the various departments left much of the administration to employees of the Hudson's Bay Company, the Anglican or Roman Catholic churches, or the **RCMP**. However, the 1950s marked a departure from this policy. The government not only established a presence in the North but established policies which would affect the lives of

most residents in the N.W.T.--housing, education, and health policies. These policies, for the most part, were **Ottawa-**designed and Ottawa-delivered.

II. Political and Administrative Evolution of the GNWT

In August 1920, when Imperial Oil drilled successfully 50 miles north of Fort Norman, the tempo of administration in the region began to change. Individuals in the Department of the Interior felt that the availability of oil in the Mackenzie Valley could bring prospectors and speculators to the region. Therefore, in 1921, council membership was increased from four to six, but all members were still appointed. This, in effect, was the **law-**making body for the **N.W.T.** during the Depression and throughout World War II.

However, in 1951 the Legislative Council began to change. Responding to pressure for more representative government in the region, the federal government revised the Northwest Territories Act, increasing council membership to eight, including three to be elected. In 1954 a fourth elected member was added.

This was the beginning of the end for the appointed administrative process. By 1975 the council consisted of 22 elected members, and, by 1983, 24.

Table I
Transformation of the
Territorial Council-Legislative Assembly
General Election Years

	1951	'54	'57	'60	'64	'67	'70	'75	'79	'83	'87
Appointed members	5	5	5	4	4	4	4				
Elected members	3	4	4	4	4	7	10	15	22	24	24

Source: Figures taken from Government of Canada, **Report of the Chief Electoral Officer** (Ottawa: Information Canada, designated years).

A number of points should be noted about this transformation. In 1954, for example, suffrage was extended to Eskimos, but no territorial constituencies existed in the central or eastern Arctic, where most of these people resided. This was changed in 1966 when three constituencies were added for the eastern, central, and western Arctic.

Indians also received the franchise in 1960. Most of these people resided in and around the Mackenzie Valley; by 1979 their members were influencing territorial elections, and a number of native candidates were running for office. In the Ninth Legislative Assembly (1979-1983) a majority of the members were native people, reflecting the fact that approximately 57 per cent of the population of the N.W.T. is native. Representative government was indeed becoming a reality.

In his opening remarks at the beginning of the first Session of the Ninth Legislative Assembly (1979-1983), Commissioner John Parker stated that "his role would be to facilitate change by assisting the transfer of power from appointed officials to elected representatives and helping the people of the Northwest Territories to achieve responsible **government.**"⁵ In moving to that objective, the assembly recommended that the Executive Committee include five elected members. Later in the session, the committee was expanded by two additional members. One of these members was chosen to speak for the elected executive members, in effect becoming the government leader. Members of the Executive Committee were responsible for specific departments--Health and Social Services, Justice and Public **Services**, Government Services, Education, Energy and Renewable Resources, Aboriginal Rights and Constitutional Development, and Economic Development.

Thus, the members of the executive became, in effect, the Cabinet of the Legislative Assembly. In the 10th Legislative Assembly (1983-1987), the Executive Council was expanded to seven elected members plus an elected leader. The commissioner continued as a member of the council, but in 1986 the chairmanship was passed to the government leader. The Executive Council is "responsible" to the Legislative Assembly; that is, members of the assembly elect members of the Executive Council and the government leader. Although the assembly does not have all the constitutional powers of a provincial legislative

assembly, it nevertheless functions in an almost identical way. Thus, the **N.W.T.** is moving toward a more representative and more responsible government.

Administrative evolution paralleled political development, with significant change beginning in 1967. With the movement of the **GNWT** to Yellowknife, the provincial-style bureaucracy of that organization began to emerge, gradually assuming responsibilities for a number of government functions. Although this change is significant in that a locus of power developed in the **N.W.T.** rather than Ottawa, most individuals who had positions of responsibility were from southern Canada.

