FINANCIAL CONSIDERATIONS
CANADA-NEWFOUNDLAND AND CANADA - LABRADOR AGREEMENTS

I. ISSUE:

The allocation of Federal (and consequent Provincial) funding as between the Canada - Newfoundland - Native People of Labrador and the [redacted] within an overall planned maximum Federal contribution ceiling for the two agreements.

II. PREVIOUS FUNDING:

The previous Agreement required the Federal Government to provide funds for each designated community, varying from 60% to 90% of the total expenditures in to the community depending on the respective proportion of native to non-native populations. The applicable proportions of Natives to the total population of each community were set out in the exchange of letters, and subsequent amendments.

Community	1976 Census Population	% Population Designated as Native	Native Population	Net level of Federal share, employing 90 - 10 Formula
A. Inuit				
. Nain	791	66 2/3%	527	60%
. Makkovik	304	66 2/3%	203	60%
. Hopedale	440	66 2/3%	293	60%
. Postville	163	66 2/3%	109	60%
. Rigolet	239	66 2/3%	159	60%
. Black Tickle	194	66 2/3%	129	60%
. Mud Lake	70	66 2/3%	47	60%
B. "Indian" (Non-Status)				
. Davis Inlet	272	100%	272	90%
. Northwest River (Southside)	537	100%	537	90%
[redacted]				

In addition Canada's share of expenditures was to be applied, with regard to expenditures for regional facilities and institutions (primarily schools, dormitories, etc.) which serve predominently non-Native communities as well as Native communities, only to that part of the cost representing the proportion of enrolment and use which the Natives bear to the total enrolments and use.

The 1975-1980 Agreement provided for an annual maximum Federal contribution of $4.5 million (or a total contribution over its 5 years duration of $22.5 million). However, the terms of the agreement did not establish a ceiling on Provincial spending. In order to recover the Federal funds Newfoundland was spending $6.1 million per year in the latter years of the Agreement, or a total of $30.0 million over 5 years, for a net Provincial average expenditure of $1.5 million per year.

The 1975 Agreement expired on March 31st, 1980.

III. CURRENT SITUATION:

The Province has maintained that, due to inflation, a Federal contribution for a renegotiated Agreement should start from a base of $6.2 million in the first year merely to sustain the purchasing power of the original level of Federal commitment. This funding should increase to $9.9 million by the fifth year, for a total Federal contribution of $41.9 million.

The Federal negotiators have offered a total allocation under the new Agreement of $5.0 million in the 1st year, with increments of $500,000 per year, for a total of $30.0 million during the five years.

(4) Irrelevant [redacted]

All parties have apparently accepted that $5.0 million is the maximum Federal contribution, in the 1st year, (4) Irrelevant [redacted]

1. LABRADOR AGREEMENT:

The Province had indicated that to carry out the original long range plan (which included two communities subsequently dropped from coverage) envisaged for the Labrador communities would cost approximately $44.8 million over a five-year period. Under the cost-sharing formula applicable to the Labrador coast communities the Federal Government would have been responsible for approximately $30.0 million (an average of $6.0 million per year).

It should be noted that of the original $44.8 million budget, some $5.9 million (an average of $1.18 million per year) or 13.2%, was designated toward the Provincial overhead administrative costs for the operation of the Labrador Services Division, Department of Rural, Agricultural and Northern Development. The Federal contribution to this overhead cost would have been approximately $3.9 million or $786,600 annually.

Labrador Native Proposal

In May, 1980 the seven Labrador coast communities submitted 1980-81 budget requests totaling $5.6 million. The potential federal share was as follows:

Community	Request		Potential Federal Share
Inuit			
. Nain	$ 910,500	at 60%	$ 546,300
. Hopedale	396,100		231,666
. Makkovik	248,700		149,220
. Postville	1,149,100		689,460
. Rigolot	503,600		302,160
Indian			
. Davis Inlet	1,614,400	at 90%	1,452,960
. Northwest River	782,500		704,250
TOTAL	$5,594,900		$4,076,016

These community requests did not include amounts for Provincial overhead administration, nor for the education program component of the Agreement.

