

FISCAL ALTERNATIVES FOR FUNDING THE INUIT AND INNU OF LABRADOR

A Research Report Prepared for the Royal Commission on Aboriginal Peoples

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EXECUTIVE SUMMARY

This report is an economic evaluation of three principal federal-provincial funding agreements meant to benefit the Inuit and Innu of Labrador. They are:

- *The Contribution Agreement Between the Government of Canada and the Government of Newfoundland for the Benefit of the Innu Communities of Labrador: 1991-1996;*
- *The contribution Agreement Between the Government of Canada and the Government of Newfoundland for the Benefit of the Inuit Communities of Labrador: 1989-1994; and*
- *The Canada-Newfoundland-Native-Peoples-of-Labrador Health Agreement: 1984-85.*

The ultimate objective of this work is to provide the Royal Commission on Aboriginal Peoples with recommendations for revising funding agreements that facilitate community decision-making and self-government while satisfying widely accepted economic criteria.

To provide a foundation for this evaluation, early sections of the report provide the following:

- A description of the broad categories of grants that can be found in the economics literature and that are utilized in intergovernmental fiscal arrangements in Canada (e.g., specific versus general grants and conditional versus unconditional grants);
- Statements of economic properties, rationale and appropriateness (given their objectives) of specific funding programmes such as equalization entitlements, Established Program Financing grants and payments made under the Canada Assistance Plan; and,
- Consideration of fundamental aspects of grant structure such as whether they should be government-to-government or government-to-individual with attendant consideration of administrative costs, revenue-raising powers, tax instruments, administrative wherewithal, scale economies and political constraints.

Following from this descriptive foundation, the three principal programmes are assessed. For each agreement there is a statement of its objectives, the specific funding arrangement in place, the scope of the program and services covered by it, and the process by which the agreement is implemented. Separate accounts of these facets of the agreements are provided for both targeted beneficiary groups, Inuit and Innu, and a comparison of Inuit and Innu agreements in each funding category is made.

Given the economic theory of intergovernmental grants, the specifics of each agreement and other, relevant economic factors, each agreement is critically evaluated and a recommendation is made with respect to the appropriate funding arrangement based on an assessment of the stated intent of each agreement, the level of discretion currently exercised within each agreement, and the

modifications required to facilitate self-government on the part of the Inuit and Innu. Recommendations of this report are the following.

- With respect to the Innu Agreement, it is recommended that

The Government of Canada enter into a direct funding arrangement with each of the Band Councils. This funding arrangement would be in two parts. The first part, which would also constitute the overwhelming majority of the funds, should be provided unconditionally to the Band Councils to enable them to tailor their expenditures to the needs and preferences of their people as determined by the Innu themselves. The second part of the funding arrangement should consist of three conditional non-matching grants: one for housing services, one for water and sewer services and one for education services. Each conditional grants should be reviewed every five years to determine whether the standard of provision of the relevant service(s) has risen sufficiently to permit the conversion of the conditional grant to an unconditional grant.

- With respect to the Inuit Agreement, it is recommended that

The Government of Canada enter into a direct funding arrangement with the Labrador Inuit Association. This funding arrangement would be in two parts. The first part, which would also constitute the overwhelming majority of the funds, should be provided unconditionally to the Labrador Inuit Association to enable them to tailor their expenditures to the needs and preferences of their people as determined by the Inuit themselves. The second part of the funding arrangement should consist of a conditional non-matching grant given for the funding of water and sewer projects.

- And, with respect to the Health Agreement, it is recommended that:

The Government of Canada and the Government of Newfoundland should maintain the current funding arrangement for the provision of the controllable costs item included in the Native Peoples Health Agreement.

1.0

Introduction

As part of its mandate with respect to the North, the Royal Commission on Aboriginal Peoples needed to study the various federal-provincial agreements that are in place for the funding of the Inuit and Innu of Labrador. The Royal Commission wished to have that study: (1) document and compare the various federal-provincial funding arrangements; (2) consider alternate fiscal arrangement; and (3) suggest how current funding arrangements might be amended to facilitate community decision-making and self-government.

The report that follows is an attempt to provide the specific information requested the Royal Commission on Aboriginal Peoples. This report examines three federal-provincial agreements that provide funding to the Innu and Inuit of Labrador. The three agreements considered in this report are: (1) the Contribution Agreement Between the Government of Canada and the Government of Newfoundland for the Benefit of the Innu Communities of Labrador: 1991-1996; (2) the Contribution Agreement Between the Government of Canada and the Government of Newfoundland for the Benefit of the Inuit Communities of Labrador: 1989-1994; and (3) the Canada/Newfoundland/Native Peoples of Labrador Health Agreement: 1984-85. It is important to appreciate that these agreements are neither agreements **with** the Innu and the Inuit nor are they viewed as such by these aboriginal groups.¹ Rather, these agreements are arrangements between the two levels of government to provide services to the designated communities.

In addition to reviewing these agreements, this report provides a discussion of alternate funding arrangements. As well, it recommends alternate funding arrangements that are more conducive to community-decision making and self-government than existing arrangements.

The remainder of the paper is structured as follows. Section 2 reviews and describes the broad categories of grants that can be found in the economics literature and that are utilized in intergovernmental fiscal arrangements in Canada. This section provides an overview of the types of intergovernmental grants that are available to revise the current federal-provincial funding arrangements for the benefit of the Inuit and the Innu of Labrador. In addition to discussing the types of grants in the abstract, this section highlights Canadian examples of payments from the federal government to the provincial governments. Specifically discussed are: equalization entitlements, Established Program Financing grants and payments under the Canada Assistance Plan. As well, the positive and negative aspects of the different types of grants are considered in this section. The final discussion in Section 2 pertains to why grants are given and the type of grant is best suited to each situation.

In the Section 3, some other issues that are relevant to the design of intergovernmental fiscal

¹ This point was raised by an anonymous referee.

arrangements are examined. The first issue dealt with is whether grants should be intergovernmental or, instead, should be given as direct transfers to individuals. The discussion here lays out when it might be advantageous, because of significantly lower administrative costs, to give the aid intergovernmentally rather than directly to individuals. Another issue discussed in this section is how the revenue base and the availability of various tax instruments may affect the feasible set of grants that could be included in an intergovernmental fiscal arrangement. Also dealt with in this section is an administrative issue. Specifically, what are the implications for grant design if there does not exist sufficient trained personnel to administer the grants received by the recipient jurisdiction. The final issue raised in this section is how scale economies in public goods provision and tax collection might be germane to the choice of the intergovernmental fiscal arrangement. This section ends with a consideration of how the political situation might constrain the sources of grant monies available to support the aboriginal peoples.

The fourth, fifth and sixth sections deal with the various federal-provincial agreement that exist for the benefit of the Innu and Inuit of Labrador. The federal-provincial agreement for the benefit of designated Innu communities is presented in the fourth section. Described in this section is the agreement's objectives, the funding arrangements of this agreement, the specific programs and services covered by the agreement, and the process associated with the implementation of the agreement. The fifth section addresses the same sorts of points but from the perspective of the federal-provincial agreement for the benefit of the Inuit communities. This section also provides a brief comparison of the Innu and Inuit agreement. Next, in section six, a similar assessment is undertaken for the Native Peoples Health Agreement.

In the seventh section, each agreement is critically evaluated and a recommendation is made with respect to the appropriate funding arrangement. These recommendations are based on an assessment of the stated intent of each agreement, the level of discretion currently exercised within each agreement, and the modifications required to facilitate self-government on the part of the Inuit and Innu. The last section contains the conclusions reached in this report.

2.0 Types of Grants and Their Uses

2.1 Types of Grants

A perusal of standard public finance and fiscal federalism textbooks indicates that there are myriad of different types of grants that have been utilized in the real world to address a variety of economic problems. Grants differ in their structure according to what it is that the grantor hopes to achieve by providing the grant. Although there is much variety in the structure of grants, economists have describe a convenient taxonomy for categorizing the different types of grants. This taxonomy is useful in that allows one to classify all grants as belonging to one of two basic types, with all other grants being variants of those two types.

