



Aboriginal Affairs and
Northern Development Canada

Affaires autochtones et
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Cost Drivers and Pressures – the Case for New Escalators

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Canada



Purpose

- Identify the current gap in program funding as well as the cost drivers and cost takers that have contributed to this gap.
- Identify what investment is required to sustainably provide provincial-like services on reserve.
- Identify appropriate funding escalators for AANDC programs.

Chave



Context

- AANDC is responsible for approx. \$7.9 billion of the \$10 billion allocated government-wide to Aboriginal programming delivered or funded by more than 30 departments.
- A majority of funding provided by AANDC is for provincial/municipal-type programs delivered on reserve, such as Education, Social Development and Capital and Facilities Maintenance.
- **Because price and volume pressures are greater than the 2% annual escalator currently permitted**, AANDC is redirecting funding from Infrastructure programs (10/11: \$109M, 11/12: \$123M) to meet current pressures within Social (IA and CFS), Education, Governance and Emergency Management.



Escalator on provincial – like programs and services

Federal funding for on reserve programs and services has not kept pace with federal transfers to provinces and territories for similar programs and services.

AANDC

- Since 1997-1998, \$3.3 billion in on reserve programs and services have been subject to a **2%** growth cap.
- Price and volume pressures (including population growth and provincial rates) continue to grow faster than 2%.
- Essential programs and services (social and education) have taken from internal sources (infrastructure) to try to provide basic services on reserve.
- Outcome: inability to sustainably provide provincial-like services on reserve.

Federal Transfers

- Since 2009 – 2010, Canada Social Transfer (CST) cash levels have grown **3%** annually.
 - CST supports post-secondary education, social assistance and social services, early childhood development and early learning and children.
- In December 2011, the Government announced that Canada Health Transfer cash levels would keep growing at **6%** until 2016 – 17.



| AANDC Programs (000s) | Part of 1994-95 Base for escalator calculation (Billions) | Programs not in 1994-95 base but require growth | Programs that currently receive funding from the escalator | Gap in funding to meet actual growth |
|---|---|---|--|--|
| Education | | | | |
| - Elementary/Secondary Education | 823,438 | | X | X |
| - Post Secondary Education | 227,331 | | | |
| - Special Education Program / High Cost | | X | X | X |
| Social Development | | | | |
| - Income Assistance | 643,771 | | X | X |
| - Child and Family Services * | 256,524 | X | X | X |
| - Family Violence | 13,979 | | | |
| - Assisted Living | 68,214 | | | |
| - Other Social Services | 27,374 | | | |
| Capital Facilities & Maintenance | | | | |
| - Capital Infrastructure/Education | 344,332 | | | |
| - O&M Infrastructure/Education | 204,368 | | | X |
| - Other | 23,787 | | | |
| - Housing | 137,763 | | | |
| Lands and Trust Services | 65,194 | | | |
| Self-Government | 18,116 | | X | |
| Indian Government Support | 294,380 | | | |
| Economic Development | 67,102 | | | |
| Program Management & Administrative | 41,672 | | | |
| Policy & Service Delivery | 19,723 | | | |
| Northern Affairs Program (mostly health care) | 43,392 | | X | |
| Internal Services | 43,545 | | | |
| Grand Total | 3,364,005 | | | |

Financing the gap has largely come from internal reallocations from Infrastructure

* New money for stabilization and Enhanced Prevention Focus Approach does not receive growth.



Resulting Gap – Internal Reallocation

- Significant re-allocations from infrastructure to other programs have occurred over the past 6 years. For example, AANDC has re-allocated approximately \$505 million in Infrastructure dollars to Social, Education and other programs to try to fill the shortfall in these areas.
- Since Infrastructure was not able to cover off all of Social and Education needs in each year, other internal resources were used to cover off the remaining shortfall.
- This ongoing reallocation is putting pressure on an already strained Infrastructure program and has still not been enough to adequately meet the needs of Social and Education programs.

Millions of \$ - Cumulative Departmental Reallocations (2006 to 2012)*



•Throughout the presentation financial data pertains only to AANDC 's allocations to First Nations and not expenditure decisions made by recipients once they have received program funds

•**From 2006-2007 to 2011-2012



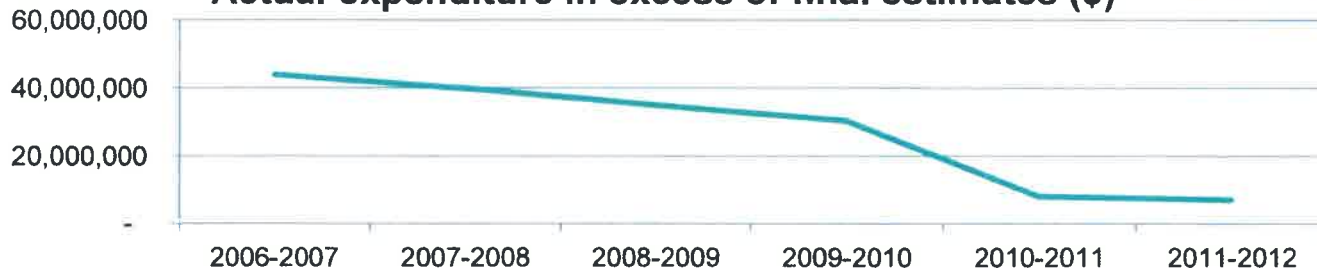
Drivers and Gaps – Education

- Cost drivers: provincial rates and population increases.
- Program Reforms (FNSSP and EPP) currently contributing approximately \$108 million annually.
- A simple per capita comparison of AANDC and provincial education funding does not address the fact that many First Nation communities lack the educational systems and structures required to close the educational outcome gap.

