A forecast of expenditures associated with the policy of transfer.

Canada. Dept. of Indian Affairs and Northern Development.

Management Consultants

Currie, Coopers & Lybrand Ltd.

NEA → forecasting – duplication of admin costs on new services.
– how much can really be transferred

DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT

MIP 6.1 - FINAL REPORT

A FORECAST OF EXPENDITURES ASSOCIATED WITH THE POLICY OF TRANSFER

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DEPARTMENT OF INDIAN AFFAIRS AND
NORTHERN DEVELOPMENT

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EXECUTIVE SUMMARY

This report summarizes the main conclusions and principal findings of the study "A Forecast of Expenditures Associated with the Policy of Transfer", also known by the Department of Indian Affairs and Northern Development (DIAND) as Management Improvement Project (MIP) 6.1 - "Financial Effects of Transfer".

The transfer policy may be defined as the transfer of responsibility from DIAND to Indian bands, and tribal and district councils, for operating and delivering Indian and Inuit Affairs (IIA) Program goods and services. The study firmly establishes that transferring delivery responsibility to Indian bands and tribal and district councils generally increases costs by 20% to 30%. The extent of the cost increase is highly variable depending upon the individual band and the activity being transferred. The only consistent pattern that could be identified was that the cost of transferring the responsibility for operating services is greater (10% to 30% higher) than transferring the responsibility for capital projects (5% to 10% higher).

The total annual costs of the transfer policy for the fiscal year 1979-1980 (FY 1980) are estimated at between $60 to $80 million dollars, or approximately 10% of the total IIA expenditures. They are forecast to be between $336 and $439 million, in current dollars, by FY 1990.

The reasons for the higher costs associated with transfer are identifiable, largely unavoidable and are related to the achievement of IIA Program objectives:

- improved access to services, good
- the accommodation and expression of local control, and good
- the development of the Indian people. good

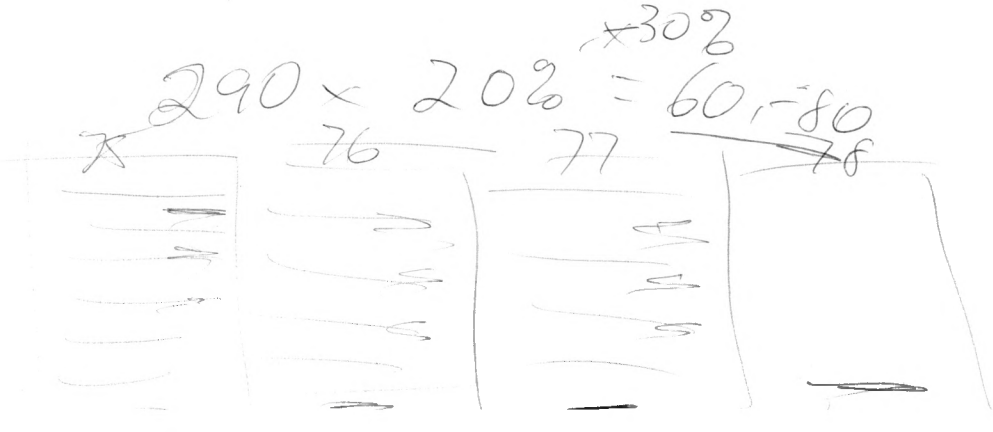
The reasons are varied, but can be summarized as:

lost economies of scale - but offset by the dupmt of Ind people
better access by Indians to services good
program enrichment. good

Costs of duplicating DIAND support systems at the band level such as financial services, personnel, employee benefits and higher education retention rates generally experienced by band schools are typical examples of specific reasons why costs have increased.

The Department initially introduced the concept of bands carrying out program activities in 1965. At the end of the fiscal year 1973-1974 (FY 1974), the Department received approval for expansion of the transfer policy. From FY 1975 to FY 1980, band contributions, as a share of total IIA expenditures, increased from 27% to 40%. During this time, IIA expenditures increased, in constant dollars, by $140.5 million. The table below shows approximately where these increased expenditures were allocated.

Approximate Share of Real Increase in IIA Expenditures, FY 1975 - FY 1980	Cause	Best Estimate Millions $
30 - 40%	Increase in service population	$ 50
10 - 20%	Program costs and costs of doing government business rising faster than Consumer Price Index (CPI)	$ 20
20 - 30%	Net increase in type/range of services	$ 30
25 - 35%	Transfer costs	$ 40
100%		$140



This allocation shows that over a five year period, FY 1975 to FY 1980, transfer costs accounted for roughly 30% or $40 million of the real growth in IIA expenditures.

In order to establish a base year for the forecast, it was necessary to estimate the total transfer costs for a specific year - FY 1980. It is estimated that the actual costs of the bands managing 40% of the IIA Program in FY 1980 were approximately $60 to $80 million higher than they would have been if no transfers had taken place. Approximately 65%, or roughly $39 to $52 million, of these transfer costs are due to higher administration costs and the remaining 35%, or about $21 to $28 million, to higher program costs.

The next step in the forecast was to establish the future rate of transfers to Indian bands. By FY 1990 band contributions are estimated to account for 60% to 80% of IIA Program expenditures compared to 40% in FY 1980 and 42% in FY 1981. The availability of funds and Departmental operating practices are the most important factors affecting the future rate of transfers.

With respect to the future costs of the transfer policy, the study findings indicate that the real costs of transfer for some services, for example, social assistance and elementary and secondary education, are increasing over time. That is, if no further transfers take place, by FY 1990, it is expected the costs of current transferred activities will be significantly higher, in constant dollars, than they are today. Much of this is due to the nature of the transfer process, which is incremental, representing many small decisions and precedents regarding the expansion of services and goods delivered made over several years. These changes are generally the result of shifting service delivery to the band level and the expression of local control by Indian bands. When viewed on an individual basis, these changes in service delivery and services appear eminently reasonable; however, the cumulative cost effect is significant.

Given the transfer cost pattern established in the study and the estimates of future transfers, the most probable forecast of yearly costs associated with the transfer policy, assuming constant FY 1980 dollars and FY 1980 services, need levels and population, is as follows:

	Most Probable Estimate of Costs of Transfer	Band Contributions Share of Total IIA Expenditures	Approximate IIA Total Expenditures	Transfer Cost Share of Total IIA Expenditures
FY 1980	$60 to $80 MM	40%	$730 MM	9 to 11%
FY 1982	$70 to $90 MM	45%	$740 MM	10 to 12%
FY 1985	$95 to $125 MM	60%	$770 MM	12 to 16%
FY 1990	$115 to $150 MM	70%	$790 MM	15 to 19%

The forecast suggests that from FY 1980 to FY 1985, transfer costs, in constant dollars, will increase by about 50%, and they will probably double by FY 1990. Similarly, by FY 1990, the yearly costs associated with the transfer policy could represent close to 20% of IIA expenditures compared to about 10% in FY 1980. Furthermore, it is estimated that by FY 1990, transfer costs, in current (1989-90) dollars, will be between $336 and $439 million.

