



Aboriginal Affairs and  
Northern Development Canada

Affaires autochtones et  
Développement du Nord Canada

SECRET



# Departmental Two Percent Escalator

Ministerial Briefing

January 2016

Canada

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Aboriginal Affairs and  
Northern Development Canada

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## Purpose

- To provide background information and options to implement the mandate letter direction to the Minister to “work with the Minister of Finance to establish a new fiscal relationship that lifts the 2% cap on annual funding increases and moves towards sufficient, predictable and sustained funding for First Nations communities”.



## Issue

- 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 \$3.4B
  - The \$3.4B 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 B and the base for the current annual escalator calculation can be found in Annex C).
  - Most of the Northern Affairs programming was excluded, as it was not considered Indian and Inuit programming. Claims settlements was also excluded, as there was and still is a separate source of funds.
- These escalators were intended to reflect price and population growth, but over time the 2% escalator has not kept pace with the growing needs and increasing costs
  - This includes where the Department is required to reimburse provinces and territories for services provided (non-discretionary reimbursement of expenditures for services provided).
- Further, the escalator did not sufficiently account for the objective of some of these federal programs to align with those of the provinces / 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



## Background on 2% Escalator

- Not all programs are impacted by inflation and population growth, therefore, 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)
- Programs that fund basic services (e.g. elementary/secondary instructional services and student support services, community infrastructure and social development) are provided growth. These programs are subject to external cost drivers that increase costs each year (inflation, population growth, and in some cases the need for alignment with increasing provincial / territorial spending and outcomes)
- In most cases cost drivers are higher than 2% and the result is a shortfall in base funding
- These shortfalls have been exacerbated by the fact that additional investments for new or enhanced programming introduced after 1994-95 were never added to the base for escalation, even though they also provide for basic services
- The result is that limited funds generated by the 2% escalator are stretched even more across a larger program base. To help address shortfalls funding for basic services such as social services, the Department provides additional financial resources to these programs with funds from other programs, primarily infrastructure. While this helps address needs it increases the shortfall in infrastructure funding
- To help address shortfalls or specific needs, targeted and time limited funding have been provided (e.g. - Water and Wastewater, Schools, Housing), approximately 17% of the Department's budget is composed of time-limited funds (sunsetting)
  - Targeted funding has helped to address immediate needs but it does not provide the stability and predictability required both to deliver basic on-going services that are subject to annual cost increases and to plan and implement effectively major infrastructure projects
  - Further, targeted funding has focused more on improvement initiatives and capacity building as opposed to funding to address shortfalls for basic needs



## Addressing Funding Gaps / Shortfalls

1. Despite best efforts to allocate the limited funds generated from the 2% and to reallocate funds to areas of highest priority, program integrity issues have developed in programs that provide basic services to First Nations
2. Some programs have insufficient on-going base funding to keep pace with costs and cost drivers, and provincial / territorial expenditures and service levels (e.g. - Child Family Services, Income Assistance, and Education)
3. 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
4. INAC has identified the increases required to program budgets in order to address known, systems and funding shortfalls
  - For Education and Child Family Services, analysis had identified that additional funding is required to improve service delivery, work towards provincial alignment, and / or implement cost containment strategies that will focus on reducing the rate of growth
  - For Income Assistance, Infrastructure and other INAC programs there are funding shortfalls in the context of existing program delivery frameworks, but more analysis is required to identify funding requirements for improving initiatives with a consideration for current provincial / territorial services

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### Annex A - Original base from 1994-1995 upon which 2% was calculated

(\$000s)

Lands and Trust Services	65,194
Self-Government	18,116
Elementary/Secondary Education	823,438
Post Secondary Education	227,331
Social Maintenance	657,750
Social Support Services	352,112
Capital Facilities & Maintenance	572,487
Housing	137,763
Indian Government Support	294,380
Economic Development	67,102
Program Management & Administrative	41,672
Corporate Policy	19,723
<b>Sub-Total Indian and Inuit Affairs Program</b>	<b>\$3,277,068</b>
Northern Affairs Program (mostly health care)	43,392
Administration Program (about 96% of funding for this program)	43,545





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## Annex B - Additional Details for 1994-95 Base for 2% calculation