Quick Facts - Drivers

- In 2006-07 almost \$44M came from internal re-allocation, e.g. from Infrastructure and other sources. Reallocations decreased to \$7M by 2011-2012 as targeted funds were added. Targeted funding does not address core program pressure (e.g. price and volume increases).
- In Budget 2008, Education received an additional \$268M over 5 years for two new programs.
- In Budget 2012, Education received an additional \$100M over three years for improving the readiness of regional management organizations and early literacy while Infrastructure received \$175M over three years to build and renovate schools.

Education (VOTE 10 ONLY)
Actual expenditure in excess of final estimates (\$)

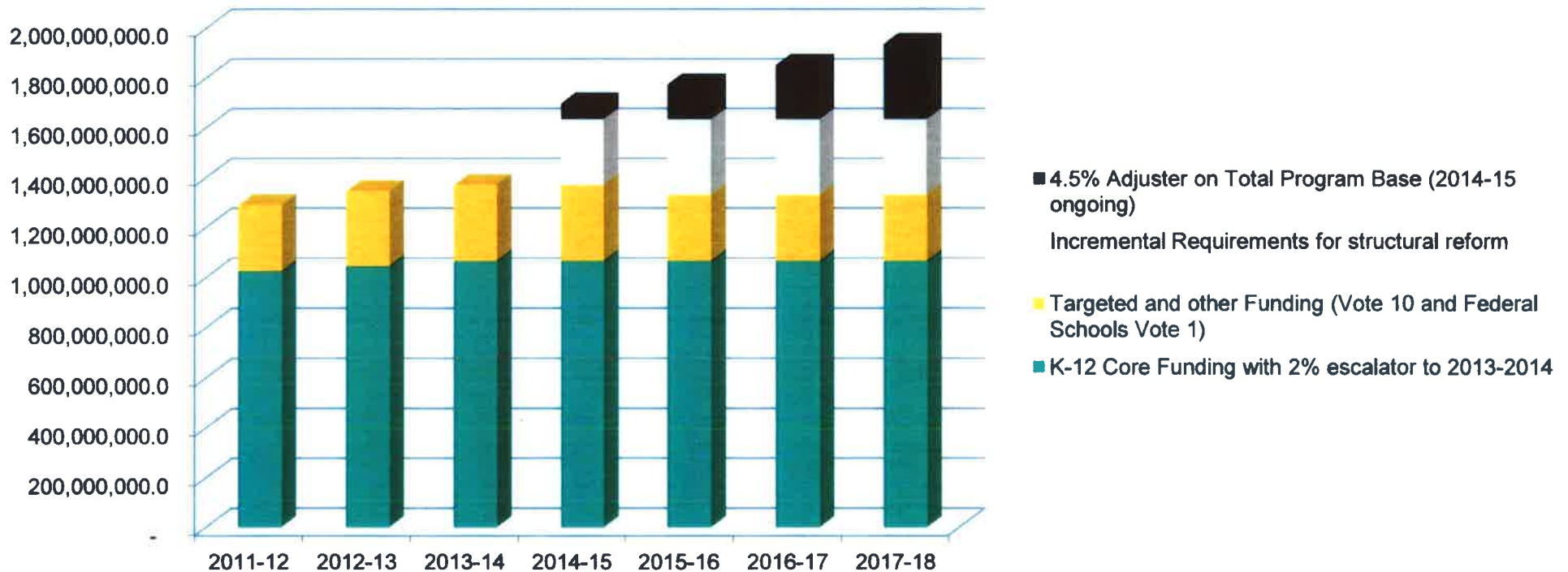


Education actual programs expenditures grew from \$1.44B in 2006-07 to \$1.63B in 2011 – 2012 (does not include JBQNA & MK self-government agreements which are the result of separate Cabinet policy decisions)



K-12 Education Expenditures: New Escalator For Comparability

- For the K-12 education program to maintain provincial comparability and NOT draw on other program funds (with the exception of BEB and School O&M), new investments are required, including a 4.5% escalator on all K-12 education program funds going forward (starting in 2014/15).
- The current K-12 core funding plus our targeted programs (some of which end in 2015/16) represents AANDC's education allocation. The "white" bar represents the incremental funding required to implement structural reform, and the "blue" bar represents the 4.5% growth to maintain comparability with provincial expenditures on education operations. **K-12 funding should be included. Please include details on cost drivers such as population growth, salary, etc.**