Based on this approach, grants are either unconditional in use or conditional in use.² The distinction between the two is that for grants which are unconditional in use, the grant recipient or grantee has full discretion over how to utilize the grant monies. The only effective constraint faced by the grantee is the size of the grant. The grantee can choose to spend the funds in any way that it is deems appropriate. There is no accountability to the grantor with respect to the use of the funds. An example of an unconditional grant is the equalization payments made by the federal government to "have-not" provinces within Canada.³

For conditional grants, the grantor does impose constraints on the grantee's ultimate use of the grants. It is no longer at the full discretion of the grantee how the funds may be spent. Rather, to eligible for the grant, the grantee must abide by the conditions attached to the use of the funds by the grantor. Given these additional conditions, when compared to unconditional grants, conditional grants require more monitoring, more bureaucrats to do the monitoring and, as a result, a higher costs of administering these grants.

The conditions attached to grants can be broad-based or narrow in scope. Broad-based conditional grants are sometimes referred to as block grants. These grants apply to broad categories of expenditure such as education expenditure. The nature of block grants is that grant monies must be dedicated to programs and services encompassed by the broad category, but there is no restrictions on how the funds can be allocated between functions within that broad category. For example, a block grant for education can be spent on teachers' salaries, books, computers, *et*

² Sometimes conditional grants are referred to as selective or categorical grants and unconditional grants are known as general purpose grants.

³ "Have-not" provinces is a term that has come to be used in Canada to indicate provinces that receive equalization payments and "have" provinces are those provinces that are not entitled to receive equalization payments. "Have" provinces have a fiscal capacity in excess of the equalization standard whereas the fiscal capacity of "have-not" provinces fall short of this standard.

cetera. That is, school boards can allocate the grant to satisfy their own internal expenditure priorities. This allows the grantee to exercise flexibility in designing and administering programs to meet the needs of its constituents. As well, it frees up resources that would otherwise have to be devoted to audits and monitoring of specific expenditures to ensure that the specific conditions of the grant are met. Moreover, the presence of block grants reduces the complexity of intergovernmental fiscal arrangements and reduces the amount of intervention by the grantor in the affairs of the grantee.

The other type of conditional grant is one that has more narrowly-defined conditions attached to how the grant monies may be spent. These grants are normally referred to as specific grants. The condition attached to specific grants is that grant monies must be spent in the specific area designated by the grantor. Continuing with the school grant example, a conditional grant that would also be considered a {specific grant} is one given to school boards to fund the teaching of native languages in Inuit and Innu schools. To qualify for funding under this grant, the school board would have to spend these funds on native language programs; for example, on teachers and materials. If, instead, it were directed to school maintenance or computers, then the school board would be in violation of the conditions of the grant and would be ineligible to receive the grant. A positive feature of these specific grants is that they can be targeted to the narrowly-defined program or service the grantor deems to warrant support. By specifying a grant in this way, the grantor can ensure that expenditures on the program or service attain some minimum target level.

When considering both of these types of grants, it is important to note is that the more narrowly defined are the conditions attached to the grant, the more constraining these conditions become on the expenditure decisions undertaken by the grantee. For example, a school board has the option to purchase library books or computers or to fund native language programs with the block grant, but it can legitimately only fund native language programs with the specific grant. Therefore, while both of these types of grants may result in the same expenditure priorities being exercised by the grantee, they need not. From the perspective of the recipient of the grant, the less restrictive conditions are more preferred because the expenditure of grant monies can be better matched to the expenditure priorities of the grantee.

Another dimension to conditional grants is whether the grantee is required to match funds provided by the grantor. If, as a condition of the grant, the grantor offers to match the grantee's expenditure on some specified program or service in some predetermined proportion, then this type of grant is known as a conditional matching grant. When there is no matching provision attached to the grant, the grant is known as a conditional non-matching grant, the former being more constrained than the latter and, as such, is not as preferred by the grantee.⁴ An example of a

⁴ The matching grant acts as more of a constraint on the expenditure decisions of the grantee because to qualify for the matching grant, the grantee is required to spend the grant monies and some of their own resources on the designated category. With the non-matching grant, the grantee is required to spend only the

matching grant is the cost-shared grant available to the provincial government available under the Canada Assistance Plan. This grant from the federal government reimburses provincial treasuries for 50 percent of their expenditure on social assistance and welfare services.

An example of a conditional non-matching grant is the Established Programs Financing grant.⁵ This grant consists of cash transfers from the Government of Canada to each of the provincial governments to aid with provincial expenditure on post-secondary education and health.⁶

To receive these grants, provinces are required to spend at least the amount of the cash transfer in the designated areas of post-secondary education and health but there is no requirement that federal funds must be matched by provincial expenditures. While there is no requirement that the province spend any more than the amount of the grant in these areas, provinces routinely spend far in excess of the amount required to qualify for the grant. This simply reflects that provincial expenditure priorities are such that post-secondary education and health rank highly in the budgetary allocations legislated by the provincial governments.

Matching grants can be either open-ended or closed-ended. With open-ended grants there is no limit to the size of the grant that the grantee is entitled to receive. For example, currently, under the Canada Assistance Plan, Newfoundland will be reimbursed an amount equal to 50 percent of the costs of social assistance payment and associated welfare services, independent of how large that expenditure actually is. For the closed-ended matching grant, the grantor puts an upper limit on the amount of the grant that the grantee can receive. The grantor funds a percentage of the grantor's expenditure up to some maximum amount. An example of a closed-ended matching grant is illustrated by the growth ceiling imposed on Canada Assistance Plan payments for the "have" provinces.⁷ For the "have" provinces, the federal government will continue to fund 50 percent of the costs associated with social assistance and associated welfare services but the size of the grant cannot exceed 105 percent of the grant received in the previous year.

Another feature that distinguishes grants is whether the grantee is automatically entitled to the grant or whether the grant must be awarded *via* a competitive application process. Equalization entitlements in Canada are automatic. The size of the grant is formula-determined and each

grant money on the designated category to qualify for the grant.

⁵ As this grant is to be spent on the broad categories of post-secondary education and health, it is also an example of a block grant.

⁶ Also included in the Established Programs Financing grants is the value of personal and corporation income tax points transferred to the provinces from the federal government.

⁷ In 1990 federal budget, payments under the Canada Assistance Plan to the "have" provinces were constrained to grow at no more than five percent per annum.

"have-not" province is automatically entitled to receive the amount specified by the formula.⁸ Examples of grants that result from a competitive application process are Newfoundland's recreational and capital grants that are administered by the Department of Municipal and Provincial Affairs. To obtain these grants, communities must apply to fund particular projects. Each application is ranked according to specific criteria, and grants are awarded based on these rankings and total available funding.

2.2 Uses of Grants

Having briefly reviewed, in generic terms, the different types of grants that exist, it is informative to consider briefly the rationale for intergovernmental grants. There are four reasons usually given for the existence of intergovernmental grants. These are: (1) to correct for interjurisdictional spillovers; (2) to induce lower-tier governments to undertake activities that they would not necessarily perform at levels deemed appropriate by the upper-tier government; (3) to correct for a mismatch between the revenue-capacity and the expenditure responsibilities of the lower-tier governments relative to the upper-tier government; and (4) to equalize the revenue capacities of different governments located in the same tier. These are the basic reasons why intergovernmental transfers exist. Other versions of these motivations for intergovernmental grants are articulated in the literature, but the basic rationale contained in these four captures the essential goals underlying intergovernmental transfers.

Next, a more detailed explanation of each of these reasons is provided. This will aid with our assessment of the appropriate approach for funding the Inuit and Innu of Labrador. This explanation is necessary because different types of grants facilitate the achievement of different objectives. Once this discussion is complete, the next step will be to examine actual federal-provincial agreements and their stated objectives to determine the grant structure most appropriate to those objectives.