The forecast, by necessity, assumed constant service, need levels and population. However, the study identifies several other factors such as new and expanded services, which will increase IIA Program costs. As a result, the associated costs of transfer could also be higher than the forecast might suggest.

The study concludes with several recommendations which arose during the conduct of the study. Most important, it stresses the need for the Department to undertake a detailed analysis of the benefits associated with the transfer policy and to establish mechanisms to monitor benefits and costs on a more regular basis.

I. INTRODUCTION

In November, 1980, Currie, Coopers & Lybrand Ltd. was retained by the Department of Indian Affairs and Northern Development (DIAND) to undertake a study entitled "To Develop a Forecast of Expenditures Associated with the Policy of Devolution to Indian Bands" (also known within the Department as Management Improvement Project 6.1 - "Financial Effects of Transfer"). This final report summarizes the major conclusions and findings of the study.

The background, scope and purpose of the study, the organization of this report and the conduct of the assignment are briefly described in this chapter.

A. BACKGROUND

In 1965, the Department introduced a "Grants to Bands Program" which permitted Indian bands to carry out some program activities. In April, 1974, the Department sought and received approval to expand this devolution practice and to establish the Indian Local Government Program. The Program has "an objective, to be achieved as quickly as possible, the transfer of responsibility to Councils for operating all programs and services that can appropriately be managed at the community level." For fiscal year 1980-81, over 500 bands directly managed over $350 million, or approximately 42% of all Indian and Inuit Affairs (IIA) Program funds.

A 1980 comprehensive audit of the Department by the Office of the Auditor General estimated that yearly administrative costs associated with the transfer policy had increased by some $36 million since the policy's inception. The Auditor General recommended that the Department determine the reasons for the higher administrative costs, that it examine the effect of the policy on program costs, and that it establish a comprehensive plan to fully implement the policy, including forecasts of costs and person-years.

The purpose of this study is, in part, to fulfill the Auditor General's recommendations and provide DIAND senior managers with input to developing its transfer plan.

B. STUDY TERMS OF REFERENCE

In general terms, the study set out to determine

- whether total costs (administrative and program costs) are greater for bands to deliver (IIA) services/programs than for DIAND,

- if costs are higher, how much higher - initially, and after the transferred activity is established, what are the reasons for the higher costs and their relative significance and, in general, whether and how the higher costs can be reduced, and

- what are the financial implications to the end of the decade of continuing the transfer policy and what factors may affect the future rate of transfer and the differential costs of transfer.

C. ORGANIZATION OF THE REPORT

This report summarizes the principal findings and conclusions of the study. The second chapter discusses the transfer process, the transfer cost pattern that emerges and the reasons for the higher costs of transfer. The third chapter reviews the growth in IIA expenditures from fiscal year 1974-1975 (FY 1975) to fiscal year 1979-1980 (FY 1980) and the relative impact of the transfer policy, and concludes with an estimate and allocation of the past costs of transfer. The fourth chapter estimates the future rate of transfer and reviews the impact on IIA person years. The fifth chapter discusses the potential impact of proposed major policy initiatives

on the costs of transfer. At the end of the Chapters III, IV and V, major conclusions and assumptions for the forecast are presented.

The sixth chapter presents the actual forecast, discusses its limitations and suggests how it can be used in future program planning. The last chapter provides our recommendations for future forecasting endeavours, program monitoring and evaluation, and other matters related to the transfer policy.

This document makes references to and uses findings from four earlier reports of the study.

- Phase IA - "Establishment of a Consistent Financial Data Base for the Indian and Inuit Affairs Program".

- Phase IB - "Identification of Past Cost Patterns in the Indian and Inuit Affairs Program".

- Phase II - "An Estimate and Allocation of the Past Costs of Transfer".

- Phase III - "Determination of Forecast Assumptions with Respect to the Future Costs of Transfer".

D. CONDUCT OF THE ASSIGNMENT

Mr. M.E. Goulet of Currie, Coopers & Lybrand Ltd. assumed overall responsibility for the study. Mr. A.J. Curd was responsible for supervising the assignment progress and Mr. V.M. Rocine was the operating consultant. He was also designated as MIP 6.1 project

leader within the Management Improvement Project (MIP) structure. The project team included two DIAND staff members, Mr. R.A. Huntley and Mr. P. Falconer, who were assigned full-time to the project. Mr. D. Higgins of Coopers and Lybrand, on executive exchange to the Office of the Auditor General, provided technical advice in the initial stages of the assignment.

The assignment commenced in late November, 1980, and covered an elapsed time of approximately eight months. During the assignment, our progress, results and direction were reported regularly to Mr. R.J. Fournier, Senior Assistant Deputy Minister. Written reports were submitted to Mr. Fournier at the completion of each phase. A detailed study program and, initially weekly and subsequently monthly, written progress reports were also submitted to the Management Improvement Project Steering Committee.

Several presentations were made to DIAND senior managers to discuss the study findings, to confirm the forecast assumptions and to review future implications. This included presentations to

- the Department Management Committee,
- the Indian Affairs Program Executive Planning Committee, and
- the Management Improvement Project Steering Committee.

Throughout the assignment, a high degree of cooperation and support was received from all departmental staff contacted in headquarters and in the regions visited. See Appendix I for list of persons interviewed. We are particularly grateful to Mr. Huntley and Mr. Falconer for their effort and commitment during all phases of the study.

II. TRANSFERRING DELIVERY RESPONSIBILITY TO INDIAN BANDS COSTS MORE

When the delivery responsibility for IIA services are transferred to Indian bands or tribal and district councils, total costs increased significantly, in general, 20% to 30% more. — compared to what - to the 298m related to Bands managing 40% of the IIA program

The chief causes for the increased costs of transfer are identified as arising from

- a) the decentralization of service delivery to more and smaller administrative units,
- b) the facilitation of local control by bands, and — needs to be rewarded to make clear distinction with reason a
- c) increased support for the development of the Indian people and their communities.