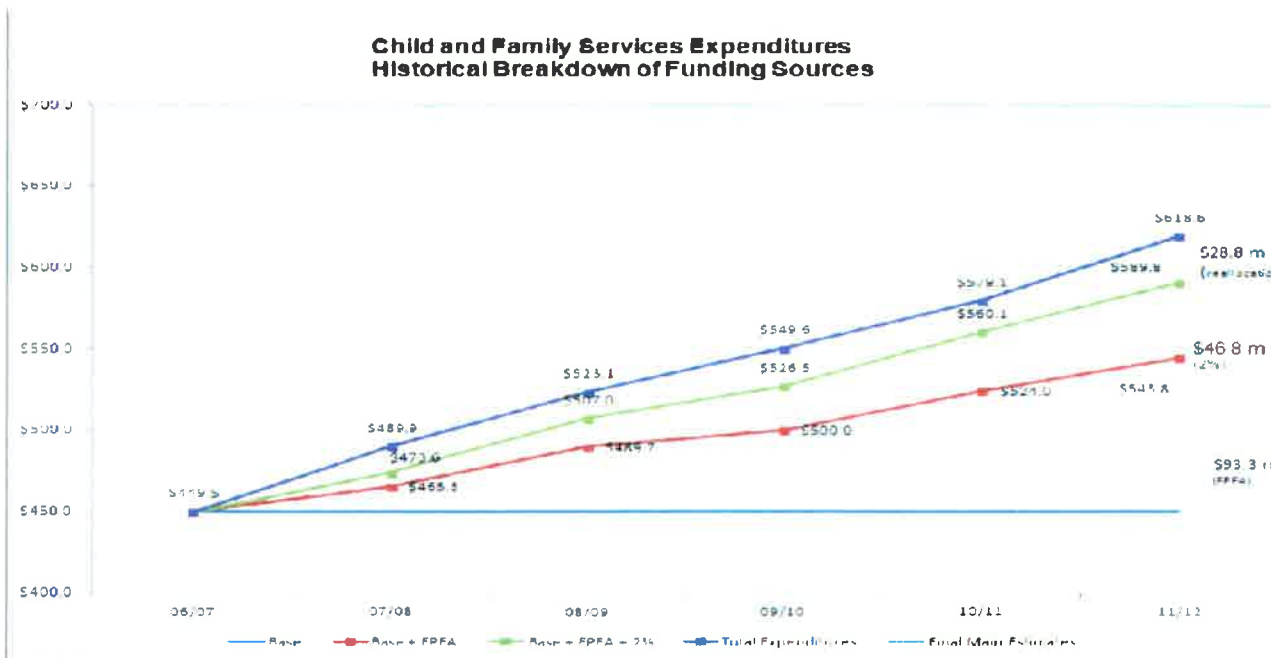


Drivers and Gaps: Child and Family Services

- Cost drivers: provincial rates and increases to the number of children and families receiving services.
- Program Reforms (enhanced prevention) contributing \$100 million annually, but only in 6 of 11 jurisdictions;
 - Provincial salaries and maintenance costs growing faster than reform modelling projected.
- 30% of programs do not receive annual growth. **This needs to be further explained and understood.**

Quick Facts - Drivers

- **Average cost of maintaining a child in an out of home placement has risen 24.8% in past 6 years (4.1% annually).**
- **On reserve 0 -18 population -163,712 (Dec. 2010) 2.5% higher than in 2004.**
- **Children in care: 9,242 (March 2012) vs 8,917 (March 2006).**
- **Kinship care (new) - 981 (March 2011) vs 1 (March 2007).**