A final important change began with the fully elected Legislative Assembly in 1975. These numerous changes noted above (e.g., native majority in the Legislative Assembly, diminishing role of the commissioner, elected government leader) have left the door open for transforming the bureaucracy from one which has been staffed primarily by southerners to one which may become staffed primarily by individuals from the region. The changes also mean that the **N.W.T.** is moving a step closer to a system in which the powers of the commissioner are more those of a Lieutenant Governor. In spite of these changes, however, one must remember that almost 80 per cent of the revenue of the **GNWT** comes from Ottawa.

III. Fiscal Responsibility

1. *The First 20 Years*

Historically, revenues raised by the GNWT have fallen short of expenditures required to operate government in the region. In the past, the federal government met these shortfalls through grants for operating costs and loans for capital requirements. Expenditures were calculated on the basis of five-year agreements developed by the Interdepartmental Committee on Federal-Territorial Financial Arrangements. This committee met in Ottawa and was chaired by an assistant deputy minister from DIAND. The agreements were then presented to the N.W.T. Council for review, and finally approved by the federal Cabinet.⁶

2. *Special Arrangements, 1967-1972*

In 1966, the Carrothers commission made numerous recommendations concerning the evolution of government in the N.W.T.⁷ A prime concern focused on existing federal programmes and their transfer to the GNWT. Very little attention was paid to financial concerns, and no attention was directed toward fiscal responsibility. Of note was the recommendation that **quinquennial** financial agreements between the N.W.T. Council and the government of Canada be reduced to a shorter time period. It was thought that a shorter time was necessary due to problems in accurately forecasting required revenues during a period of rapid governmental **change.**⁸

The interdepartmental committee recommended that a two-year agreement be implemented for fiscal years 1967-68 and 1968-69. Within this agreement would be additional monies for the establishment of the territorial government in Yellowknife, as recommended by Carrothers. However, no accurate predictions could be made concerning operating and capital funds required by the **GNWT**. The proposed two-year agreement for the period 1967-69 contained some interesting directions for the council. First, it stated that the council should not take on any significant new programmed, or additions to existing programmed, as this would jeopardize the essential task of getting a sound territorial administration set up. As well, it stated that the current federal policy of financial austerity must be accepted as a fact further discouraging any major expansion of approved programmed.⁹ Combined funds provided for the two years 1967 to 1969 were \$34 802 000.¹⁰

The report to the 38th Session of the Territorial Council concluded by stating that the grants and loans outlined had made it possible to present a balanced budget to council for 1969-70. There was no consideration of the possibility of an accumulated deficit occurring during this period in which the government was in transition.

3. *NWT Council Takes Control of Financial Management, 1972-1983*

In the fiscal year **1972-73**, the Standing Committee on Finance (**SCOF**) became involved for the first time in the estimates stage

of the budgetary process. Members of the **SCOF** were generally dissatisfied with the current financial arrangements, as they felt the council was not playing an adequate role in the process compared with the role played by the commissioner. The commissioner, who was not directly accountable to the council, still played by his own rules when it came to **GNWT** budgeting and spending. It appears that the commissioner had more discretionary spending authority than did the council. Most of this authority was derived by the broad powers in the Northwest Territories Act. The commissioner would spend money then advise council after the fact. In 1972, the **SCOF** expressed its dissatisfaction with the process to the council.

In view of the unique position in which we find **ourselves**--i.e. being spenders but not revenue raisers--we must abide by the rules set down by the Federal authorities concerning how we must go about negotiating item by item with them for funds to spend. It is their money, they tell us, hence they have the whip **hand**.¹¹

Within this process the new and expanding central bureaucracy in **Yellowknife** found it extremely difficult to meet the needed expansion of existing **GNWT** programmed. It was doubly difficult to find revenues to implement new **programme** initiatives desired by the council. Thus, the **SCOF** suggested that the **GNWT** would only be able to shift **programme** emphasis on a gradual basis rather than change direction **decisively**.¹² However, the federal government must be given its due for allowing the **GNWT** budget to move from \$93 million in 1971-72 to \$108 million in 1972-73--up from a modest \$14 million in 1967.