The remainder of this chapter summarizes the results of case studies and interviews with managers on the higher costs of transfer and reviews the dynamics and reasons which explain the higher costs.

A. THE INCREASED COST OF TRANSFER ARE HIGHLY VARIABLE

Our work identified that when bands assumed responsibility for delivery of services, it was more costly than if the Department had retained delivery responsibility. See Appendix II for abstracts of case studies. Both administration costs and program costs rose when bands assumed responsibility for service delivery. The extent of cost increases at the individual band level were highly variable, depending on any number of factors, local conditions and unique circumstances. The only apparently consistent pattern we could identify was the amount of higher costs associated with different types of services and goods transferred. For example, the premium paid for transferring a dollar of capital is less (in general, 5% to 10%) than transferring a dollar of operating services (in general, 10% to 30%).

B. THE TRANSFER PROCESS IS USUALLY INCREMENTAL, GRADUAL AND COMPLEX

The case studies, particularly in the field of education, and interviews with DIAND managers suggest that the transfer process is often incremental, gradual and complex in nature. It represents many small decisions, and precedents made over several years. These changes are generally the result of the expression of local control by Indian bands. Similarly, local control also tends to encourage the expansion of services and goods delivered and, therefore, increased program costs. When viewed on an individual basis, these expansions in services appear eminently reasonable. However, the cumulative cost effect of this process is significant. To illustrate this point and the dynamics involved, we prepared a simplified, yet realistic, case study of a band-operated school. See Appendix III.

this accounts for 30-40 % of extra costs.

C. THE REAL COSTS OF TRANSFER MAY BE INCREASING OVER TIME

The case study work undertaken also suggests that the real costs (i.e., in constant dollars) of transfer, for some services such as socal assistance, may be increasing over time.

In particular the results of two social assistance case studies which compared costs, over a four to five-year period, for two groups of bands - DIAND-administered and band-administered - suggest that the costs of transfer are increasing over time. Exhibit 1, opposite page, shows the general nature of this pattern. The exact shape and magnitude of the increase is difficult to establish at this time, given the selectivity of cases examined. These results suggest that, for social services, the real costs of transfer may be increasing over time.

D. REASONS FOR HIGHER COSTS OF TRANSFER ARE IDENTIFIABLE AND RELATED TO THE ACHIEVEMENT OF NEW OR EXPANDED IIA PROGRAM OBJECTIVES

The main reasons for the higher costs of transfer include

- the expense of creating new administrative units at the band level and lost economies of scale due to the decentralization of service delivery,

- the cost of duplicating DIAND support systems at the band level such as financial services, personnel, employee benefits,

- bands incurring administration costs which DIAND had not previously funded, for example, insurance, rent, legal fees,

- program enrichment, improved services and greater access to services associated with band control, for example, band social service workers are much more accessible to clients. This improved access means greater use of services and, therefore, higher costs.

- the costs associated with DIAND's role of supporting, monitoring and facilitating the transfer of service delivery responsibility to bands, for example, negotiating band budgets.

These increased costs cannot be viewed in isolation from IIA Program objectives. The transfer policy may be viewed as contributing to three objectives

- the decentralization of service delivery
- the accommodation and expression of local control, and
- the development of the Indian people.

These are largely new objectives which the transfer policy is designed to achieve, at least in part. The achievement of more objectives requires more resources. More to the point, the achievement of any one of these objectives in a public service delivery system will generally require additional resources. It is not surprising, therefore, that the implementation of the transfer policy is more costly than not implementing the policy.

E. POTENTIAL OPPORTUNITIES FOR REDUCING TRANSFER COSTS ARE LIMITED

Throughout the study, DIAND managers were asked to identify potential opportunities for reducing the higher costs of transfer. The most commonly cited cost saving measures included

establishing and enforcing clear administrative and program guidelines,

centralizing band services, where practicable, and

providing increased band training and development support.

In our view, such measures will probably have a marginal impact on the higher costs of transfer at the macro or IIA Program level. For example, if some savings were realized for a particular service or band, they would probably flow to improve other services.

Exhibit 2, opposite page, provides an overview of the reasons for higher costs and the strategies identified for reducing their financial impact. The Phase II report in Volume II of this report provides an additional commentary on the reasons for the higher costs of transfer.

Although there are considerable variations, depending on the unique situation of individual bands, costs generally increase significantly when bands assume responsibility for service delivery. The causes for the increased costs associated with transfer are significant, identifiable and appear largely unavoidable. Of concern, however, is that the costs of transfer appear to be increasing over time while the potential opportunities for reducing the higher transfer costs, under existing funding arrangements, are limited.

III. THE YEARLY ONGOING COSTS OF TRANSFER ARE SIGNIFICANT - $60 to $80 MM IN FY 1980

This chapter provides an overview on the relative impact of the transfer policy on IIA expenditures in the past. It begins by comparing IIA program expenditure growth to other federal government expenditures, and then estimates the impact of the transfer policy on the five-year growth in IIA expenditures from FY 1975 to FY 1980. Next, the costs of transfer for FY 1980 are estimated and allocated by cost component. The latter sections note increasing stress within the program due to fiscal restraint and the need to assess the benefits of transfer as well as the costs.

A. APPROXIMATELY $40 MM OF THE $140 MM REAL INCREASE IN IIA EXPENDITURES FROM FY 1975 TO FY 1980 IS ASSOCIATED WITH TRANSFER

In the five years FY 1975 to FY 1980, IIA Program expenditures increased, in constant FY 1980 dollars, by $140.5 million from $596.3 to $736.8 million. It is estimated that approximately 25 to 35%, or $40 million, is associated with the transfer of services to Indian bands and tribal and district councils. The most important reason accounting for the real growth in expenditures (approximately $50 million) is the increase in the IIA service population (i.e. on-reserve population increase of 8.1% during this period). The following distribution estimates the share, by reason, for the $140.5 million real increase in IIA expenditures from FY 1975 to FY 1980.

Approximate Share		Best Estimate Millions $
30-40%	Increase in service population	$ 50
10-20%	Program costs* and costs of doing government business rising faster than the Consumer Price Index (CPI)	20
20-30%	Net increases in type/range of services	30
25-35%	Transfer costs	40
100%		$140

*The costs of the same service to the same number of clients.

This section provides an estimate of how much of the 24% real growth in IIA expenditures FY 1975 to FY 1980 ($140.5 million) is related to the transfer policy ($40 million). It does not, however, provide any measure of what are the yearly ongoing costs of transfer and their relative significance to the annual IIA Program budget. The next section provides this, that is, a cost estimate of the transfer policy for FY 1980.