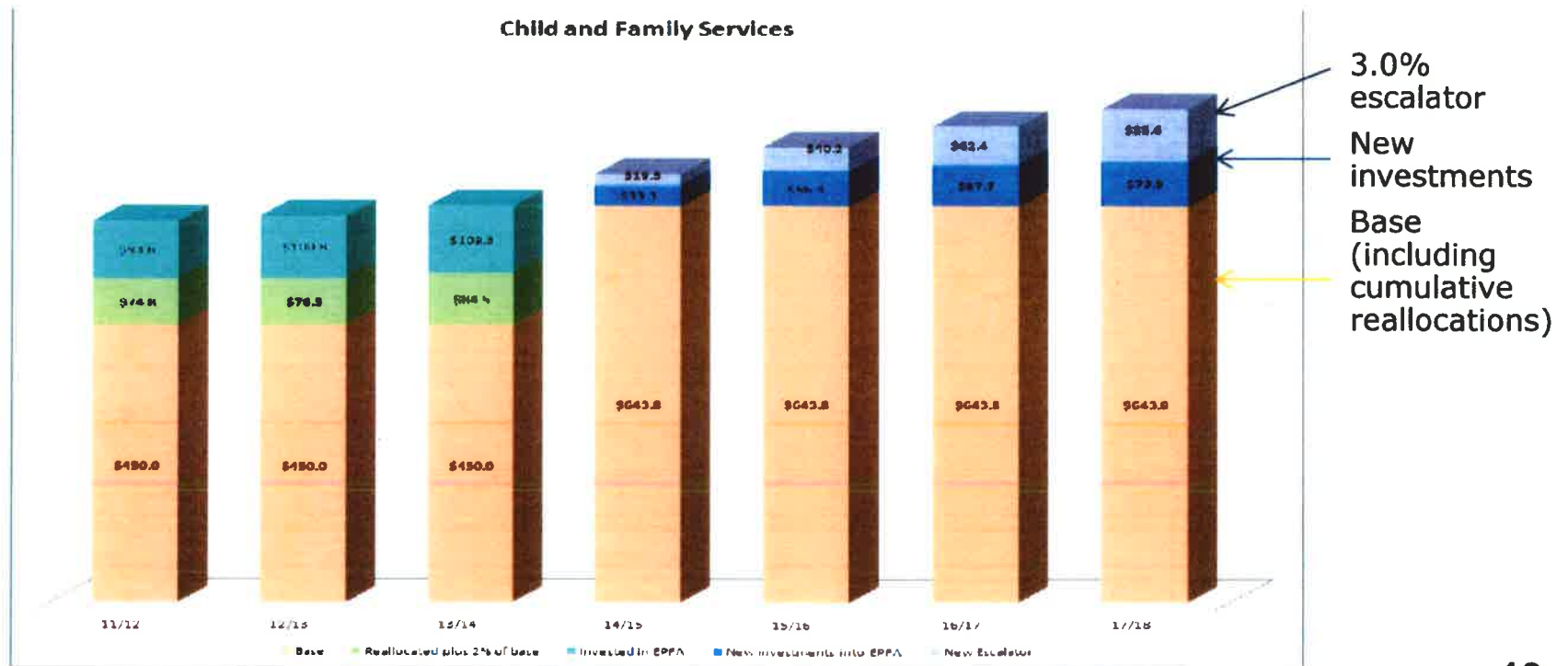


In 2011-2012 AANDC covered program growth through a combination of new funding (\$93.3 million to implement the Enhanced Prevention Approach), and cumulative internal investments from both the 2% growth (\$46.8 million) and internal reallocations from other programs (\$28.8 million).



Child and Family Services: A New Escalator

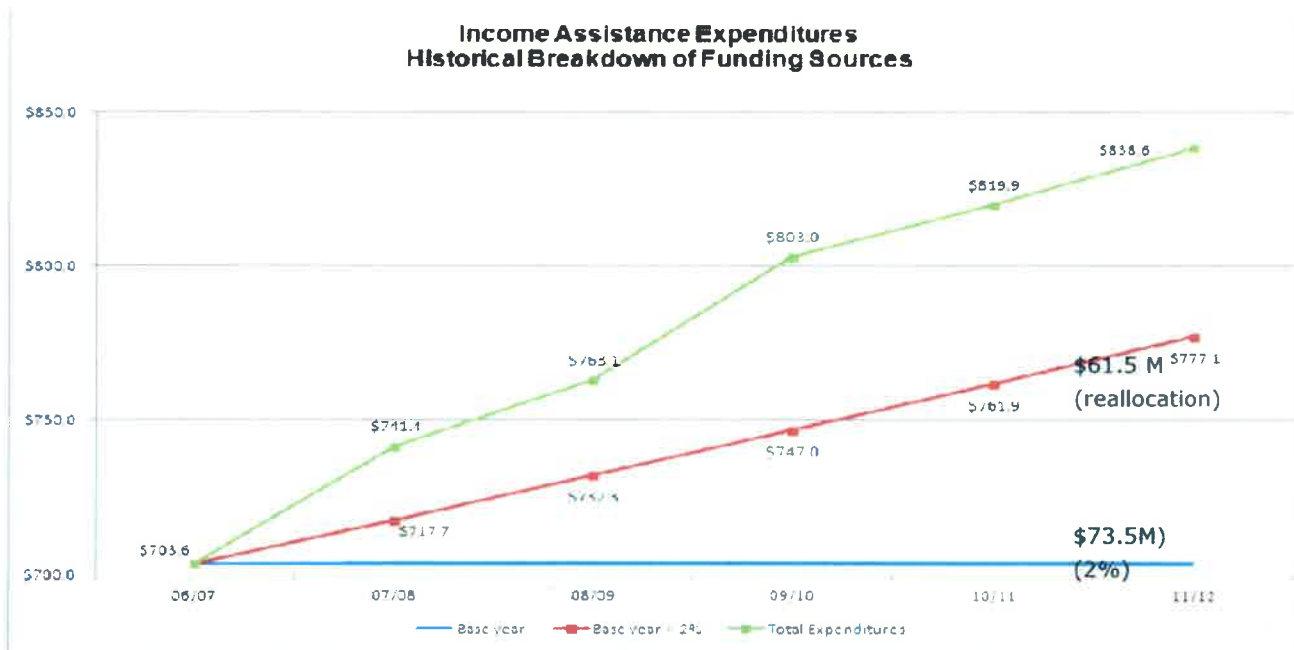
- For the CFS program to maintain provincial comparability and NOT draw on other program funds new, investments are required to:
 - Complete the implementation of enhanced prevention in the 5 remaining jurisdictions and adjust funding in existing EPFA jurisdictions to accommodate current costs for operations and maintenance (\$230.2 million over 4 years); and,
 - Apply a 3.0% escalator on all program funds going forward (beginning in 2013-14) once all current pressures addressed which would accommodate forecast growth based on historical trends in operations and maintenance.