(4) Irrelevant

[redacted]

TOTAL: $848,330

(4) Irrelevant

[redacted]

3. BOTH AGREEMENTS: PROVINCIAL PROPOSAL

Provincial Proposal

The I & IA - Atlantic Regional Office and the Province recently submitted a "Possible Cash Flow Summary" (copy attached 'C') proposing that the total 1st year allocation to all the communities covered by the proposed two agreements equal $6.6 million, with the Federal share at $5.0 million and the Provincial share at $1.66 million. This amounts to a over-all cost-sharing formula of 75.8% and 29.2%. The formula provided in the Agreements when averaged for the 8 communities should be about 69.6% Federal. Under this funding proposal, Capital and O & M costs for new stores, fish plant equipement, school construction, and Provincial overhead administrative costs would be deducted as "priority need" items (to be administered by the respective Provincial Departments), with the consequent balance of funds to be distributed (on a per capita basis) and administered directly by the communities.

(4) Irrelevant

[redacted]

IV. ANALYSIS

1. LABRADOR COAST AGREEMENT:

A. Reduced Community Coverage

The proposed Agreement for the Labrador Coast will eliminate approximately 7.7% of the population previously funded. The two communities (Black Tickle and Mud Lake) dropped from coverage received $462,724 or 7.6% from the 1979/80 budget ($6.1 million).

B. Other Funding Sources for Services

The 1980-81 budgets requests from the Labrador communities includes approximately $1.7 million in water and sewerage capital construction. In addition the 1975-80 Agreement provided approximately $1 million over the five years for municipal sewer and water works.
These capital services apparently are now to be covered off under a DREE Agreement (see below under No. 3, Both Agreements.

C. Provincial Contribution

The portion of the Federal funds administered by the Province through its Labrador Services Division has apparently accounted for 38.7%, 47.2% and 27.1% (for fiscal years 1978/79, 1977/78, and 1976/77 respectively), of the total annual budget for that Division (see attached 'D'). These funds either have been administered directly by L.S.D. for its programs or indirectly as a channel to communities for the administration of local programs.

The total population in Labrador, to which the Labrador Services Division programs are focused, is approxmately 32,000 (6% of Provincial population, 1976 census). Of the total approximately 15,000 are resident in Western Labrador (Wabush-Labrador City), some 9,200 are resident in the Lake Meliville area (four communities including Happy Valley - Goose Bay), and an estimated 7,800 on the coast in approximately 26 communities.

Of the total Labrador population, approximately 2,274 or 7.1% are designated as "native" under the 1975 Agreement, including:

(i) Of the four communities in the lake Melville area, two (Northwest River and Mud Lake) were designated under the Agreement. The native population (584) constituted approximately 6.3% of the area's population;

(ii) In the coastal regions of 26 communities, only seven were designated under the Agreement. The respective native population constituted approximately 1690 or some 21.7% of the total coastal population.

Apparently that portion of the Federal funding for some 7:1% of the area population, administered through the Labrador Services Division, accounted for approximately 47.2% to 27.1% of the total L.S.D. budget.

(4) Irrelevant

[redacted]

(4) Irrelevant

[redacted]

3. BOTH AGREEMENTS:

A. Provincial Administration

In 1979/80 within a total anticipated expenditive of $6,076,200 under the Canada-Newfoundland Agreement, some $628,500 was identified for direct Provincial overhead (salaries, travel and office expenses). This constituted 10.3% of spending under the Agreement, some 14.0% of the annual Federal contribution and apparently in the order of 60% of the total Labrador Service Division overhead costs (e.g. 1978/79 salaries and office O & M were $1,039,000.)