B. THE COSTS OF THE TRANSFER POLICY IN FY 1980 ARE ESTIMATED TO BE BETWEEN $60 AND $80 MM

It is estimated that the yearly ongoing costs of the transfer policy in FY 1980 are between $60 and 80 million. This estimate excludes operating and capital front-end costs associated with transfer. This estimate is based on

- national and regional cost analysis over a five-year period (FY 1975 to FY 1980),
- case studies, in social assistance and education of individual bands before and after transfer, and
- an assessment of the results of interviews with DIAND managers in headquarters and five regions.

Exhibit 3, opposite page, displays the calculation of the FY 1980 yearly ongoing costs of transfer. As reported above, it excludes one time only costs of transfer. Although we did not study fully front-end costs, we would offer the following observations.

- Additional front-end costs for new operating programs appear to be in the order of 5-10% of the operating value of the new activity transferred.

that fine tune the existing structure. It was hoped that a new funding system would:

- provide bands with greater spending flexibility,
- encourage better use of resources,
- make band councils more accountable to their Indian constituents,
- reduce dependency on DIAND, and
- change Indian attitudes toward DIAND and federal government monies.

For forecast purposes, we have assumed that the effects of the future policy environment, to the end of the decade, will be neutral.

2. By FY 1990 Bands Are Expected to Manage 55% to 75% of IIA Operating Expenditures

It is estimated that, by FY 1990, the bands will be managing 55% to 75% of the total IIA operating expenditures (total expenditures, net of capital). The two activities that are expected to experience the most significant change are education and social services, since community infrastructure and band government are already at relatively high levels of transfer. "Other activities", in Exhibit 5, include program administration, reserves and trusts, and economic and employment development.

The cumulative result of the expected operating and capital transfers would mean that by FY 1990, band contributions would represent 60% to 80% of the IIA Program total expenditures.

B. AVAILABILITY OF FUNDS IS THE MOST IMPORTANT FACTOR AFFECTING THE FUTURE RATE OF TRANSFER

The first and foremost factor DIAND managers identified as influencing the future rate of transfer was the availability of adequate funding. DIAND managers viewed the Department's financial capability to respond to band initiatives as critical to future transfers. Exhibit 5 would, therefore, assume sufficient funding availability. Other factors identified included:

- band management capability/competence,
- level of trust between DIAND and Indian bands,
- level of band satisfaction with:
  - transfers that have already taken place,

- services DIAND and DIAND's delivery agents (e.g., provinces) are providing, and

- the possible effects of introducing new legislation (e.g., local Indian government).

We consider future Departmental operating policies and procedures on transfers to be as equally important a factor as funding availability. For example, in elementary and secondary education there is decreasing use of master tuition agreements between DIAND and the provinces and increasing demands by bands to have provincial tuition payments flow through bands to ensure local school boards are more responsive to Indian needs. The Department's position on this, and similar issues, will greatly affect the rate of growth in band contributions.

C. TRANSFER AND OTHER CHANGES COULD REDUCE IIA PERSON YEARS BY 35% TO 60%

There were wide variances in the responses by DIAND managers to questions about the impact of future transfers on person years and the Department's organization. Assuming no changes in range and level of services, IIA person years utilization could be 35% to 60% below current levels, or 3,000 to 2,000 compared to about 4,700 in FY 1981. In forecasting these person year reductions, managers were anticipating a mix of future alternative policies and arrangements such as changes in

- the way bands are funded,

- the level and detail of DIAND and band accountability and reporting to Parliament, and

- the level of DIAND program monitoring and evaluation of band delivered services.

In short, managers expected a significantly different role for the Department and a different relationship with the bands and Indian people by the end of the decade. We believe the 2,000 person year figure is highly improbable given historical patterns.

D. FORECAST ASSUMPTIONS ON FUTURE TRANSFERS

Our forecast assumptions based on the above findings are as follows.

- By FY 1990, band contributions will be 60-80% of total IIA total expenditures. More particularly, by FY 1990, band contributions will be 55% to 75% of total IIA operating expenditures (compared to 33% in FY 1980), and 80-90% of total IIA capital expenditures (compared to 71% in FY 1980).

- The estimates of band contributions as a share of total IIA Program expenditures to FY 1990 assume that 'sufficient' funding is available.

- By FY 1990, IIA person years could be 35% or more below current levels - 3,000 or less person years in FY 1990, compared to about 4,700 in FY 1981. These reductions incorporate not only person year offsets due to transfers, but fairly significant changes in DIAND's role and relationship to the bands. Any net savings resulting from offsets in IIA person years directly related to new transfers would fall within the range provided in the forecast of the future costs of transfer.

> The costs of transfers will decline as the rate of growth of new, expanded services and of new + upgraded facilities will slow.

The future costs of transfer are highly dependent on the future rate of new transfers. In turn, future transfers are dependent on a number of factors, most significantly - bands' perceptions of the Department's financial capabilities. We consider another equally important factor will be future Departmental operating policies and procedures.

VI. THE COSTS OF TRANSFER BY FY 1990 COULD BE CLOSE TO 20% OF IIA EXPENDITURES COMPARED TO ABOUT 10% IN FY 1980

This chapter provides an overall forecast of the yearly ongoing costs associated with continuing the transfer policy to FY 1990. It also includes a forecast of social assistance and education transfer costs to the end of the decade. It concludes with the identification of several other items which may drive future IIA Program expenditures and associated costs of transfer higher than the forecast might currently suggest.

A. TRANSFER COSTS, IN CONSTANT DOLLARS, COULD DOUBLE BY FY 1990

The following presents our forecast of the yearly ongoing costs associated with continuing the transfer policy to the end of the decade, based on constant FY 1980 service levels and needs. All figures are in constant FY 1980 dollars. (See Appendix V for an explanation of constant dollar approach used throughout the study.) The forecast suggests that by FY 1990, the costs of transfer could be close to 20% of total IIA expenditures, compared to approximately 10% in FY 1980.

Exhibit 6, opposite page, displays the basic mathematical relationships utilized in the forecast. These are based on the FY 1980 cost estimate of transfer.

The two basic inputs to the forecast are the estimate of the past costs of transfer and the rate of future transfers. Due to the compounding effect of the range in the FY 1980 transfer cost estimate, (that is, $60 to $80 million) and the wide range in the future rate of transfer, (for example, 60% to 80% of the total IIA Program in band contributions by FY 1990) the resulting forecast limits are particularly broad. The full range of possibilities are displayed in Appendix VI. In view of wide possibilities and in order to provide a

more meaningful transfer cost forecast, a most probable scenario was developed for FY 1981 to FY 1990. This is as follows.