Drivers and Gaps: Income Assistance

- Cost Drivers: provincial rates and population growth.
- Provincial rate increases and reforms outstripping 2% growth.
- On reserve dependency rate of 34% has not changed since the program's inception in 1965 – program reform could start to address this, but progress will be slow and incremental.



Quick Facts - Drivers

- Provincial rates are primary cost driver, exceeding 2% per year. **Annual increases** between 05/06 and 10/11 include:

Singles: NFLD-3.55%; NS-40%; MB - 24.6%.

Families of 4: MB-8.32%; SASK-25.3%; BC-6%; YK-3.1%.

- Between 05/06 and 11/12 total number of IA recipients increased by 6,417 (7.93%) - most were single recipients.

• In 11/12 IA total clients beneficiaries: 34,952; Other beneficiaries: 77,403.

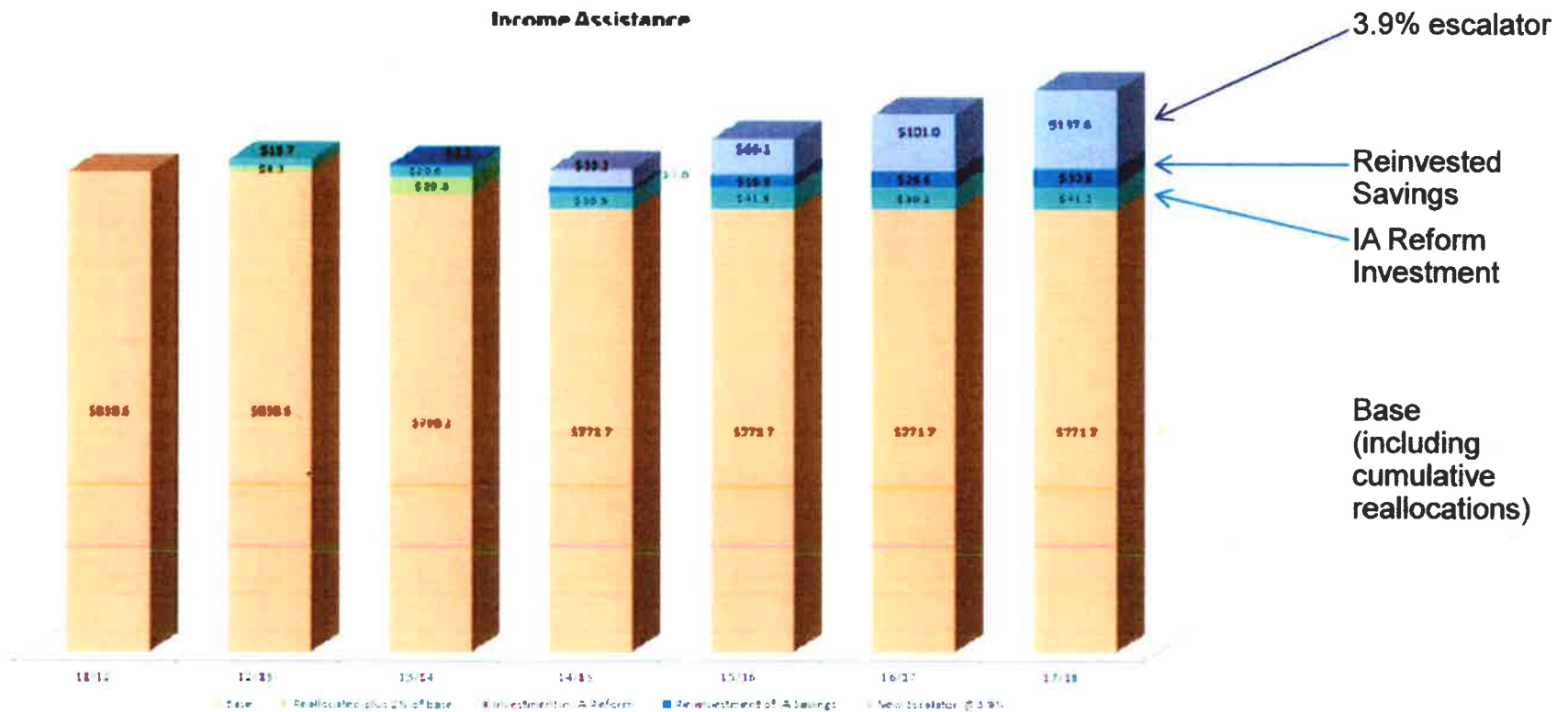
- Additional reallocations for shelter allowance of between \$77 million and \$150 million annually would be required to achieve provincial comparability.

In 2011-2012 AANDC covered this growth through cumulative internal investments from the 2% growth (\$73.5 million) and internal reallocations from other programs (\$61.5 million).



Income Assistance: A New Escalator

- The Income Assistance program could become self sustaining if:
 - Investments to reform Income Assistance – currently \$132.5 million (2013-14 to 2016-17) remain in place, i.e. approximately \$41.2 million annually starting in 2017-18.
 - The savings realized from young 18 – 24 year olds exiting IA to employment are reinvested in the IA program (approximately \$30 million by 2017).
 - A 3.9% escalator is applied on the base program funds (\$771 million in 2014-15) to accommodate the historical growth trends net of savings realized.