The first reason for providing intergovernmental grants is to correct for interjurisdictional spillovers. There is no obvious reason why any particular pattern of political jurisdictions within a country ought to conform to the optimal pattern of jurisdictions implied by economic criteria. Hence, it is possible that the activities of one political jurisdiction affect the consumption and/or production possibilities of individuals in an adjacent political jurisdiction. When this happens, it is

⁸ One exception to this is that the growth in total equalization entitlements is constrained to not exceed the cumulative growth rate in GNP. If this cap is exceeded, then all equalization payments are scaled down accordingly. In addition, if a province qualifies for a negative grant, then no grant is paid from the federal government to the provincial government and neither is the provincial government required to pay a grant to the federal government.

unlikely that the effects of one jurisdiction's actions on the constituents of neighbouring jurisdictions will be taken fully in account when the government determines the level of the externality-generating activity to undertake. To induce the externality-emitting jurisdiction to behave as if the effects on the constituents of the adjacent jurisdiction are taken into account, the upper-tier government, which has the responsibility for the welfare of the constituents of both jurisdictions, can provide the externality-emitting jurisdiction with an open-ended matching grant. If the matching rate has been chosen correctly, then the effects of activities undertaken by one jurisdiction on the welfare of the constituents in a neighbouring jurisdiction will be taken into account and an efficient allocation of resources, from perspective of the country as a whole, will prevail.⁹

The second reason for giving intergovernmental grants is to induce lower-tier governments to engage in activities or to provide goods and services at levels deemed appropriate by the upper-tier government. These could be merit goods that the upper-tier government would like to see the lower-tier government provide more of to its constituents. Education, for example, might fall under this category. If these decisions are left entirely to individuals, the possibility exists that the benefits to non-voters, such as children, may be ignored in deciding the level of education to provide. Therefore, by providing a financial inducement to the lower-tier government for the provision of the merit good, the upper-tier government is able to affect the amount of the merit good provided. Other goods and services that might be considered merit goods are libraries and cultural activities. The argument for providing grants to aid these services is somewhat different than that for supporting education. In this case, a subset of the voters benefit from the provision of libraries and cultural activities but these voters may be in a minority. Therefore, there may not be sufficient voter support to have those services provided at reasonable levels without the financial incentive provided by intergovernmental grants. An alternate, but related, reason for giving grants is that the beneficiaries of the service aided by the grant monies may not fully appreciate the benefits of the service. Once the grant recipients have had access to the service and fully understand its benefits, they will want the service to continue even after the intergovernmental aid has been withdrawn. Yet another reason for giving intergovernmental grants is to ensure that minimum nationally- or provincially-determined standards are maintained. While these services may be provided by the upper-tier government, there may be administrative or constitutional reasons why they should be provided by the lower-tier government. To ensure that these minimum standards are maintained the upper-tier government provides grants.¹⁰

⁹ If a positive interjurisdictional spillover is involved, then the appropriate matching rate is set equal to the percentage of the total benefit that accrues to the residents of the adjacent jurisdiction.

¹⁰ For example, because of the existence of Established Programs Financing grants, the federal government was able to affect every provincial government's ability to adopt user charges for health care services and extra billing for physician services. Because it was felt that user charges and extra billing violated equality of access to health care, the federal government threatened to reduce the Established Programs

The most effective way of inducing the lower-tier government to undertake activities that are deemed appropriate by the upper-tier government is to provide the aid as a conditional matching grant. This will ensure that the funds get spent in the targeted area. As well, the size of the grant required for a given impact on expenditure is lower with a matching grant than with a conditional non-matching grant.¹¹ Nevertheless, as demonstrated by the Established Program Financing grants, dictating side conditions can be an effective inducement for the recipient to conform to certain standards of provision.

The third reason given for intergovernmental transfers is to correct for a mismatch of revenue raising capacities and expenditure responsibilities between the upper-tier government and the lower-tier governments. This is known as vertical fiscal imbalance. Revenue-sharing grants are called for here, and the consensus is that they should be unconditional.¹²

The fourth reason to give grants is to equalize the fiscal capacities across governments in the same tier. Part of the rationale for governments is to enhance the well being of their constituents. As individual well-being is determined, in part, by both the level of public goods and services provided by the different governments and the taxes imposed by the different governments, the possibility exists that government actions may introduce inequities and distortions that would not exist in the absence of government. Because of differences in resource endowments across jurisdictions, people within the same country that would be equally well off in the absence of government may not be equally well off with the actions of government imposed on them. The reason is that to provide similar services, less affluent jurisdictions would be required to impose

Financing cash grants by one dollar for every dollar that the province collected through user charges and extra billing. This was sufficient inducement to preclude provinces from implementing extra billing and user charges.

¹¹ The reason for this difference in the expected effects is that a matching grant lowers the effective price faced by the grantee. This will have two effects. First, it will cause the grantee to switch to the now relatively cheaper good, the substitution effect. Second, it will cause the grantee to purchase more goods and services because the lower effective price has given the grantee more real purchasing power C the income effect. A non-matching grant has no substitution effect. Rather, it generates an income effect only. For equal-sized grants, these income effects will generate the same effect on expenditure but the matching grant's substitution effect causes consumption of the aided good to be higher.

¹² The provision of grants is not the only solution to the problem of vertical fiscal imbalance. Obviously, another way of handling this problem is to remove some of the expenditure responsibilities from the lower-tier governments and transfer them to the upper-tier government. Alternately, there can be a transfer of revenue-raising instruments from the upper-tier government to the lower-tier government. However, if grants are the chosen solution, then they ought to be unconditional.

much higher tax burdens on its constituents. This results in horizontal and vertical inequities.¹³ As well, because people and resources relocate in response to these differential fiscal impacts, resources get allocated inefficiently across the country.

Therefore, the upper-tier government can attempt to mitigate the efficiency and equity problems by providing unconditional grants designed to equalize fiscal capacity across jurisdictions. The size of the grant can be tied to the grantee's fiscal capacity relative to some standard fiscal capacity. As well, given that costs of providing services differ across jurisdictions, a {needs} factor could be incorporated into the formula. These grants, if calculated properly, would enable all jurisdictions to provide reasonably comparable goods and services at reasonably comparable tax rates.

¹³ Horizontal equity is a value judgement that states that individuals equally well off in the absence of government should be equally well off in the presence of government. That is, equals should be treated equally by government. The concept of vertical equity indicates that people with a higher level of well being in the absence of government should not be treated the same by government as people with a lower level of well being. This concept pertains to the appropriate degree of redistribution that the government ought to undertake in devising its expenditure and taxation policies.

3.0 Other Relevant Issues

3.1 Intergovernmental Grants Versus Transfers to Individuals

Grants are sometimes given from an upper-tier government to a lower-tier government because the upper-tier government is concerned that the lower-tier government does not have sufficient resources to enable it to achieve an efficient resource allocation in an equitable manner. The lower-tier government might introduce distortions or inequities by imposing higher taxes relative to an adjacent jurisdiction to fund the same level of goods and services. The standard response to this problem, as illustrated by the Canadian Equalization program, is for the upper-tier government to transfer resources to the lower-tier government in the form of unconditional grants.

The idea underlying this program is individuals' well-being in the grant receiving jurisdiction will be enhanced because the grant money allows the grantee to fund expenditures that are reasonably comparable with other jurisdictions and to do so at reasonably comparable rates of taxation. If one is concerned with the well being of individuals in a particular jurisdiction, then the possibility exist that instead of benefitting the individuals indirectly by transferring money to the government, the upper-tier government can transfer money directly to the individuals. Under this scenario, if the majority of individuals in the jurisdiction wish to have the services provided by the lower-tier government, the lower-tier government can tax back all or a portion of these grants. In that case, the tax burden imposed upon the individuals would no longer considered onerous. Moreover, grants to individuals would improve the accountability of lower-tier governments. This improvement in accountability would result from the fact that voters would be in a better position to make the link between service provision and costs.

The downside of this approach is that to fund its services, the lower-tier government would have to put in place an administrative structure to collect the money from its constituents. This can result in a substantial resource cost that could be avoided if the grant were given directly to the government. If, as in the case of provinces, the recipient jurisdiction already has a well-developed administrative structure for collecting taxes from its constituents, then a system of grants to individuals would be more feasible. For example, to collect the additional money the province needs only increase the rate on a tax that it already administers. Alternately, if one is dealing with a situation whereby a whole new tax system has to be established to collect the revenues, then significant resources would be devoted to this effort. The resources allocated to collecting the required revenues are, of course, unavailable for other government programs meant to improve the well being of its constituents. This point is important in the evaluation of the funding arrangements that ought to be developed to provide assistance to Inuit and Innu of Labrador.