Indian and Inuit Affairs Program (Includes All Votes) (\$000s)		Subtotal	Total
Lands and Trusts	Lands, Resources and Environment	32,091	65,194
	Reg., Revenue and Band Governance	18,373	
	Indian Oil and Gas	6,121	
	Treaties	697	
	Indian Taxation	1,987	
	Activity Management	5,925	
Self-Government	Self-Government	15,381	18,116
	Secheit	2,735	
Elementary/Secondary Education	Instructional Services	685,645	823,438
	Student and Educational Support	129,614	
	Cultural Centers	8,179	
Post-Secondary Education			227,331
Social Maintenance	Social Assistance	643,771	657,750
	Family Violence	13,979	
Social Support Services	Child Family Services	256,524	352,112
	Adult Care	68,214	
	Other Social Services	27,374	
Capital Facilities and Maintenance	Capital Infrastructure / Education	344,332	572,487
	O&M Infrastructure / Education	204,368	
	Other	23,787	
Housing			137,763
Indian Government Support	Band Support Funding	169,259	294,380
	Tribal Council Funding	45,910	
	Band Employee Benefits	42,883	
	Band Advisory Services	1,447	
	Indian Government Support	9,228	
	Management Support Services	4,896	
	Indian / Inuit Management Dev.	4,783	
	Canada / Newfoundland	9,736	
	Conne River	6,238	
	Economic Development		
Program Management and Administration			41,672
Corporate Policy			19,723
Sub-total Indian and Inuit Affairs Program			3,277,068
Northern Affairs Programs (mostly health care)			43,392
Administrative Program (about 96% of funding for this program)			43,544
<b>Grand Total Indian and Inuit Affairs Program</b>			<b>3,364,005</b>



## Annex C - Program base subject to 2% escalator

2% Calculation			
Year	Base (\$000s)	Increase (\$000s)	Increase (%)
1994-95	3,364,005		
1995-96	3,565,845	201,840	6.0%
1996-97	3,672,820	106,975	3.0%
1997-98	3,746,276	73,456	2.0%
1998-99	3,821,202	74,926	2.0%
1999-00	3,897,626	76,424	2.0%
2000-01	3,975,579	77,953	2.0%
2001-02	4,055,091	79,512	2.0%
2002-03	4,136,193	81,102	2.0%
2003-04	4,218,917	82,724	2.0%
2004-05	4,303,293	84,376	2.0%
2005-06	4,389,361	86,068	2.0%
2006-07	4,477,146	87,785	2.0%
2007-08	4,566,689	89,543	2.0%
2008-09	4,658,023	91,334	2.0%
2009-10	4,751,183	93,160	2.0%
2010-11	4,846,207	95,024	2.0%
2011-12	4,943,131	96,924	2.0%
2012-13	5,041,994	98,863	2.0%
2013-14	5,142,834	100,840	2.0%
2014-15	5,245,692	102,858	2.0%
2015-16	5,350,606	104,914	2.0%
2016-17	5,457,618	107,012	2.0%



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Ministerial Briefing

November 2015

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## Purpose

- To provide background information on the creation and application of the department's annual 2% escalator



## Issue

- 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 \$3.4B
  - The \$3.4B base included programs that funded education, social services, band governance, self government agreements, and infrastructure (full list can be found in Annex A and base for the current annual escalator calculation can be found in Annex B)
  - Most of the Northern Affairs programming was excluded, as it was not considered Indian and Inuit programming. Claims settlements was also excluded, as there was and still is a separate source of funds for which to draw upon
- These escalators were intended to reflect price and population growth
  - Escalators did not take into consideration that the Department is a price taker where provinces/territories deliver services on our behalf (non-discretionary reimbursement of expenditures)
- Further, the escalators did not take into account the federal policy objective to align First Nation funding and service with the provinces / territory, when First Nations are funded to deliver the services, which have increased due to provincial / territory policy decisions
- The result has been reallocation from the Infrastructure program to other programs such as social services



## Background on 2% Escalator

- Not all programs receive or require annual growth from the 2% (e.g. economic development, internal departmental overhead)
- Programs that fund basic services (e.g. education, community infrastructure and social development) are provided growth. These programs are subject to external cost drivers that increase costs each year (inflation, population growth, and need for alignment with increasing provincial / territorial spending and outcomes)
- In most cases cost drivers are higher than 2% and the result is a shortfall in base funding
- Shortfalls have been exacerbated by the fact that new programs introduced after 1994-95 were never added to the base for escalation. Some of these programs are provided growth because they fund basic services and are affected by cost drivers. The result is the limited funds generated by the 2% are stretched even more thinly across a larger program base
- To help address shortfalls, targeted and time limited funding has been provided (e.g. - Water and Waste Water, Schools, Housing), approximately 17% of the Department's budget is composed of sunsetting funds
  - Targeted funding has helped addressed immediate needs but it does not provide the stability and predictability required to deliver basic on-going services that are subject to annual cost increases.
  - Further, some targeted funding has been more focused on reform and capacity building as opposed to funding to address shortfalls for basic needs



## Rebasing

- Despite best efforts to allocate the limited funds generated from the 2% and to reallocate funds to areas of highest priority, program integrity issues exist in programs that provide basic services to First Nations
- Some programs have insufficient on-going base funding to keep pace with cost drivers and to align with provincial / territorial expenditures and service levels (e.g. - Child and Family Services, Income Assistance, Education)

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