The forecast assumes:

- FY 1980 services and need levels
- FY 1980 population
- FY 1980 dollars

	Most Probable Estimate of Costs of Transfer	Band Contributions Share of Total IIA Expenditures	Approximate IIA Total Expenditures	Transfer Cost Share of Total IIA Expenditures
FY 1980	$60 to $80 MM	40%	$730 MM	9 to 11%
FY 1981	$65 to $85 MM	42%	$735 MM	9 to 11%
FY 1982	$70 to $90 MM	45%	$740 MM	10 to 1w%
FY 1983	$80 to $105 MM	50%	$750 MM	11 to 14%
FY 1984	$90 to $115 MM	55%	$760 MM	12 to 15%
FY 1985	$95 to $125 MM	60%	$770 MM	12 to 16%
FY 1987	$105 to $130 MM	65%	$780 MM	13 to 17%
FY 1990	$115 to $150 MM	70%	$790 MM	15 to 19%

The forecast suggests that from FY 1980 to FY 1985, transfer costs, in constant FY 1980 dollars, will increase by about 50% and they will probably double by FY 1990.

Exhibit 7 on the opposite page, shows the forecast in current dollars, utilizing a forecast of the Consumer Price Index (See Appendix IX). This forecast suggests that transfer costs by FY 1990, in current dollars, could be between $336 and $439 million.

Of course the forecast, by necessity, assumes a static position. That is, FY 1980 dollars, service levels and population are assumed constant over the forecast period. Because the forecast only reflects the increased costs of transfer, it must be further factored for increases in the range of services provided, changes in the level of service, inflation, increasing costs of doing business and providing services over and above inflation, and increases in the number of clients served.

V. THE FUTURE RATE OF TRANSFER

In this chapter, an estimate is made of the future rate of transfer, by main activity, by year, to FY 1990. It also identifies the key factors affecting the future rate of transfer. Lastly, the potential impact of transfer on IIA Program person years is briefly reviewed.

A. BANDS ARE EXPECTED TO MANAGE 60% TO 80% OF IIA PROGRAM TOTAL EXPENDITURES BY FY 1990

In FY 1975, bands managed about 27% of the IIA Program total expenditures and in FY 1980 about 40%. In FY 1981, they handled about 42% of the total program. By FY 1990, this is expected to increase to 60% to 80%, an increment of approximately 3 to 5% per annum.

Exhibit 5, opposite page, shows the estimated share of the total IIA Program expenditures managed by the bands from FY 1981 to FY 1990. This estimate is based on:

- our analysis of past trends,
- a review of the IIA 1982-1983 Operational Plan, and
- interviews with senior managers in five regions.

1. By FY 1990 Bands Are Expected To Manage 80% to 90% of IIA Capital Expenditures

Little further change is expected in the bands' share of the capital program. In FY 1980, the bands were already managing over 70% of the capital program and, by FY 1990, this could be 80% to 90%. DIAND managers interviewed expect that, in general, the bands will handle all but the largest and most complex capital projects by the end of the decade. Therefore, the majority of the real growth in transfer is expected to take place in IIA operating services.

IV. THE EFFECT OF PROPOSED MAJOR POLICY CHANGES CANNOT BE ASSESSED AT THIS TIME

The IIA Program policy environment was surveyed to determine whether any emerging or anticipated policies would affect the rate of transfer and the differential costs of transfer. Major policy initiatives and proposals identified and reviewed included:

- proposals for local Indian government,
- alternative funding mechanisms,
- national program standards,
- the Management Improvement Program, and
- the proposed $455 million economic development initiative.

Although the Department senior management appears to have a definite general policy strategy in mind, the timing and exact form and content of these policy initiatives, at the time of our policy survey, were not sufficiently clear for a meaningful analysis of their impact on future costs. The impact of these measures is, therefore, largely impossible to predict and to incorporate in the forecast at this time.

Before leaving the question of the effect of any changes in the future policy environment on the costs associated with transfer, it is important to emphasize that most managers interviewed cited the need to change current funding and operational arrangements and to introduce a system of block funding. By implication, the managers also perceived the need to change the existing organizational and behavioural relationship between DIAND and the Indian people. The managers generally saw more potential for affecting the rate of growth in expenditures and achieving improved cost effectiveness through a revised system of funding than through measures

G. KEY FORECAST ASSUMPTIONS BASED ON THE FINDINGS IN CHAPTERS II AND III

In terms of developing a forecast of the costs associated with continuing the transfer to the end of the decade, the following are what we assess as the key forecast assumptions, based on the findings reviewed in Chapter II and III.

- The historicaltrend with respect to transfer costs is a sound basis for the forecast. That is, we expect the basic dynamics of the transfer process, the conditions for transfer, and reasons for the higher costs of transfer to remain fundamentally the same in the future.

- Because the differential costs of transfer appear to be increasing gradually over time, the most probable estimates of the future costs of transfer, based on past cost relationships, will be toward the high end of the range.

- Given that transfer (i.e., local control) tends to initiate service expansion, band program costs will, over time, become an even more significant cost component than was identified in the past.

In summary, this chapter has demonstrated that the ongoing costs associated with the transfer policy are significant, in FY 1980, between $60 to $80 million. The benefits of the policy, however, also appear significant.

may mean that fewer resources are available to satisfy these higher expectations of Indian communities.

F. THE TRANSFER POLICY SHOULD BE VIEWED WITHIN THE CONTEXT OF OVERALL IIA PROGRAM OBJECTIVES/RESOURCES

This study has emphasized the differential costs of transfer, which have been found to be significant, but the benefits, even from a cursory assessment, also appear significant. The benefits of the policy include

this should be taken out as a benefit, and the costs of this should be taken out also

- greater access to service and improved responsiveness to client needs,
- increased band employment and related economic benefits,
- increased community pride and a stronger self-image and sense of control over one's environment, and
- more development opportunities for Indians to gain and develop skills and abilities.

The higher costs of transfer should be assessed in conjunction with the policy's objectives and benefits. Furthermore, the costs and benefits of the transfer policy should be evaluated within the context of an overall developmental model for the Indian people and their communities, which we view as the primary mandate of the Department with respect to the Indian people. Such a developmental model is graphically illustrated in Exhibit 4, opposite page.