3.2 Revenue Base and Tax Instruments

Another issue relevant to the design of the appropriate intergovernmental funding arrangements is whether the recipient jurisdiction has well-established revenue-raising instruments that it can be use to supplement the grant monies. If the recipient does not have these revenue-raising devices at its disposal, or if they cannot be assigned them under the current constitution,¹⁴ then matching grants could not be included as part of the proposed funding arrangement. In this case, the grantor is restricted to unconditional or conditional non-matching grants to achieve its objectives.

Even if the recipient jurisdiction can access own-source revenue-raising instruments, this may not be sufficient to enable the grantor to include the full range of grants in the proposed funding arrangement. This would occur in the case where the recipient jurisdiction's tax base is so small and/or so mobile that the revenue-raising capacity is severely constrained. Under these circumstances, the grantee may not be able to raise tax rates high enough to obtain sufficient revenues to fund its expenditure responsibilities. This would include any matching provisions imposed on the funding arrangement by the grantor. Again, this would restrict the feasible set of grants that could be incorporated in the intergovernmental funding arrangement.

On the positive side, a government that is responsible for funding part of its expenditure by imposing taxes on its own people will be more accountable to its constituents and efficiency should improve. This occurs because voters are better able to make the connection between the provision of public goods and services and the increase in cost borne by them directly. This creates an incentive for the elected representatives to balance the costs and the benefits to their constituents of their expenditure decision. There is an enhanced incentive to be more cost-effective and to waste less resources. As a result, when a grantee has to raise some funds from its own constituents, it may improve the effectiveness of the grant in that expenditures financed by the grant may more closely correspond to preferences of the grantee's constituents.

¹⁴ For example, under the current Canadian constitution, the federal government can raise revenues through any type of taxation it deems desirable. Provinces are restricted to the use of direct taxation, and municipalities have no revenue-raising powers assigned to them under the constitution. The latter's current ability to raise revenues to fund their expenditure activities comes from rights granted to them by the province. Of course, the possibility exists that the current constitution can be amended that would allow for another order of government with its own legislative authority and revenue-raising capabilities.

3.3 Administrative Issues

One concern that may be raised is that entering into an intergovernmental fiscal arrangement with a particular jurisdiction with the expectation that the grant recipient will administer the grant program may not work if the grantee does not have adequate trained personnel to operate the program. Although this may be a concern that some people would express with respect to funding the Inuit and Innu of Labrador, it cannot be taken too seriously. The reason is that both native groups seem to be relatively successful in administering those program and services for which they are currently responsible. In addition, if insufficient expertise does exist in-house, then it certainly can be purchased or hired on the open market until local expertise can be developed.

3.4 Scale Economies

Because of the existence of scale economies in the provision of certain types of government services, it is not necessary to have each jurisdiction to provide all services.¹⁵ Rather, it might be more appropriate to have the larger jurisdiction, such as the province, to provide the good or service and have the smaller jurisdiction, such as Band Council or the Labrador Inuit Association, purchase the service. For example, the Innu and the Inuit could contract the provincial government, through the Department of Education, to provide those aspects of aboriginal-specific education they wish to have incorporated in the curriculum taught in their school. This would allow the Innu and the Inuit to avoid the fixed costs associated with setting up independent school boards. Therefore, more of the grant monies can be directed to the services that aid the Innu and Inuit, and less their resources need to be diverted to cover the cost of a bureaucracy.

Scale economies in tax collection may also be relevant in considering funding arrangements to aid the Innu and the Inuit of Labrador. For example, if the Innu and the Inuit are given access to funding sources that are currently utilized by the federal and provincial government, it might be more efficient for the Innu and the Inuit to contract those governments to collect these revenues on their behalf. This would allow the Innu and Inuit to avoid the administrative costs associated with the large bureaucracy required to collect such taxes, thus leaving more of their resources for the direct benefit of the Innu and Inuit people.

¹⁵ Economies of scale or scale economies refers to a situation where the average cost of production falls as more of the good or service is produced. Therefore, the bigger the production run, the lower is the total cost of producing any given level of output. That is, in the presence of economies of scale, productive efficiency is enhanced if the output is produced by one firm, rather than two or more firms.

3.5 Political Considerations¹⁶

Under the Terms of Union when Newfoundland joined Canada, the then Premier, Joseph Smallwood, refused to sign an agreement which would transfer responsibility for native peoples to the province. The Province maintains that the fiduciary obligations for aboriginal peoples belongs to the federal government. This ensures that it is extremely difficult for aboriginal people to get separate funding from the Province.

¹⁶ This issue was pointed out by an anonymous reviewer.

4.0 Innu Agreement

4.1 Introduction

As the Government of Canada has maintained a {special interest} in the social and economic development of the Innu people who reside primarily in the communities of Sheshatshit and Davis Inlet (Utshimassit), and as the Government of Newfoundland and Labrador has recognized the need for supplementary programs and services to be provided to all residents of these communities,¹⁷ both governments entered into a federal-provincial agreement to give the residents of the Innu communities more control and flexibility in the determination and management of programs available in their communities. While there have been a number of these types of agreements, the specific agreement considered in this report is the most recent one which is entitled: Contribution Agreement Between the Government of Canada and the Government of Newfoundland and Labrador for the Benefit of the Innu Communities¹⁸ of Labrador: 1991 - 1996.

4.2 Agreement Objectives

The stated objectives of this agreement are: (1) to make available to residents of the Innu communities community-based and community-developed programs designed to assist and support them in achieving their cultural, social and economic goals; (2) to provide a measure of financial support for existing provincial and community services and programs for the residents of the Innu communities; (3) to assist in the improvement of the standard of living for the residents of the Innu communities; (4) to enhance the socio-cultural development of the residents of the Innu communities and to enable them to pursue such socio-cultural development within their normal and traditional communities as well as throughout Newfoundland; (5) to make available capital funding to facilitate the construction of modern water and sewer systems in the Innu communities; (6) to improve the quality of housing available to residents of the Innu communities through programs designed to facilitate new construction and the upgrading of existing housing; and (7) to supplement the educational services to the Innu communities.

¹⁷ Approximately 10 percent of the residents of Sheshatshit and Davis Inlet are non-Innu. This figure corresponds to the Government of Newfoundland and Labrador's share of funding for this federal-provincial agreement.

¹⁸ The communities designated as Innu communities in this agreement are Sheshatshit and Davis Inlet. Also, note that neither Sheshatshit nor Davis Inlet are considered communities under the Municipalities Act and, as such, they do not come under the purview of the Department of Municipal and Provincial Affairs.

4.3 Agreement Funding

The current agreement is scheduled to run from April 1, 1991 to March 31, 1996.¹⁹ Over this period, the federal government will contribute \$17,536,940 in cash and the provincial government will contribute in-kind services equivalent to the value of \$1,971,173. Newfoundland's contribution is the supplementary provincial programs and services it delivers to the Innu communities. Under this agreement, Canada makes monthly advance payments to Newfoundland based on projected cash flows provided by Newfoundland and approved by Canada.

Newfoundland, in turn, provides advance quarterly payments to the communities. As well, Newfoundland provides specific services to residents of the Innu communities which are designated in the agreement. These services include the implicit subsidy to the communities through the operational losses on the government store, expenses associated with administering the agreement and supplementary education expenditures provided to the residents of the communities. Table I indicates the relative expenditure shares in the agreement for the representative year 1991-92.²⁰

Per Table I, approximately 90 percent of the agreement's funding comes from the federal government. As well, for the representative year 1991-92, approximately 71 percent of the agreement's funding (or 79 percent of the federal contribution) is devoted to community-developed programs administered by the Band Councils. On the other hand, 13.2 percent of the agreement's funding (or 14.7 of the federal contribution) and 5.3 percent of the agreement's funding (or 5.9 percent of the federal contribution) was allocated to education and water and

¹⁹ The provincial government has stated that it is willing to discontinue its role in the federal-provincial agreement with respect to the designated Innu communities. The province's position is that it would be willing to accept direct funding of the Innu by the Government of Canada.