Infrastructure Cost Drivers and Pressures

- **Infrastructure has the same overall Cost Drivers faced by other AANDC functions** (2% departmental escalator cap: applied since 1997-98, Population growth: of on-reserve residents has increased due to high birth rates and policy changes (eg. Bill C-3); and Inflation: Costs of building materials, transportation and skilled labour have increased.)
- **However, there are Cost Drivers that are unique to Infrastructure:**

Reallocation: Continual prioritization of resources with reallocation of infrastructure funds to address other immediate emergencies or pressures. Since 2006, **over half a billion dollars** reallocated to address pressures (e.g. Social and Education). Impedes progress in areas such as housing, construction/renovation of schools and water and wastewater systems. **Beyond this, First Nations have also reallocated funds received to address their own priorities.**

Increased asset base: Growth in asset base means increased costs in daily O&M/repairs (represents 74% of the \$1billion CFMP - O&M and Minor Capital). Targeted funding provided for certain assets (FNIF, CEAP, FNWWAP). With no new O&M, pressure placed on already strained budgets.

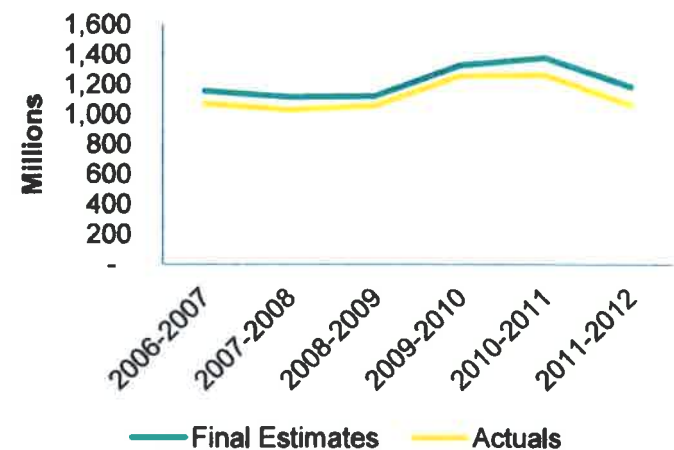
Assets complexity: Building systems often more complex than required to meet community health and safety needs resulting in increased costs (e.g. complex water /wastewater system versus wells and septic systems).

Asset life cycle: All capital assets need to be replaced at some point. Currently, some infrastructure on reserve has a reduced life cycle because: assets not built to code; normal maintenance not conducted; or O&M redirected to address other needs. An influx of targeted funds to address problems creates "bubble" periods of high replacement costs.

Infrastructure Project Cycle: Infrastructure project cycle is 4-5 years, requiring planning and dedicated funding to achieve.

Location: Many reserves in remote locations with limited access (e.g. Winter road) which increases costs related to shipping material and lengthier construction cycles.

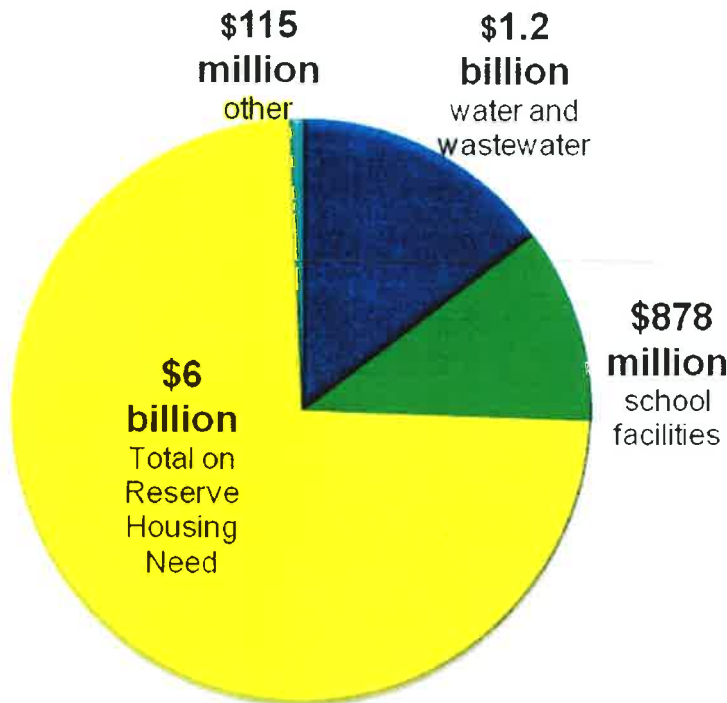
Infrastructure Expenditures: Estimates vs. Actual





Current Infrastructure Gap is approx. \$8.2B

Immediate Need



The current infrastructure gap grows to \$9.7B within 5 years when the identified future need is added.