The Exhibit displays, along the vertical base, the principal policy thrusts of the IIA Program as we view it self government, the transfer policy and community-based planning and development. Along the horizontal axis is a simplified typology of the Indian bands. The Exhibit suggests that all three policies affect bands differently and that their needs, likewise, vary.

EXHIBIT 3

ESTIMATE OF THE DIFFERENTIAL COSTS OF TRANSFER FOR FY 1980

			Million $ Low	Million $ High
1. OPERATING				
(i) One-time Costs Incremental 'front-end costs' in FY 1980. Estimated to be 5-10% of the new operating programs transferred in FY 1980.			$1.0*	$2.0*
(ii) Ongoing Costs (a) Higher total ongoing costs associated with bands managing $171.4MM in IIA operating dollars (net of band government activity contributions but including band work process), in FY 1980.				

does this include higher costs due to providing more services, to more people
these include costs for upgraded or new facilities, ie if more people resulting from transfer (sic). must be spent on make use of the services then called a transfer cost facilities which is but in fact it is due to extension of services

Contributions in Millions $		Estimated Higher Cost Factor		Low	High
$ 56.4	Education	20-30%		$11.3	$16.9
$ 75.7	Social Services	20-30%		15.1	22.7
$ 18.5	Community Infrastructure	5-10%		0.9	1.9
$ 20.7	Others	10-20%		2.1	4.1
$171.4	Sub-total		Sub-total	$29.4	$45.6

	Low	High
(b) Band government activity costs in FY 1980 to support transfer (See Appendix IV for detailed assumptions.)	26.9	26.9
TOTAL OPERATING	$56.3	$72.5

	Estimated Higher Cost Factor		Low	High
2. CAPITAL				
Higher total costs associated with band managing $91.1MM in IIA capital dollars.	5-10%		4.6	9.2
		Total	$60.9	$81.7

This shouldn't be considered a transfer cost, since the money shouldn't be spent unless new facilities are needed.

* Not included in estimate.

- When a band assumes responsibility for elementary and secondary education, this results in increased demand for new or upgraded facilities. This leads to major new capital expenditures. We also identified possible examples of and further potential for capital duplication. For example, a new band school facility being built before the end of the useful life of a provincial school to which the federal government had contributed financing in the past.

Exhibit 3 distinguishes between operating and capital transfer costs. The operating costs include an estimate of the yearly ongoing transfer costs of the bands managing more than $171 million in operating activities in FY 1980. The capital costs are an estimate of the higher costs associated with bands managing over $91 million in capital projects in FY 1980.

In more general terms, the higher incremental costs of bands managing approximately 40% of total IIA Program goods and services in FY 1980 are between $60 and $80 million.

C. APPROXIMATELY 65% OF THESE HIGHER COSTS ARE ADMINISTRATIVE

Throughout the study, efforts were made to distinguish between administration costs - the costs of delivering IIA Program goods and IIA services to clients, and program costs - the direct costs of IIA Program goods and services. It is estimated that approximately 65% of the higher costs of transfer for all services is due to higher administration costs and the remaining 35% to higher program costs. It is further estimated that roughly 50% of the 65% administrative costs are incurred by the band and about 15% by DIAND. The bands can be said to largely account for the full 35% higher program costs. If

yes, but part of the greater admin costs are due to provision of goods + services to more people as pe

this distribution by cost component is applied to the $60 to $80 million ongoing costs of transfer in FY 1980, the following is the result:

Approximate Share of Higher Transfer Costs		Million $ Low	High
50%	Band administration	$30	$40
15%	DIAND administration	9	12
35%	Band program	21	28
100%		$60	$80

D. IIA EXPENDITURES HAVE GROWN MORE SLOWLY THAN OTHER FEDERAL GOVERNMENT EXPENDITURES

Despite the higher costs of transfer and other cost factors, IIA total expenditures experienced a real increase in constant dollars of less than 24% from FY 1975 to FY 1980, which was slower than other federal government expenditures. Total federal government spending over the same period had a real increase of 27%, exclusive of debt service, or 32% if debt servicing is included. For the same period, the social affairs envelope had a real increase of 60% and the Department of Health and Welfare a 78% real increase. Relative to total federal government spending, IIA expenditure growth has, therefore, been modest from FY 1975 to FY 1980. Similarly, the IIA Program's share of the social affairs envelope has declined, from 4.7% in FY 1975 to 3.2% in FY 1980.

E. SIGNS OF STRESS ARE APPARENT IN IIA PROGRAM ARISING FROM INSUFFICIENT FUNDING TO MEET DEMANDS

Recently, there have been signs of increasing stress in the IIA Program due to available funding growing at a slower rate than demands

on the Program. On the revenue side is the federal government's restraint on spending and the IIA Program's declining share of the federal treasury. On the expenditure side are growing demands for services, rising expectations, rapidly escalating costs of providing services and doing business, and the higher costs of transfer. This has led to increased stress within the Program, some signs of which include:

- Bands increasingly threatening to turn service delivery responsibility back to DIAND because of insufficient resources.

- Some reductions in the range and level of services provided, particularly in the developmental area; for example, many regions have dropped some non-essential education services to fund more basic programs:

  - lunch program dropped,
  - student allowances reduced,
  - federal in-school program deterioration,
  - adult education reduced or dropped.

- Declines in per capita spending in the capital program. Similarly, there is evidence of a growing capital backlog and insufficient funding for maintenance of capital assets.

- Funding short-falls are slowing the further transfer of some services (for example, the Department is unable to satisfy all requests for band school feasibility studies).

Transferring services to bands tends to raise expectations for a better life and improved service provision. Transferring services also costs more than not transferring. Therefore, the transfer policy

For example, whereas the above forecast suggests FY 1981 transfer costs are $65 to $85 million, we calculate, based on the approach developed for the past costs of transfer, that the actual costs of transfer for FY 1981 are between $70 and $95 million.

In order to make the forecast more relevant to long-term planning, we have included an estimate of transfer costs as a percent of IIA total expenditures from FY 1981 to FY 1990. These estimates of transfer costs as a share of IIA total expenditures allow a rough estimate of transfer costs in terms of actual dollars, service levels and population. This can be done by multiplying the estimate of transfer costs as a share of total expenditures by the budget for the appropriate year.

To illustrate, the IIA budget in FY 1981 in actual dollars is $860 million. Using this technique, the costs of transfer in actual dollars for FY 1981 are estimated at roughly $77 to $95 million (i.e. 9% - 11% x $860 million = $77-95 million). This provides one way of looking at a changing situation from the static framework developed for the forecast.