²⁰ Data for 1991-92 was used in assessing this agreement because it was the only information available to the authors.

Table I

Breakdown of Federal and Provincial Contributions for 1991-92

Federal Contribution	\$3,387,788
(a) Supplementary Provincial Programs and Services - Education	\$499,300
(b) Community Program Services	\$2,688,488
(c) Water and Sewer	\$200,000
Provincial Contribution	\$380,791
(a) Losses on Operation of Government Store	\$160,000
(b) Agreement Administration by Enterprise Newfoundland and Labrador	\$50,000
(c) Education	\$170,791

sewer project, respectively.²¹ Also note that 42 percent of the provincial contribution consisted of losses on the government store in Davis Inlet; 13 percent results from costs associated with administering the agreement and 44.9 percent came from supplementary educational services.²²

Table II indicates how the federal funds are allocated over time between categories of expenditure and between communities. The proportion of the agreement allocated to Davis Inlet varies from a low of 31.3 percent in 1993-94 to a high of 42.2 percent in 1994-95 and 1995-96. Over the duration of the agreement, 37 percent of the funding gets allocated to Davis Inlet. Over the same time period, approximately 40 percent of funding for education, approximately 42 percent for community-developed programs and services and slightly less than 14 percent of the water and sewer funds were allocated to Davis Inlet. It is also informative to examine how each community has chosen to allocate its expenditure to each of the categories. Davis Inlet has allocated 15.4 percent of its total budget to education, 78.4 percent to community-developed programs and services and 6.2 percent to water and sewer projects. Sheshatshit, on the other hand, has decided to

²¹ To put this in perspective, the relative allocations of the federal contribution over the whole agreement to each of these categories are: 69.2 percent to community programs, 14.2 percent to education and 16.5 percent to water sewer.

²² One should not try to read too much into how the provincial government has allocated its share of costs for this agreement because the breakdown is somewhat arbitrary. The reason is that provincial supplementary educational expenditures in the Innu communities are more than sufficient to satisfy the provincial government's share of expenditures under this agreement. The allocation of government expenditures continues to be broken out as it is for internal budgetary reasons, and it has no noticeable impact on the goods and services delivered to the Innu communities through this agreement.

spend approximately 13.6 percent of its budget on education, 63.8 percent on community-developed programs and services and 22.6 percent on water and sewer project. The share devoted to education is approximately the same for both communities, but Sheshatshit has allocated a higher share of its budget to water and sewer projects and a corresponding lower share to community-developed programs and services than has Davis Inlet.

Table II

Schedule of Federally-Funded Expenditures For Years 1991/92 - 1995/96

Community	Program	1991-92	1992-93	1993-94	1994-95	1995-96	Total
Davis Inlet		\$	\$	\$	\$	\$	\$
	Education	199,300	199,300	199,300	199,300	199,300	996,500
	Community Services	1,054,182	985,632	1,017,452	1,017,452	1,017,452	5,092,170
	Water/Sewer	0	400,000	0	0	0	400,000
	subtotal	1,253,482	1,584,932	1,216,752	1,216,752	1,216,752	6,488,670
Sheshatshit							
	Education	300,000	300,000	300,000	300,000	300,000	1,500,000
	Community Services	1,634,306	1,312,856	1,367,036	1,367,036	1,367,036	7,048,270
	Water/Sewer	200,000	1,300,000	1,000,000	0	0	2,500,000
	subtotal	2,134,306	2,912,856	2,667,036	1,667,036	1,667,036	11,048,270
Total Agreement		3,387,788	4,497,788	3,883,788	2,883,788	2,883,788	17,536,940

The final expenditure comparison relates to education expenditure. This information is presented in Table III.

Table III

Supplementary School Board Allocation 1991-92

Program	Sheshatshit	Davis Inlet
Innu Language	\$39,059	\$6,000
Life Skills	\$32,368	\$2,000
Innu Archival Materials	\$10,000	\$3,000
Modern Technologies	\$10,000	\$5,000
Innu Teachers	\$77,342	\$125,400
Professional Development	\$15,000	\$4,000
Curriculum Centre	\$49,300	0
Innu Counsellors	\$23,750	0
Sports Meet/Drama/Equipment	\$12,000	\$5,000
Benefits	\$7,840	0
Debt Management	0	\$30,000
Grants in Lieu of Taxes	\$15,000	\$7,500
Community Use of Schools	\$8,341	\$3,000
Teachers Residences	0	\$8,400
Total	\$300,000	\$199,000

Note that these communities have chosen to allocate a different amount of funding to each category of education expenditure.²³ Neither the dollar amount nor the relative expenditure share of each category are the same. For example, Davis Inlet allocates two thirds of its educational budget to Innu teachers and teachers' residences while the community of Sheshatshit devoted slightly more than one-third of its educational budget to Innu teachers, counsellors and benefits. A greater share of Sheshatshit's education budget has been allocated to Innu Language and Life Skills. These two categories absorb approximately 24 percent of the educational budget in Sheshatshit but only 4 percent in Davis Inlet. In the other expenditure categories, these communities allocated similar shares of their education budget.

²³ As noted above, while the dollar amounts devoted to education differ in each community, total education expenditure represents approximately the same relative share of the total budget in each community.

4.4 Specific Programs and Services

Newfoundland administers the supplementary provincial programs and services specified in the agreement as: (a) supplementary school board operations, (b) administration of this agreement by Enterprise Newfoundland and Labrador, (c) operational losses on the government store in Davis Inlet, and (d) supplementary teacher allocations by the Department of Education. In addition, water and sewer funding is administered by Enterprise Newfoundland and Labrador.

Band Councils administer the supplementary community-developed programs and services for the Innu communities. The specific supplementary community-developed programs and services that are administered by the Band Councils are: (a) administration and core funding program, (b) community services program, (c) housing program, (d) maintenance of students program, (e) cultural programs, (f) recreation program, (g) library program, (h) outpost program, (i) training program (j) nutritional supplement program and (k) special programs. A detailed consideration of each of these supplementary community-developed programs and services follow.

4.4.1 Administration and Core Funding

The first program to be considered is the Administration and Core Funding program. The rationale for this program is to permit the funding of basic administrative and overhead costs associated with the operation and maintenance of a council and council offices. Included in these expenditures would be: election expenses, honoraria, insurance costs, expenses associated with meetings, cost of office furniture and equipment, office supplies, professional fees, cost of utilities, travel costs and wages and employee benefits for administrative and executive personnel including the chief, the financial administrator and office secretary.

4.4.2 Community Services

Another program administered by the Band Council is the Community Services program. This program allows for the provision of basic municipal services to the designated Innu communities. Included in these services are: fire protection, roads and improvements, sanitation and waste removal, maintenance and repairs to public buildings, operation, maintenance and repair to vehicles and equipment necessary to provide the municipal services, and necessary capital expenditure associated with the provision of these municipal services.

4.4.3 Housing

The third program that comes under the Band Council's administration is the Housing program. This program has three distinct dimensions to it and they are: new housing construction, housing repairs and housing subsidies. The aim of the new housing construction sub-program is to provide an adequate level of housing to the residents of the Innu communities. The goal for the housing repairs sub-program is to maintain existing houses to adequate living standards. The purpose of the housing subsidy is to provide a measure of support for residents of the Innu communities who have built or are building their homes with funds outside of the Native Peoples Agreement. In addition, several detailed criteria define eligibility under this program. For example, the homes have to be located in one of the Innu communities, the allocation of funds for new homes is to be based on the principle of greatest need first, the title to the house and land must be vested with the relevant Band Council, all funds available to the applicant for completing or renovating the home must be identified on the application, housing repair funding must be used for major repairs and not for routine maintenance, capital funds must not be used for mortgage payments, all successful applicants must carry appropriate insurance on the home (payable to the Band Council) and finally, if an individual has previously received a grant and has sold the house, then he or she is ineligible for any additional grants under the Housing program.