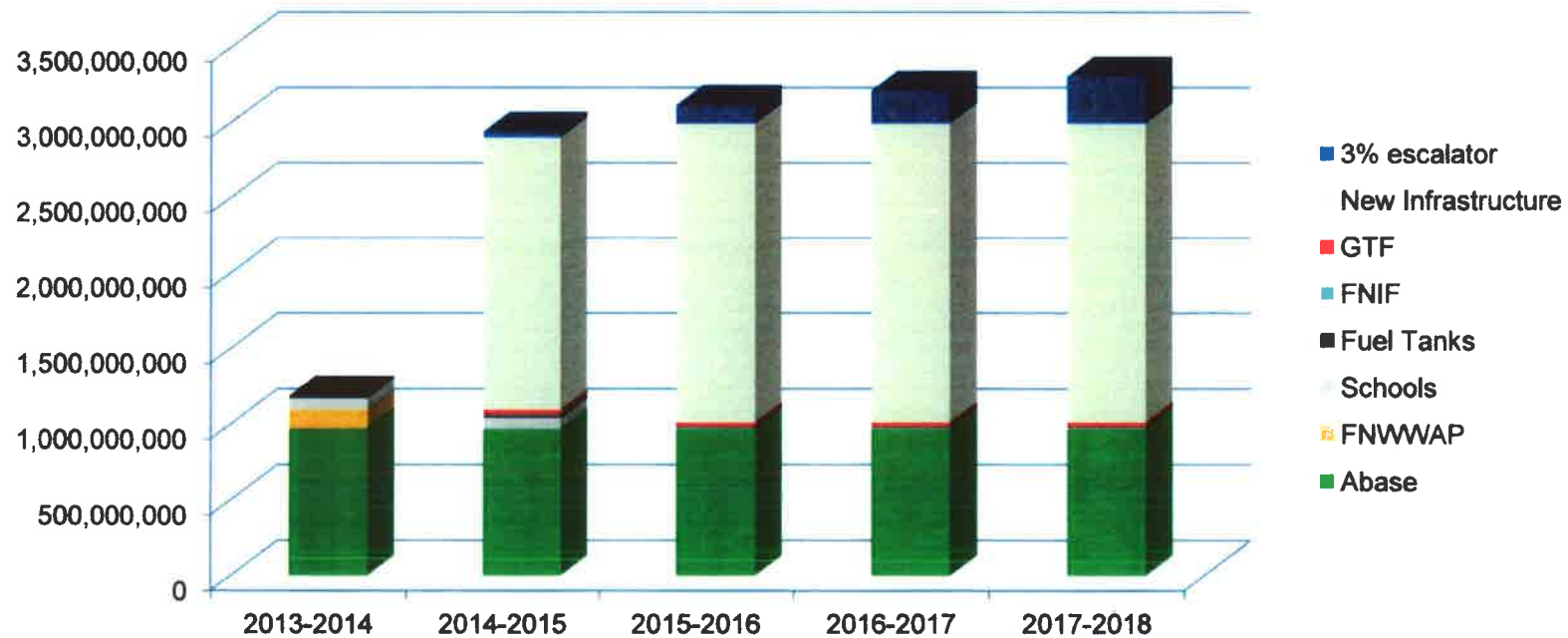
Immediate Need – Detail

- **Water and Wastewater:** *National Assessment of Water and Wastewater Assets* states in order to meet standards and protocols, approximately **\$1.2 billion** is needed for existing systems and an additional **\$3.5 billion (future need)** may be needed to meet growth on-reserve over the next 10 years.
- **Schools Infrastructure:** Estimates from the *First Nations Infrastructure Investment Plan (FNIIP)* for incomplete current proposed school projects is **\$878 million** (*underestimated as some school needs have not yet been identified).
- **Housing:** *On Reserve Housing Needs Study 2009*, by Stewart Clatworth, estimates a need for 24,404 new units in addition to major repairs for existing ones.
AANDC's 2011 Housing evaluation completed by Audit & Evaluation estimates a need for 20,000-35,000 new housing units, and 5,200 replacement units.
Internal average costing \$150,000/unit results in a total housing need of \$3.7B-\$6B on reserve.
- **Other Infrastructure:**
 - **\$75 million** for Emergency Management (\$15 million annually for 5 years).
 - **\$40 million** for pressures such as: connectivity, energy systems, roads and bridges and **\$54 million (future need)** beyond 2014-15 for fuel tank regulations.



Infrastructure: New Capital Funding

- In order for Infrastructure to **ACHIEVE provincial comparability**, over the next 5 years, we must:
 - Get **new capital funding** to address need of nearly \$8.2 billion immediate need that grows to \$9.7B within 5 years (approx. \$2 billion/yr over next five yrs).
 - **Stop reallocation** of money away from infrastructure (10/11: \$109M, 11/12: \$123M).
 - Apply **new escalator** 3% (index against CPI) applied to A base and all new targeted funds (grows A-base to account for ongoing O&M for new infrastructure).*



* Estimates only, work still being done to further define appropriate escalators and O&M



Cost Containment Measures

- Improved program management
 - Compliance to ensure program delivery within authorities/funding agreements.
 - New information systems so funding aligned to performance on outcomes.
 - Reduced reporting burden for recipients.
- Review and re-distribution of current program resources amongst recipients
 - Ensuring that the type of funding agreement does not create advantage/disadvantages in terms of allocation of resources for similar program activities / performance outcomes.
- Exploring alternative financing for infrastructure
 - P3s.
 - Centralized management of CFMP and enhanced O&M life cycle management.
 - Coordination and/or consolidation of services into single window.
 - Increasing First Nation ownership.
 - Increasing oversight and closing regulatory gap.