Although our knowledge of front-end costs is limited, it is suggested that, until better information is available, when developing program forecasts, a useful 'front-end' cost factor would be 5 - 10% of the value of new operating transfers.

An important cautionary note, is however, that line managers should not use our findings to calculate the costs of new transfers at the micro level. Our results are at the macro or national level, not the band or district manager level. Managers should be careful in assessing, calculating and monitoring the higher costs of transfer at the local level and inputting this information into the Departmental budget planning processes.

B. SOCIAL ASSISTANCE AND EDUCATION WILL CONTINUE TO ACCOUNT FOR ABOUT HALF OF TOTAL IIA TRANSFER COSTS

The following presents our best estimate of the yearly ongoing education and social assistance transfer costs to the end of the decade, based on FY 1980 service and need levels. We are less confident about these results for a variety of reasons, including:

- At the Program level, errors and probabilities have a better opportunity of cancelling each other than at the Main Activity level.

- Transfer cost items are not clearly identified and accounted for in the financial reporting system.

- Transfer cost items related to an activity are sometimes budgeted and accounted for outside the main activity. For example, in FY 1980, about half of the $7 million social assistance band overhead costs are in the social services main activity and half are in the band overhead sub-activity.

- Budgeting and accounting practices with respect to transfer costs change over time. For example, in FY 1982, more emphasis is expected to be placed on ensuring that social assistance band overhead costs are shown under the band overhead sub-activity of the band government main activity rather than appearing in the social service main activity. Tracking the past costs of transfer for a particular activity was difficult. Forecasting these is, therefore, almost impossible.

- IIA main activity service levels and delivery modes can and do change significantly over time. For example, according to the 1982 - 1983 Operational Plan, the care and rehabilitation

sub-activity of social services is estimated to increase 29% from FY 1981 to FY 1982, compared to less than a 10% increase for the total IIA Program operating expenditures. This increase is largely due to expanded services in child welfare. In addition, the bands are increasingly involved in the delivery of child welfare services.

- Current Departmental longer-term forecasts for the IIA Program either do not exist or are unreliable. FY 1984 represents the furthest point in the future for which IIA Program forecasts are available. In addition, a review of the operational plans to FY 1984 suggests they do not portray a realistic picture after FY 1982. For example, the 1982 - 1983 IIA Operational Plan does not anticipate increases in the range and level of services nor increases in band contributions after FY 1982.

- Front-end costs and capital costs in education are very significant. It will be necessary to estimate these in a shorter time frame, and on a band-by-band basis.

Despite these reservations, Appendices VII and VIII provide our best current estimate of transfer costs for education and social assistance. The results suggest that education and social assistance transfer costs will probably double by FY 1990 and that together they will account for about half of the yearly total IIA Program transfer costs.

C. SEVERAL OTHER FACTORS WERE IDENTIFIED WHICH WILL DRIVE IIA PROGRAM COSTS AND THE ASSOCIATED COSTS OF TRANSFER HIGHER

During the course of the study, several other potential changes were identified which will increase IIA Program costs and, very possibly, the associated costs of transfer. These are briefly outlined below.

- As identified in Phase II, provincially-determined services and rate structures are a major determining cost factor in the IIA Program. This is a cost factor about which DIAND managers have a limited understanding and, apparently, little or no influence in adjusting or controlling.

- More and more, bands are requesting that provincial contributions go through bands to ensure responsiveness to needs. This is increasing costs because bands are requesting additional funding for overhead and service enrichment. This phenomenon is likely to become more widespread in the future.

- Child welfare and adult care services (sub-activities in the social services main activity) are potentially significant expenditure growth areas. Bands want more control over services and a higher level of service.

- The transfer of one service or activity can increase the costs of other services. For example, band-operated schools are graduating more Indian high school students which, in turn, increases the demand on the IIA post-secondary school program.

- There are increased demands for band employee wage/salary and benefit parity with the Federal Public Service Commission. If granted, this will increase the costs of transfer significantly.

The nature of the transfer process briefly outlined in Chapter II, the high costs of transfer forecasted and the emerging and potential changes to the IIA Program, identified above, suggest clearly that more follow-up work is warranted on understanding, documenting, monitoring and evaluating the costs and benefits of the transfer policy. Some suggestions in this regard follow in the next chapter.

VII. THE DEPARTMENT HAS BEGUN TO ADDRESS MANY OF THE ISSUES AND RECOMMENDATIONS WHICH FOLLOW FROM THE STUDY

This chapter summarizes the recommendations which have arisen from our study. Most of the themes presented here have been explored previously in earlier reports or preceding chapters of this final report. In many cases, we are aware that the Department is already taking steps to address many of these issues.

A. THE DEPARTMENT'S INFORMATION REQUIREMENTS NEED TO BE UPGRADED WITH RESPECT TO TRANSFER

Managers, particularly in large, complex and diverse programs such as Indian and Inuit Affairs, cannot manage without accurate and timely financial data and supporting information. There is, for example, a need in the Department to ensure a more precise and meaningful reporting of expenditures. Supporting information such as that for services provided, number and type of clients served, and band employees by activity and type, is equally important in conducting meaningful analysis and managing the Program.

Using financial data as an illustration, careful and sensitive consideration is required in:

- making certain that accounting structures and reports are useful to program line managers,
- ensuring that proposed changes to coding and accounting structures clarify important issues and areas of concern, and
- planning and evaluating the implementation of such changes, include

- clear documentation of changes,
- training managers how to use information,
- training other staff to ensure accurate coding, and
- field testing prior to and after implementation.

As an illustration of needed support data, an effective classification and inventory of services and activities with respect to "who delivers what" is required. For example, DIAND does not have a clear national picture on the number of bands which are managing the delivery of services and how many clients these bands are serving. It is only now beginning to develop such a profile.

Some more specific points regarding upgrading the Department's information systems follow.

1. Methods for Costing and Monitoring the Incremental and Cumulative Costs of Transfer Should Be Developed

The report of the Auditor General identified the need to calculate the costs of transfer and include their consideration in future policy making. We hope that this study has been useful in estimating the past costs of transfer, identifying the reasons for it and projecting their relative cost impact in the future. More work is clearly needed to follow up on the findings presented here and in the related MIP 6.0 series projects.

For example, check lists could be developed to assist managers in budgetting and forecasting the higher costs of transfer at the individual band level. Additional research should be undertaken on the start-up costs of transfer. Another suggestion is that line managers maintain a log of a sample of new transferred activities in order to monitor and analyze the higher costs of transfer over time. This would provide a better record than

trying to develop and analyze such information several years hence.