As previously noted, the original budget plan submitted by the Province indicated an anticipated average annual expenditure of $1.18 million for Provincial overhead administration (i.e. 13.2% of anticipated annual expenditures). Subsequent submissions by the Province have not set out as clearly the anticipated Provincial overhead. However, the current Provincial proposal indicates a total five year expenditure plan of $39.9 million, a drop of some $4.8 million from the previous plans (e.g. five year total of $44.8 million). The essential difference between the two plans is a reflection of the decision to eliminate coverage to two communities, Mud Lake and Black Tickle. It is reasonable to assume, therefore, that the current Provincial plan contains approximately $1.0 million in annual expenditures for Provincial overhead.

B. Other Funding Sources

As of March 31, 1979 16 subsidy DREE Agreements had been signed under the G.D.A. Several either appear to have application to the communities covered by the Federal-Provincial - Native People's Agreements (both previous and proposed) or apparently provided duplicated coverage for certain funding elements within the Native People's agreements (.e.g. water and sewer works, etc.). It should be noted that both the previous and proposed Agreements provided that no part of Canada's funding could be applied in respect of expenditures which the Province claims or was eligible to claim against Canada under any other federal-provincial agreement.

The applicable subsidiary agreements are as follows, including an indication of which designated communities are potential beneficaries or where funding duplication may have occured:

(i) Forest - $54.9 million (economic employment programs and forestry road construction):

- Northwest River
- Riqolet
- Postville
- Mud Lake

(4) Irrelevant [redacted]

(ii) Labrador - $22.1 million (municipal infrastructure, especially water and sewer works):

- all Labrador communities where water and sanitation services have been constructed since December, 1976. In 1977-78 some $350,000 was expended in Makkovik on water and sewer construction, and in 1979/80 some $150,000 was budgeted for water and sewer construction in other communities.

(4) Irrelevant [redacted]

(iv) Rural Development - $14.6 million (assistance to craft associations, craftspersons, and small rural enterprises):

- all community enterprise assistance since April 1978. In 1979/80 some $194,000 was budgeted under the Federal-Provincial Agreement for Arts and Crafts Development.

C. Level of Assistance Provided

The housing program budgets submitted by all the communities for 1980-81 averaged approximately $40,000 in cost per unit. In addition, the housing expenditures under the previous Agreement apparently covered actual construction costs. The housing program does not appear to operate in a similar manner as in other parts of the country, e.g. a $12,000 - 18,000 DIAND subsidy against an actual construction cost of $40,000.

4. OBSERVATION

A. There has been an apparent failure by the Province to apply the exact details of the cost - sharing formula to expenditures under the 1975 Agreement. Rather it would appear that all expenditures, and especially those "priority" program elements administered directly by the Province, have been generally cost-shared under the 90-10 element of the formula. Alternatively, the Federal funding has come to be viewed as an annual "contribution" to be expended in its entirety. Thus the federal funds have been employed to determine are annual total budget under the Agreement against which expenditures could be made to the maximum of resources available, and requiring only an input of 10% ($1.0 million) in Provincial funds.

B. There has been and continues to be a distinct lack of pertinent information provided by the Province to both the Federal Government and the Native Associations upon which to determine and decide among priority needs in the communities, and whether or not these needs should be a first charge against funds under the Agreement.

C. In the past, with smaller amounts involved, and the Provincial representatives placing a high value on maximum "flexibility", no one challenged nor need to have questionned that the exact requirements of the cost-sharing formula were not being applied. In addition, the apparent need for flexibility in meeting critical needs, etc., did not require a high priority being placed on detail budget planning information. However, the Federal government is now contemplating an annual contribution of $5.0 million, increasing to $7.0 million by the fifth year. It has been the practice for the Tripartite Committee to reach an agreement on an annual budget, comprising both the Federal and Provincial shares. There is apparently no accounting to the committee, and no control by any party other than Newfoundland over the allocation of actual expenditures. A cursory examination of the incomplete expenditure information submitted to Canada suggests that the budget setting exercise is largely meaningless, since the actual expenditures appeared to deviate widely from the initial allocation. Assuming that the budget should reflect the priority of needs, expenditures should coincide with it, within the limits of reasonable latitude.