4.4.4 Maintenance of Students

The Maintenance of Students program²⁴ is yet another program that comes under the purview of the Band Council. Its purpose is to aid full-time²⁵ students enrolled in University or Trade School within Newfoundland.²⁶ In order to qualify for additional funding to return to the institution, a student must either have passed the number of courses required by the institution or have received special approval from the Band Council. The assistance covers return transportation to place of study, one return trip home per year and the cost of attending the institution (including tuition, books, accommodation, student fees, pocket money and medical expenses, including prescriptions).

²⁴ The Innu also has access to direct funding for this purpose under the Post-Secondary Student Support program.

²⁵ Part-time and mature students will not be assisted unless specifically approved by the Band Council.

²⁶ In order to obtain funding for courses offered by out-of-province institutions, the applicant requires a letter from Memorial University indicating that it does not offer a relevant course/program.

4.4.5 Cultural

The fifth program that Band Councils may decide to fund is the Cultural program. This includes crafts, arts and traditional customs. The objective of this program is to assist the promotion of traditional and contemporary lifestyles of the residents of the designated Innu communities. To qualify for funding under this program, the applicant must demonstrate that the project is generally supported by the residents of the community, that all other sources of funding for the cultural programs have been sought and that the capital cost of the project does not exceed 20 percent of the total allotment.²⁷

4.4.6 Recreation

The Band Council also administers the Recreation program. This program's goal is to provide facilities within the designated Innu communities for social and recreational activities. Funding under this program is for the upkeep of facilities, the development of facilities, employment of personnel and the development and delivery of programs.

4.4.7 Library

Another program available for funding through the Band Councils is the Library program. The aim of this program is to provide the residents of the designated Innu communities with public reading material and to enhance their access to information. This could involve the purchase books, magazines, subscriptions to newsletters, information pamphlets or any other information bulletin.

4.4.8 Outpost

The Outpost program is another program administered by the Band Council. Its objective is to assist the members of the designated Innu communities to pursue traditional living practices away from their home community. Covered under this program are: the costs of return transportation to the site and travel in and around the site, fuel costs, radios and batteries, food and miscellaneous supplies.

²⁷ The one exception to this last condition relates to the publication of native material such as literature and music. In that case, the capital costs can equal 100 percent of the funding.

4.4.9 Training

The Band Council also oversees the Training program. This program is designed to assist members of the designated Innu communities to pursue academic and technical training that is not normally covered by the Maintenance of Students program.

4.4.10 Nutritional Supplement

The tenth program is the Nutritional Supplement program. The aim of this program is to assist the members of the Innu communities in accessing nutritional supplements required to maintain a viable and healthy diet of country foods. Specifically, funding is available to provide country foods to the old aged, disabled and sick of the designated Innu communities who cannot participate in the Outpost program. In addition, school lunch programs also qualify for funding under this portion of the agreement.

4.4.11 Special

Besides these ten programs, the Band Council also administers what is referred to in the agreement as Special programs. The goal of the special program is to provide funding for other programs consistent with the general funding criteria that may be approved by the Management Committee, including, but not necessarily restricted to: (a) the study into teacher's education programs, (b) the development of local industries including fishing camps and (c) the formation of development corporations.

4.5 Implementation and Process

Even though they are not signatories, the representatives of the Innu communities are involved in negotiating the details that make up this federal-provincial agreement. Prior to any negotiation taking place, the federal government specifies the amount of global funding that it has available for allocation to the new agreement. Once this figure has been provided, the provincial government, based on its share of costs, determines the value of in-kind services that it must supply.

Under the current agreement, this provincial share has been satisfied by the losses on the government store in Davis Inlet, costs of administering the agreement²⁸ and some portion of the supplementary teacher allocations that has been assigned to these communities beyond the normal

²⁸ Included in the administration of the agreement is parts of a couple of salaries, meeting room costs and costs of government employees travel related to administering the agreement.

teacher allocations for which the designated Innu communities would qualify based on the student-teacher ratio criterion.²⁹

The next stage in negotiating the agreement is to involve the various stakeholders in deciding how the cash component of the agreement is to be allocated among the various categories and between the two communities. The stakeholders involved in these discussions are representatives of the federal government, representatives of the provincial government, representatives of Davis Inlet and representatives of Sheshatshit. Based on these negotiations, the available funds are allocated to aboriginal specific educational expenditures, water and sewer expenditures and community-developed programs and services.

Community representatives communicate the aboriginal-specific aspects of education that they wish incorporated into the curriculum being taught in their communities. With the aid of a representative from the Department of Education, estimates of the expenditures required are determined.³⁰ Next, estimates are derived for water and sewer expenditures. All remaining funds are then allocated to the community-developed programs and services.³¹

²⁹ It should be noted that the value of the expenditure on supplementary teacher allocation being provided to Davis Inlet and Sheshatshit exceeds the total value of services that the provincial government is required to provide under this agreement. Therefore, it acts as a residual category in case the losses on the government store are different from those estimated at the start of the agreement. While the provincial share can be satisfied entirely by this supplementary teacher allocation, the provincial share continues to be broken down into three sub-headings for internal budgetary reasons of the provincial government. The final points to note is that the relative share of the losses on the government store has been falling over time and that the relative share of the supplementary teacher allocation has been rising over the same time period.

³⁰ It should be noted that aboriginal-specific educational expenditures could be treated as community-developed programs and services. That is, all the money would be thrown into a common pot and the communities would then contract with the school boards for the specific aboriginal items that they would like to see included in the curriculum. This is how it had worked in previous agreements. In the recent agreements, according to provincial bureaucrats, educational issues are negotiated separately because of previous problems encountered with the implementation of this aspect of the agreement. Specifically, long lead time are required by the school boards to offer a program. Staff has to be hired, materials and supplies need to be purchased. If, as apparently there was in previous agreements, there is a change of expenditure priorities part way through the agreement against these aboriginal-specific educational expenditures, then all the adjustment costs must be borne by the school board, a body which has no flexibility in its budget to absorb these unanticipated shortfalls in revenue.

³¹ Once the agreement has been signed, the Innu communities still has discretion over whether general increments in total expenditure that result from an adjustment to compensate for increased costs are allocated across-the-board or, if all of the adjustment payments are allocated to programs administered by the Band Councils.

With respect to the division expenditures between communities, the *status quo* prevails unless both communities agree to the revised shares. According to provincial representatives, all decisions are by consensus. Community differences are resolved by the communities' representatives.

To access funding under the community-developed programs administered by the Band Councils, a written application must be submitted to the Management Committee for approval. The applicant must specify the purpose of the funding, the objective to be achieved by the funding, anticipated benefits (quantified where possible) and a detailed budget. While, under the terms of the agreement, the Management Committee can approve or disallow each application by a majority vote of the committee, this, according to a provincial representative involved with the Management Committee, has not been the practice that has been followed in the implementation of this agreement. Rather, each Band Council submits an annual budget that details the expenditures on the specific programs and services that the Band Council wishes to fund under this portion of the agreement. If specific budgetary items do not contravene some aspect of the agreement, the Management Committee approves the budget proposed by the Band Council. In addition, throughout the year, the Band Council can transfer expenditures between budgetary items that have been previously approved by the Management Committee if it follows proper procedures.³² It is through these mechanisms that expenditures under the community-developed programs and services can be tailored to suit communities priorities.³³

A Management Committee consisting of two federal representatives, two provincial representatives, two representatives from Sheshatshit and two representatives of Davis Inlet is established to deal with decisions concerning certain changes in budgetary allocations specified in the agreement. As well, the committee's role is to discuss and to resolve other outstanding issues and generally to monitor the implementation of the agreement. Decisions of the Management Committee are determined by a majority vote.

Financial accountability is maintained through quarterly reports³⁴ and annual audits from the Band Councils to Newfoundland. As well, Newfoundland is accountable to the federal government through the provision of annual financial and activity reports.

³² The proper procedure involves approval by the Band Council that has been documented in the minutes of council and submitted to the Management Committee as part of the regular quarterly financial report.

