



Backgrounder

Reconciling the Irreconcilable

Report of the Council of the Federation Advisory Panel on Fiscal Imbalance – Implications for the Northwest Territories

YELLOWKNIFE (April 11, 2006) - The Report of the Council of the Federation (COF) Advisory Panel on Fiscal Imbalance, titled *Reconciling the Irreconcilable*, was released by the provincial and territorial Premiers today.

The COF Advisory Panel on Fiscal Imbalance was established by provincial and territorial Premiers in May 2005 to conduct an independent review of both horizontal and fiscal imbalances in Canada and to recommend solutions to resolve the imbalances. The Advisory Panel's report considers how well fiscal arrangements are working and whether those arrangements are effectively structured and funded to meet the national and regional economic and social challenges facing Canadians.

The Panel devotes an entire chapter to the three Northern territories. This is of considerable significance and should not be under-estimated. It is reflective of the growing importance of the region in terms of sovereignty, economics and aboriginal self-government. The Panel recognizes that Canada's northern territories face "enormous difficulties" in providing basic public services to their residents and must deal with important social issues. The Report addressed the territorial characteristics of small dispersed populations, developing economies, underdeveloped infrastructures, high living costs, challenging social conditions relative to southern Canada, and evolving political systems as reasons to treat the Northern Territories as special cases.

The Panel recommended that the current federal arrangements for Territorial Formula Financing be replaced with a formula-based financing mechanism based on the expenditure need and eligible revenues of each territory. These recommendations support the joint territorial view that the current arrangements are inappropriate for Territorial Formula Financing. While the Panel recommended that initial funding should be based on funding levels established for 2006-07, it also called for future adjustments following an adequacy review. Adequacy has been a serious issue for Territorial Formula Financing since the mid-1990s' when the federal government drastically reduced funding to the provinces and territories to address federal deficits. There is still an "adequacy gap" of almost \$90 million for the NWT (\$220 million for the three territories combined) even

after accounting for funding restored to Territorial Formula Financing and other transfers since 1994-95.

The Panel recommended that the Government of Canada and the territorial governments expedite negotiations to conclude agreements where territories assume province-like authority and responsibility for management of lands and natural resources and become principal beneficiaries of revenues and royalties derived from these resources. The arrangements must take into account Aboriginal rights, needs and participation.

The Panel also noted the Aboriginal self-government negotiations taking place in Yukon and the NWT and stated that federal/territorial arrangements “should fully recognize the obligations and costs of Aboriginal rights agreements and remove any fiscal disincentives for territorial governments to conclude the remaining agreements.”

The Panel recommended that the special needs and circumstances of the territories be provided for in specific federal program transfers (examples are the Canada Health Transfer and the Canada Social Transfer.) Specifically, funding should be based on actual demand and cost rather than on per capita allocations; the terms of cost-shared programs should recognize the limited revenue capacities of the territorial government; and all such program funding should be excluded from Territorial Formula Financing calculations.

The Panel’s recommendation provides extra support to reinforce the three territories’ joint argument that per capita funding is insufficient to meet territorial needs. The Government of the Northwest Territories has consistently argued that if the federal government introduces new federal programs with new spending responsibilities for the provinces and territories, per capita funding for the territories will not be sufficient to allow them to effectively participate in the programs.

The full report can be found on the Department of Finance website at www.fin.gov.nt.ca.