D. There would appear to be, under both the previous Agreement and in the Provincial expenditure planning for the proposed Agreements, a failure to ensure access to funds available under the other Federal-Provincial agreements (e.g. GDA, etc.) for items (e.g. water and sewer works, etc.) more appropriately funded by these agreements.

E. A consequent apparent failure to accompany initiatives under the Federal-Provincial - Native Agreements by a coordinated effort through other complementary programs of the federal (e.g. CMHC - Residential Rehabilitation Assistance Program and Rural and Native Program; CEIC - Manpower Program and the Community Employment Strategy; etc) and provincial government to improve housing, foster community organization and responsibility, and investigate and develop the longer term socio-economic resources.

F. Apparently federal funds appropriated by DIAND for services to the Native people under the Agreement may have been employed by the Province to subsidize services to non-Natives living in these communities, and to subsidize its' overhead costs and the direct administration of these services to natives.

G. The level of Provincial overhead administration for the Labrador Services Division allocated to the Agreement(s) would appear to be incordinately high, given the proportion of population covered by the Agreement(s) and compared to the total Provincial administration expenditures for all L.S.D. programs.

H. The minimum net effect of dropping two communities previously designated has been to gain some $460,000 of resources available for re-allocation. In addition, the federal increase of $.5 million in the first year of the proposed agreements and the possible application (or duplication) of other Federal-Provincial funding provides a net gain to the remaining designated communities under the new Agreements of approximately $960,000 to $1,122,000 annually.

V. FUNDING OPTIONS:

The following funding options are presented as a means of determination for the initial allocation of funding between the two Agreements, and are not meant to imply the manner in which subsequently annual budgeting would or could be determined within each of the Agreements.

A. "NEEDS ANALYSIS"

Under this method an analysis would be undertaken to determine the critical needs, eligible to be funded under the two Agreements, for each community. A priority determination would then be made of these needs as between the communities, and the funding between the two Agreements would be thus allocated.

Analysis:

- Presumably this would result in a funding allocation at the approximate level proposed in the Provincial/Regional "Possible Cash Flow Summary", (4) Irrelevant [redacted]
- [redacted]

B. PER CAPITA:

Federal funding allocation could be determined on an equal per capita (i.e., not distinguishing as per Native vs Non-Native population) basis, as follows:

.	Previous 1975 Agreement population base	3,890
.	subtract Black Tickle and Mud Lake	(-300)
.	new base population	3,590
.	Proposed federal contribution:	

Year	Federal Contribution Total	Total Federal Per Capita Share	(4) Irrelevant
1	$ 5 mil.	$1,393	[redacted]
2	$ 5.5 mil.	$1,532	
3	$ 6.0 mil.	$1,672	
4	$ 6.0 mil.	$1,811	
5	$ 7.0 mil.	$1,950	

Provincial funding allocation would then be determined on the basis of 10% of the federal allocation to each community. (4) [redacted] (4) Irrelevant [redacted]

Analysis

(4) Irrelevant [redacted]

- A key element in the allocation would be a population base figure for each community, which would be accepted by all parties. At present the community population figures employed by the F.N.I. do not correspond to those employed by the other parties.

- The L.I.A.. & N.M.I.A. would likely appeal to Minister on the basis that their needs are greater than those of (4) [redacted] (4) Irrelevant [redacted]

C. NATIVE ENTITLEMENT PER CAPITA

Federal funding allocation could be determined on the basis of a per capita figure which takes into account that the federal share of funding is specific to the native population in each of the communities.

The per capita would be as follows:

. Previous 1975 Agreement population base	3,890
. substract communities no longer covered (Black Tickle and Mud Lake)	(-300)
. total population now covered by both Agreements	3,590
. subtract "Indian" portion of applicable community population	
- Northwest River (486, 100% Indian)	(-486)
- Davis Inlet (247, 100% Indian)	(-247)
(4) Irrelevant [redacted]	
. Balance (Non-Indian)	2,375
. of this balance 66 2/3% are identified, in each of the communities, as Inuit	1,583
. total applicable Indian & Inuit population	2,798
. Per capita allocation of federal funds in 1st year	$1,786.99

[redacted]

The consequent federal allocation to the Labrador coast communities would be $4,138,671 in the 1st year.