³³ While members of the Management Committee do not prevent the Band Council from spending according to their priorities, they do offer advice as to the appropriate expenditure allocations.

³⁴ These quarterly reports would indicate budgeted allocations, actual expenditures and variances on a program-by-program basis.

In addition, prior to the termination of the agreement, the Management Committee draws up the terms of reference for the evaluation of the agreement. This evaluation is meant to determine if the objectives of the agreement have been met and whether the mechanisms developed are appropriate for meeting those objectives.

The final point pertaining to process is that, as part of the agreement, Newfoundland has the right to co-manage or take under trusteeship any community or project when management difficulties are recognized and serious enough in nature to warrant such action. Such action may be warranted if there is: (1) a lack of supporting documents for expenditures; (2) a lack of up-to-date books of record; (3) an expenditure of funds for purposes other than those approved; (4) overspending without proper authority; (5) a loss of records; and (6) a lack of proper audits. Before co-management or trusteeship of a community or project can be undertaken, Newfoundland must request a special meeting of the Management Committee to report the requirement for this action. As well, at the next regular Management Committee meeting, Newfoundland must submit a report outlining the actions taken and a plan to return control to the community as quickly as possible.

5.0 Inuit Agreement

5.1 Introduction

As in the case of the Innu people, the Government of Canada has maintained a "special interest" in the social and economic development of the Inuit people who reside primarily in the communities of Nain, Hopedale, Postville, Makkovik and Rigolet. Also, the Government of Newfoundland and Labrador has recognized the need for supplementary programs and services to be provided to all residents of these communities.³⁵ Given these concerns by both levels of government and the recognition by the Labrador Inuit Association and the Inuit communities that a federal-provincial agreement was needed for the benefit of the residents of the Inuit communities, the Government of Canada and the Government of Newfoundland and Labrador entered into a bilateral agreement to give the residents of the Inuit communities more control and flexibility in the determination and management of programs available in their communities. Besides the specific Inuit communities mentioned, the agreement also covers programs and services delivered by the Torngat Regional Housing Association³⁶ and the Institutional Training - Occupational Skills Training program. While there have been several of these types of agreements, the specific agreement considered in this report is the most recent one entitled: Contribution Agreement Between the Government of Canada and the Government of Newfoundland and Labrador for the Benefit of the Inuit Communities³⁷ of Labrador: 1989 - 1994.³⁸

³⁵ Approximately one third of the residents of Nain, Hopedale, Postville, Makkovik and Rigolet are non-Inuit. This figure corresponds to the Government of Newfoundland and Labrador's share of this federal-provincial agreement. As well, slightly more than 50 percent of the Inuit population in Labrador live in the five designated communities. Also, the majority of the Inuit population living outside of these communities are mixed blood; sometimes referred to as Kablunangajuit.

³⁶ Under the first formal agreement signed in 1981, there was no separate regional housing authority. Part of the way through this agreement, difficulties were experienced by the communities with the implementation of this aspect of the agreement. Various schemes to allocate the funds were tried but they did not work well and caused problems within the communities. As a result, approximately half-way through the agreement, money was not being spent and the Torngat Regional Housing Authority was formed to look after housing issues in the Inuit communities.

³⁷ The Inuit communities designated in this agreement are Nain, Hopedale, Postville, Makkovik and Rigolet. Also, note that each of these communities are considered communities under the Municipalities Act and, as such, is governed by the rules and regulations administered by the Department of Municipal and Provincial Affairs.

³⁸ Currently, the Government of Newfoundland and the Government of Canada is working from a three year extension to this agreement. Following this agreement, there are no plans to renew it or to develop any new additional federal-provincial agreement for the benefit of the residents of Inuit communities. Rather, the Labrador Inuit Association is attempting to negotiate an Alternative Funding Arrangement with the Government of Canada. The province is in agreement with this position on the condition that the residents

5.2 Agreement Objectives

The stated objectives of this agreement are: (1) to make available to residents of the Inuit communities community-based and community-developed programs designed to assist and support them in achieving their cultural, social and economic goals; (2) to provide a measure of financial support for existing provincial and community services and programs for the residents of the Inuit communities; (3) to assist in the improvement of the standard of living for the residents of the Inuit communities; and (4) to enhance the socio-cultural development of the residents of the Inuit communities and to enable them to pursue such socio-cultural development within their normal and traditional communities as well as throughout Newfoundland.

5.3 Agreement Funding

The current agreement is scheduled to run from April 1, 1989 to March 31, 1994. Over this period, the federal government will contribute \$24,530,490 in cash and the provincial government will contribute in-kind services³⁹ equivalent to the value of \$11,788,960. Newfoundland's contribution is the supplementary provincial programs and services it delivers to the Inuit communities. Under this agreement, Canada makes monthly advance payments to Newfoundland based on projected cash flows provided by Newfoundland and approved by Canada.

Newfoundland, in turn, provides advance quarterly payments to the community councils, the Torngat Regional Housing Association and the Institutional training - Occupational Skills Training program.⁴⁰ As well, Newfoundland provides specific services (designated in the agreement) to the residents of the Inuit communities. These services include the implicit subsidy through the operational losses of the government stores, expenses associated with administering the agreement and supplementary education expenditures provided to the residents of the communities. Tables

of the designated communities concur with this decision as funding will no longer go directly through the community councils but will be paid, instead, to the Labrador Inuit Association.

³⁹ Note for this agreement, there are actual provincial expenditures earmarked for water and sewer provision, housing and a portion of education. This differs from the Innu agreement where all of the agreement is satisfied by in-kind services.

⁴⁰ While these advanced quarterly payments to the community councils, Torngat Regional Housing Association and the Institutional Training - Occupational Skills Training Program Delivery Agent are not specified in the agreement, it has been the practice that these quarterly payments be made and it is understood that they will continue to be made for the life of the agreement.

IV.a and IV.b indicates the relative expenditure share for the agreement for 1989-90.⁴¹

Per Tables IV.a and IV.b, approximately two-thirds of the funds for this agreement comes from the federal government.⁴² Examining the relative expenditure allocation provided in Table IV.a, one observes that 28.1 percent of the federal funding is allocated to education, 35.8 percent to water and sewer projects and 36.1 percent to community programs and services. In fact, it is informative to further decompose this last category. One observes that 1.7 percent of the federal funding was allocated to institutional training, 14 percent to housing and 20.4 percent to community-developed programs that are administered by the community councils. This figure compares with approximately 70 percent of the funds under the Innu agreement being allocated to programs and services that are administered by the Band Councils.

Also included in Table IV.a is the community-by-community breakdown of funding for institutional training and community development. The breakdown indicates that all five designated communities share approximately equally in the institutional training program. There is much more variability for the community development programs; ranging from a low of 14 percent for Postville to a high of 24.9 percent for Nain. While Nain has a much larger population than Postville and, as such, should be expected to receive a higher proportion of the funds under the community development program, it should be noted that the variability exhibited in the expenditure allocations for this program are not reflective of the variability in

⁴¹ Data for 1989-90 was used in assessing this agreement because it was the only information available to the authors.

⁴² While the provincial government pays a substantially higher share of the cost of the Inuit agreement as compared to the Innu agreement, this simply reflects the fact that a greater percentage of the residents of the designated Inuit communities are non-Inuit.

Table IV
Federal Contributions 1989-90

ITEM	\$	\$
1. Supplementary provincial programs and services		
a. School Board Operations		
Labrador East School Board	1,012,200	
Pentecostal School Board	189,000	
SUBTOTAL	1,201,200	1,201,200
b. Adult Education Program		57,203
c. Teacher Evaluation Program		119,862
2. Municipal and Provincial Affairs Water and Sewer Projects		1,754,370
3. Community Program and Services		
a. Institutional Training		
Nain	19,000	
Hopedale	16,000	
Postville	16,000	
Makkovik	18,000	
Rigolet	16,000	
SUBTOTAL	85,000	85,000
b. Community Development		
Nain	249,000	
Hopedale	182,000	
Postville	140,000	
Makkovik	232,000	
Rigolet	197,000	
SUBTOTAL	1,000,000	1,000,000
c. Housing		688,463
TOTAL FEDERAL CONTRIBUTION		4,906,098

the population across these communities.⁴³

Per Table IV.b, the breakdown of provincial expenditure allocations is (1) 37.2 percent of the provincial contribution is constituted by losses incurred by the government stores in the designated Inuit communities; (2) 6.4 percent of the provincial share is accounted for by the cost associated with administering the agreement, (3) 38.6 percent is accounted for through water and sewer projects, and (4) 17.8 percent is accounted for by supplementary education expenditure.