Again, it is hoped that this study has provided a useful perspective on the costs of the transfer policy and has contributed toward developing a framework for further investigation.

2. More Historical Financial Analysis Should Be Undertaken

For program budgeting and planning, DIAND, as do most organizations, looks at one year in the past, the current year and forward one or more years. The Department would greatly benefit from a more detailed historical analysis of financial and related client data to identify expenditure patterns and trends and to measure results. Our national and regional analysis of the IIA Program FY 1975 to FY 1980 raised more questions than it provided answers. DIAND would gain from a more detailed historical analysis in developing an increased understanding of where it has been and where it is going. A detailed five-year review of one or two main activities each year may be one way to proceed. It would be important to involve program and financial managers in undertaking and reviewing such an analysis.

Particularly timely would be a more in-depth and systematic analysis of the impact on IIA Program costs of provincially determined service levels, such as social assistance legislation and rate structures, and provincially delivered services such as education. For example, our analysis showed that provincial tuition rate structures had a far greater effect on increases in expenditures from FY 1975 to FY 1980 than increased costs arising from the transfer of education activities.

3. Current Financial Systems Are Not Sufficiently Flexible

The financial data and format that was required for our study was not and is not available through existing fixed format computer reports. Considerable time and manual manipulation and reconciliation was necessary to aggregate and interpret financial data. We understand the Department is currently considering a linear financial report generator. We would recommend instead, consideration of a flexible matrix format which would permit fast, automated manipulation of information for financial analysis.

4. A Warning About Applying Average Unit Costing

The Department, following federal government practice, uses, where possible, an average unit costing technique in budgeting and accounting for IIA Program expenditures. The data base for social assistance and education is typical of this approach. An average unit cost is determined and volume estimated. The two are multiplied to calculate total costs.

The use of average unit costing with the education data base could pose a problem for the Department in the future because of declining enrollments (i.e., reduced volumes), but higher fixed operating expenditures. Indian school age children as a percent of the total on-reserve population is forecast by the Department to decline from 40% in FY 1980 to 36% in FY 1985, and to less than 32% in FY 1990 - a decline of over 10,000 student units during the decade. However, despite declining enrollments, there are considerable fixed education costs. We expect that education costs will not decline in relationship to enrollment but, rather, that average education unit costs will increase dramatically.

This pattern can be witnessed in almost any province or municipality which has experienced declining enrollments in recent years.

The Department may find a fixed and variable cost framework useful in budget planning and accounting in the future.

B. THE DEPARTMENT'S OPERATIONAL PLANNING PROCESS REQUIRES FURTHER DEVELOPMENT

Current financial planning forecasting processes do not portray a realistic picture. As an example, the budget figures in the 1982-1983 IIA Operational Plan do not correspond well with the narrative. The narrative suggests that transfer of IIA operational services will continue and, in some main activities, even accelerate relative to past patterns. However, the budget figures do not show band contributions increasing as a share of total IIA expenditures after FY 1982 (i.e., for FY 1983, FY 1984, and FY 1985). The budget figures do not consider or include an estimate of the increased costs associated with transfer. Data base information (volume and unit costs) has not been projected after FY 1983.

Neither does the Operational Plan anticipate increases in the range and level of services after FY 1982. For example, no expansion in care and rehabilitation social services (includes child welfare and adult care) after FY 1982 is anticipated.

Figures apparently allow for normal increases in population and service costs, but do not anticipate, nor project, the expansion of child welfare and adult care services past FY 1982.

This lack of service expansion after FY 1982 appears contrary to a $10 million increase in care and rehabilitation costs in one year, from FY 1981 to FY 1982. Nor does it portray the development of child welfare and adult care as major cost elements, an issue which was identified during our study.

Part of the problem is that budget and plan guidelines are confusing. For example, budget managers are asked to input 'known' cost increases for some items, for other items, to apply rates of cost increase that are provided by the central authorities and for still others, no increases in costs are applied. It is difficult, therefore, to discern whether budget figures represent current or a projection of actual dollars. This situation is due in part to the budget guidelines provided by central agencies.

In conclusion, a cursory review of the operational planning process and its principal outputs suggests that it is a mechanical process with little realistic perspective and associated analysis. Clearly, the effectiveness of the current program and resource planning processes is in question. Departmental managers are generally aware of these limitations. Therefore, credibility of these plans and forecasts is low. Consequently, managers do not use them for managing their areas of responsibility.

C. TRANSFER COST SAVING MEASURES, WHERE PRACTICAL, SHOULD BE PURSUED

In reading our conclusions about opportunities for reducing the higher costs of transfer, the reader should not assume that we are implying that no opportunities for cost saving can be found or are worth implementing. On the contrary, we saw evidence of managers in headquarters and the regions trying to improve the cost effectiveness of transferred services. The Management Improvement Project is an

excellent illustration. These short and long-term strategies should be pursued. What was not in evidence were any simple panaceas, and we noted that there were many sound, practical reasons for transferred services costing more. This led us to assume that, at the macro level, transfer cost savings are likely to be incremental. Furthermore, because the resulting savings are not expected to be significant or highly visible, we would anticipate that transfer savings would tend to flow to other, more needy situations. Thus, we must assume that the impact on the overall costs of transfer would be marginal.

D. THE TRANSFER POLICY COSTS SHOULD BE VIEWED WITHIN THE CONTEXT OF THE DEPARTMENT'S OBJECTIVES AND RESOURCES

As suggested above, the transfer policy costs should be assessed relative to their benefits. Next, they should be evaluated within an overall departmental policy framework and the Department's objectives, and the resources available to achieve those objectives.

For example, there was evidence that transfer may be increasing the inequities between the 'have' and 'have-not' bands. The essential dynamics are that, generally, the larger, more resourceful, more politically articulate bands tend to lead the request for transfer of services. Because transfer costs more and revenue is limited, fewer funds are available for less advantaged bands. We recommend, therefore, that inequities between bands be studied, in particular, the effects of the transfer policy.

VIII. CONCLUSION

More useful work could be done in relating the additional costs of transfer to the corresponding benefits of the policy. We nevertheless hope that this study provides a useful perspective on the transfer process and its associated costs, the causes of the higher transfer costs and a framework for further investigation. In closing, we appreciate the opportunity to have worked on this challenging and significant assignment and to have made some contribution, however small, to the Department's Management Improvement Project.

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