The Provincial funding allocation would then be determined on the basis of the funding formula in the Agreement. [redacted]

Analysis

- Presumably this method would be acceptable to all three native associations, once it was shown to the L.I.A. & N.M.I.A. that a strict application of the funding formula in the Agreement would provide them with increased funds.

- It is to be expected, however, that the Province would object on the basis of the increased cost. This method, if all parties accepted that the federal funding constituted a "contribution" to which the Province applied matching funds (as determined by the cost-share formula), would certainly result in increased costs to the Province. It is likely that the Province would respond by indicating the formula applies on respect of actual expenditures in each community. The Province could undertake not to budget at such a level as to ensure maximum federal funding was allocated. In this manner the Province would maintain it's share within previous limits, but at the cost of employing less than the total available federal funds in any year.

5. COMBINATION 'NEED' AND PER CAPITA FORMULA:

Under this option a determination would be made as to the "priority" needs in work of the communities and funds would be allocted for these. The balance of funding available could then be allocated on a per capita basis to each community.

Analysis

- It is not reasonable to expect that the three native associations would arrive at an agreement as to priority needs amongst their respective communities. This would thus require an arbitrary decision or allocation by the two Governments.

- It is likely all three associations could agree that the priority needs require more resources than are available through the Agreement. It is thus possible that either funds would not be available subsequent to the priority need allocation, or that the Province would be required to contribute additional funding under the Agreements.

VI. RECOMMENDATION

Minimum elements for acceptance of any funding determination by the Federal Government appear to be:

1. Both the governments and the Associations should opt for one of the formulas or a combination of formulas, as a means to allocate the federal and provincial funds between the Agreements.

2. To the extent the formula is based upon 'need' the Federal government would require answers to several outstanding questions, prior to the formula being operationalized.

(4) Irrelevant [redacted]

4. Elements to be touched upon in discussions with the Province prior to a funding decision include:

   a) It should be recognized by both governments that whatever formula or funding method is employed, not all the communities will be content with the results;

   b) A clarification of the Provincial administrative cost component included in the Agreement(s).

   c) The decision to drop from the Agreement two of the Labrador coast communities, and the increase in the Federal funding from $4.5 million to $5.0 million, the remaining communities would appear to have made available approximately $450,000 to $950,000 in increased or freed-up funding per year.

   d) Other Federal-Provincial funding would appear to be available to the communities, for program elements previously and/or currently funded under the Agreement(s). These sources include DREE subsidiary Agreements (water and sewage infrastructure, etc.) and CMHC Native Housing Programs.

APPENDIX D

EXPENDITURES * BY
LABRADOR SERVICES DIVISION,
RURAL, AGRICULTURAL AND NORTHERN DEVELOPMENT
NEWFOUNDLAND

Items	1978/79	1977/78	1976/77
	Expenditures ($000)		
1. Labrador Services Direct Administration: (e.g. Salaries, office O & M)	$1,039.0	$ 699.9	$ 612.2
2. Program Administration: (both direct and via community delivery)			
- O & M	5,690.0	5,101.1	4,440.9
- Capital	2,314.0	2,260.4	2,729.3
3. Total Budget:	9,043.0	8,061.4	7,782.4
4. Less Revenue to LSD: - Sales of Goods, Services plus Rental Income	(2,294.9)	(1,914.9)	(1,743.1)
- Federal Contribution			
- O & M	(2,795.6)	(2,057.6)	(942.3)
- Capital	(704.4)	(1,747.5)	(1,169.0)
- Total	(3,499.0)	(3,805.1)	(2,111.3)
5. Net Provincial Expenditure			
- O & M	1,638.5	1,828.5	2,367.7
- Capital	4,730.4	512.9	1,560.3
- Total	6,368.9	2,341.4	3,928.0

Note: * Expenditure and Revenue data as contained in Provincial Estimates tabled before Legislature.