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The Honourable Carolyn Bennett
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July 18th 2016

RE: The Two Per Cent Cap

Minister Bennett,

The promise to lift the 2% cap upon forming government was one of the bedrock commitments the Prime Minister and your government made to Indigenous communities. The need to establish trust with Indigenous communities is paramount if a new Nation-to-Nation relationship is to exist in Canada. Therefore I am growing increasingly concerned about claims that you have been making that the 2% cap on base funding has been lifted, when these claims counter documents and briefing notes within your own department. And I note that you received these notes well in advance of any budgetary decisions made by your government.

I am particularly concerned that statements that you made to a Parliamentary committee on June 16th regarding the lifting of the cap and how the cap worked were at odds with your own ministerial briefing notes. As the testimony at committee is to carry the same legal obligations as testifying in court, I feel it incumbent upon you to explain the serious discrepancies between your testimony and the documents that you would have had in your possession.

On April 28, 2016 you signed a government order paper question regarding the historical percentage increases in base funding for Indigenous programs. It showed that in the year 2016-17, the increase in base funding was capped at 2% just as it has been every year for the last twenty years.

At the June 16th meeting at the Parliamentary Committee on Indigenous Affairs I asked you to confirm what you had sent in me in writing and you stated that the 2% cap had been lifted. Specifically you stated:
"Oh, it's way more than that." (On the 2% cap): "There is the 2% cap is gone"... "It's lifted now."

When I pressed you on how it could be that the base funding figures you provided were wrong you claimed that increases in specific project funding under the 2016 budget will erase the 2% cap that exists on base funding. Specifically you stated:

- Charlie, the 2% cap included program funding before. So all the money that's being ramped up now breaks way out of the 2%."
- "The program funding used to be capped and that's where we got into big problems on..."
- "No, that—when we said we'd raise the cap we said that we would raise the cap. That means the project funding was also at 2% before and so this is very different. So I wouldn't waste your time on this because 2% cap is gone."

When I pointed out to you that under previous governments there were large expenditures on specific program priorities while the overall cap on base funding for Indigenous communities remained in place you said this wasn't true. Specifically you stated that the cap was on the entire budget:

- "It's lifted. The 2% cap is not only talking—lifting the 2% cap isn't just talking—the cap included in everything. We are lifting all of the program funding."
- "No, the whole budget was capped."
- "The base funding is the base, it's the starter, and what the cap used to be on everything, right. So this is the base this is what the finance and Treasury Board do and then we have to justify everything we set above that."

The reason I feel it is important to raise this in a letter to you is that I have obtained your ministerial briefing notes on the 2% cap. These ministerial notes lay out the specifics of how the 2% cap was applied over the last twenty years to base funding and that the cap did not include project specific funding or the entire budget.

- As a result of program review in the mid -1990s, an escalator of 6% in 1995-96, 3% in 1996-97, and 2% in all subsequent years- was approved for a sub-set of Indian and Inuit Affairs Programs with a total value of \$3.46 - The \$3.48 base included the 1990's programs that funded education, social services, band governance, self government agreements, and infrastructure (full list can be found In Annex A and 8 and the base for the current annual escalator calculation can be found In Annex C).
- some programs do not receive annual growth from the 2% escalator (e.g. time limited or directed programs, proposal-based programs, some northern initiatives, claims settlements, internal departmental overhead)

The ministerial briefing document goes on to show the devastating impact of capping base funding as money has to be continually moved from project specific priorities to address more immediate shortfalls, a practice the Auditor General has referred to as shifting the chairs on the deck of the Titanic.

Further, the escalator did not sufficiently account for the objective of some of these federal programs to align with those of the provinces I territories, particularly when policy changes at the provincial/ territorial levels impact First Nations delivery systems and services and when provincial funding and benefits are growing at a higher rate... **The result has been a need to reallocate funds primarily from the Infrastructure program to other programs, such as social services... In most cases cost drivers are higher than 2% and the result is a shortfall in base funding**

I appreciate the fact that your government is making commitments to address specific shortfalls but the mechanisms for addressing the overall budget crisis facing Indigenous communities by your government appears to be following the same pattern as previous governments. This is crucial, because, as your own documents state, escalators need to be applied on top of base funding. Without adjusting that base funding, escalators are applied to a smaller budgetary base and do not provide sufficient funds. Your own documents state this risk in crystal clear language and state your current budgetary approach is repeating these risks.

In moving to a new more appropriate escalator or escalators, a critical consideration is addressing systemic funding shortfalls in programs that provide basic services; **without adjusting the funding levels and filling gaps a new escalator will be applied to a smaller budgetary base and not generate sufficient funding and risks repeating the current problem in the future**

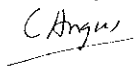
Your documents show that this is exactly the practice for 2016-2017, because the two per cent cap has not been lifted. Further, these documents show what is in the base, so, that even if the department decides to continue to play budgetary shell games, many of these program areas like post-secondary and income assistance that have not received increased investments are still at a two percent growth.

The discrepancy between your budgetary and ministerial documents stating the cap is in place and your statements it is lifted along with all of your election promise, mandate letters, your commitments and the Prime Minister's commitments to lift the cap must be explained.

Furthermore, the shell games, secrecy, and misdirection with the budget at Indigenous Affairs need to end. I am writing to ask you to explain why your own documents and briefing notes appear to directly contradict your repeated testimony at Committee and public statements.

In light of firm commitments made by both you and the Prime Minister that the cap has been lifted and in light of the promise of a nation to nation relationship I am asking you to explain why there are such giant discrepancies between your commitments, testimony, and your own documents. I am writing to ask you to explain how the cap is lifted if your own budgetary and ministerial documents state in black and white that it is still in place for 2016-2017.

Sincerely,

A handwritten signature in cursive script that reads "C Angus". The signature is written in black ink and is positioned above a horizontal line.

Charlie Angus
MP Timmins-James Bay