Reform and Investments

| | Base program forecast \$'s For 2013-14 | Stabilization Investments | Type of Program Reform | Annual Escalator - 2014 – 15 and ongoing |
|---------------------------|--|---|---------------------------------------|--|
| Education | \$1.4B (based on resource plan) | To be confirmed for Budget 2014 | Legislation | 4.5% on entire K-12 base |
| Child and Family Services | \$643.8M | \$230.2M required over 4 years | Enhanced Prevention Focussed Approach | 3.0% compounded annually |
| Income Assistance | \$840.2M | \$41.2M starting in 2017/18 to augment current investment | Enhanced Service Deliver | 3.9% compounded annually |
| Infrastructure | \$962M (based on resource plan) | \$9.7B over 5 yrs | Legislation/Alternative Financing | 3% compounded annually (CPI) |



Additional Considerations

If new Capital Funding is not an option, fundamental decisions will need to be made:

- Does the department continue funding all current infrastructure assets?
- Should the department continue funding all asset classes at current levels?
- Does the department get out of some programming altogether?
- Should the government revisit its fundamental role in First Nations infrastructure (what are the Government's legal and treaty obligations vis a vis social policy and what balance is appropriate and acceptable)?



Canada Health Transfer

- The Canada Health Transfer, or CHT, is the largest major transfer to provinces and territories. It provides long-term predictable funding for health care, and supports the principles of the *Canada Health Act* which are: universality; comprehensiveness; portability; accessibility; and, public administration.
- The Government announced in December 2011 that total CHT cash would **keep growing at 6 per cent until 2016-17**. Starting in 2017-18, total CHT cash will grow in line with a three-year moving average of nominal Gross Domestic Product, with funding guaranteed to increase by at least 3 per cent per year.

| | 2005 - 06 | 2006 - 07 | 2007 - 08 | 2008 - 09 | 2009 - 10 | 2010 - 11 | 2011 - 12 | 2012 - 13 | 2013 - 14 |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Canada Health Transfer | 20,310 | 20,140 | 21,729 | 22,768 | 24,475 | 25,662 | 26,952 | 28,569 | 30,283 |



Canada Social Transfer

- The Canada Social Transfer (CST) is a federal block transfer to provinces and territories in support of post-secondary education, social assistance and social services, and early childhood development and early learning and children.
 - CST cash levels have **grown 3% annually** as a result of an automatic escalator applied since 2009 – 2010.
 - In December 2011, the Government announced that the CST will continue to grow at three per cent annually in 2014–15 and beyond.

| | 2007 -08 | 2008 - 09 | 2009 - 10 | 2010 - 11 | 2011 - 12 | 2012 - 13 | 2013 - 14 |
|----------------------------|--------------|---------------|----------------|---------------|---------------|---------------|---------------|
| Support to Children | 861 | 1,102 | 1,133 | 1,167 | 1,202 | 1,238 | 1,275 |
| Post – Secondary Education | 2,466 | 3,240 | 3,333 | 3,432 | 3,535 | 3,641 | 3,751 |
| Social Programs | 6,280 | 6,211 | 6,390 | 6,580 | 6,777 | 6,980 | 7,189 |
| Total | 9,607 | 10,552 | 10, 857 | 11,179 | 11,541 | 11,859 | 12,215 |

Note: Totals may not add due to rounding. Includes Budget 2007 transition protection payments as of 2007–08. Does not include funding of \$250 million for development of child cares spaces in 2007–08, as funding was provided outside the CST in that year, as well as \$31.9 million from Budget 2008 transition protection payments to Saskatchewan and Nunavut notionally allocated over five and three years respectively beginning in 2008–09.



First Nations and Inuit Health Programs

- Health Canada, through the First Nations and Inuit Health Branch funds a range of health-related programming for First Nations and Inuit.
- Like AANDC, Health Canada has a suite of programs subject to growth but not all of funds for programs are included (e.g. parts of Non-Insured Health Benefits (NIHB) are excluded). The Indian Health Envelope grows at 3% annually.
- Cost drivers for NIHB include general population increases, inflationary costs and recognition of new eligible recipients (e.g. Qalipu).
- Cost drivers for Primary Care include overtime, agency-employed nurses, part-time nursing and specialized training and skills development.
- Budget 2013 addressed program integrity issues related to the NIHB and Primary Health Care.

History – Program Integrity funds (\$ millions)

| | 2008 - 09 | 2009 - 10 | 2010 - 11 | 2011 - 12 | 2012 - 13 |
|---------------------|-------------|--------------|--------------|--------------|--------------|
| NIHB | 71.8 | 102.4 | 137.3 | 166.0 | 225.1 |
| Primary Health Care | 10.7 | 32.4 | 32.6 | 33.7 | 40.7 |
| Total | 82.5 | 134.8 | 169.9 | 199.7 | 265.8 |



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% |
| 2017-18 | 5,566,771 | 109,153 | 2.0% |
| 2018-19 | 5,678,106 | 111,335 | 2.0% |
| 2019-20 | 5,791,668 | 113,562 | 2.0% |
| 2020-21 | 5,907,502 | 115,834 | 2.0% |