TABLE IV.b

Provincial Contributions 1989-90

ITEM	\$
1.Losses on Operation of Government Stores	876,748
2.Agreement Administration by Enterprise Newfoundland and Labrador	150,414
3.Education	420,000
4.Water and Sewer	910,630
TOTAL PROVINCIAL CONTRIBUTION	2,357,792

⁴³ For example, Nain has 42.4 percent of the total population in the five communities but receives only 24.9 percent of the expenditure; Hopedale has 18.2 percent of the total population and receives 20.4 percent of the expenditure; Postville has 9.2 percent of the population and receives 14 percent of the expenditure; Makkovik has 14.7 percent of the population and gets 23.2 percent of the expenditure; and Rigolet has 13.3 percent of the population and receives 19.7 percent of the total expenditure.

Table V provides the five-year water and sewer plan under the agreement. One should note the variability of expenditures across communities and over time with respect to this item.

Table V
Five Year Plan for Water and Sewer Projects

Community	1989/90 \$	1990/91 \$	1991/92 \$	1992/93 \$	1993/94 \$	Total \$
Nain Debenture	227,000	227,000	227,000	227,000	227,000	1,135,000
Nain	140,000	2,660,000	0	0	0	2,800,000
Hopedale	1,350,000	100,000	1,800,000	0	0	3,250,000
Postville	120,000	2,280,000	0	0	0	2,400,000
Makkovik	150,000	0	0	0	450,000	600,000
Rigolet	850,000	0	100,000	1,800,000	0	2,750,000
Contingency	83,000	138,000	73,000	73,000	23,000	390,000
Total	2,920,000	5,405,000	2,200,000	2,100,000	700,000	13,325,000

Next, Tables VI and VII indicate, for the representative year 1989-90, education expenditure in detail for the Labrador East School and Pentecostal School Boards, respectively. Note that "teachers' aids" represents the largest expenditure item for both school boards. Also, there is some variability in the relative share devoted to each of the categories. Presumably, this reflects the priorities of the communities served by the boards.⁴⁴

⁴⁴ There is no community breakdown available for these education expenditures.

Table VI
 Supplementary School Board Allocation 1989-90
 Labrador East School Board

Program	\$
Inuktituk Language	70,000
Life Skills	20,400
Labrador Studies	35,800
Modern Technologies	83,000
Teacher Aides	300,000
Curriculum Centre	25,000
Life Skills Instructors	138,000
Teacher Professional Development	60,000
Debt Management	100,000
Grants in Lieu of Taxes	145,000
Labrador North Sports Meet	15,000
Labrador East Creative Arts Festival	10,000
Labrador Science Fair	10,000
Total	1,012,200

Table VII
 Supplementary School Board Allocation 1989-90
 Pentecostal School Board

Program	\$
Native Language	8,000
Life Skills	10,000
Native Archival Materials	10,000
Modern Technologies	5,000
Teacher Aides	40,000
Life Skills Instructors	8,000
Professional Development	8,000
Curriculum Centre	10,000
Home/School Liaison Worker	20,000
Creative Arts Festival	5,000
Labrador North Sports Meet	5,000
Science Fair	5,000
Grant in Lieu of Taxes	20,000
Community Use of School	20,000
Administrative Expenses	15,000
Total	189,000

5.4 Specific Programs and Services

Under this agreement, Newfoundland administers the following supplementary provincial programs and services: (a) supplementary school board operations, (b) administration of this agreement by Enterprise Newfoundland and Labrador, (c) operational losses of the four government stores in Inuit communities⁴⁵, (d) supplementary teacher allocations by the Department of Education; (e) adult education and the Teacher Education Program in Labrador by the Department of Education and (f) water and sewer projects by Municipal and Provincial Affairs⁴⁶.

The Inuit Community Councils, the Torngat Regional Housing Association and the Institutional Training - Occupational Skills Training Delivery Agent⁴⁷ administer the supplementary community-developed programs and services for the Inuit communities. The specific supplementary community-developed programs and services are: (a) administration and core funding program, (b) community services program, (c) housing program, (d) cultural program, (f) recreation program, (g) library program, (h) fire protection, and (i) training program. A detailed consideration of each of these supplementary community-developed programs and services follows.

5.4.1 Administration and Core Funding

The first program to be considered is the Administration and Core Funding program. The rationale for this program is to permit the funding of basic administrative and overhead costs required the operation and maintenance of a council and council offices. This is meant to allow the communities to establish the necessary administrative staff required to ensure the proper and efficient operation of programs and services being delivered through the community councils. Eligible expenses under this program include salaries for full-time or part-time staff, rents, utilities, equipment and office supplies associated with the operation and maintenance of the council and

⁴⁵ It is no longer the case that losses on government stores are considered as part of Newfoundland's share of the agreement. Instead, that portion of the provincial share is made up by the provincial supplementary educational expenditures that far exceed the amount required under the agreement for the provincial government to satisfy its expenditure share.

⁴⁶ The reason that the Department of Municipal and Provincial Affairs has a role to play under this agreement, but has no role under the Innu agreement, is that the Inuit communities are designated as municipalities under the Municipalities Act whereas the Innu communities have no such designation.

⁴⁷ The Management Committee decides on the appropriate delivery mechanism for the Occupational Training Program at its first meeting. In effect, these funds have been left to the discretion of the Inuit community councils concerning whether to use them for Occupational Training or to supplement the community-developed programs funding. For the most part, this portion of the agreement has been used by the community councils to supplement community-developed programs and services funding.

council offices. Other expenses that can be reimbursed under this category are: honoraria for council, travel expenses arising from the conduct of council business, travel expenses incurred on Management Committee business and costs associated with professional advice, legal services, business management services and other such services.⁴⁸

5.4.2 Community Services

Another program administered by the community councils is the Community Services program. This program provides the designated Inuit communities with a source of funding that allows them to incur costs associated with the operation and maintenance of heavy equipment, water and sewer, garbage collection and waste disposal, snow clearing, other property maintenance and facilities. As well, this program enables the communities to obtain funding for costs associated with capital expenditures toward dump cleanup, water supply and/or design and other capital projects.

Funding under this program is conditional on each community providing a list and associated costs of the property and equipment required to provide the specified community services. In addition, the amount of funding the community is eligible for is linked to the value of property within the community. As well, for garbage collection and waste disposal, support and approval must be obtained from all relevant government departments prior to the approval of the application by the Management Committee. Finally, all other sources of funding must be pursued before the applicant can qualify under this program.

5.4.3 Housing

The third program that comes under the community-developed programs and services is the Housing program. This program is administered by the Torngat Regional Housing Association. Its purpose is to aid the Torngat Regional Housing Association in obtaining funding for new housing construction, major housing renovations and on-going housing repairs.⁴⁹

⁴⁸ While all of these expenses are eligible to be reimbursed at cost, there is an additional condition attached to this program which states that at least 30 percent of the funding under this program must be for the operation and maintenance of council and council offices.

⁴⁹ This program is implemented by the Torngat Regional Housing Association based on criteria set by them and agreed to by the federal government on September 1, 1989.

5.4.4 Cultural

The Cultural program is the fourth program that comes under the purview of the community councils. This program includes crafts, arts and traditional customs. Its objective is to assist in promoting the traditional and contemporary lifestyles of the residents of the designated Inuit communities. To obtain funding under this program, the applicant must demonstrate that the project is generally supported by the community, that all other sources of funding for the cultural programs have been sought and that the capital cost of the project does not exceed 20 percent of the total allotment.

5.4.5 Recreation

The fifth program administered by the community councils is the Recreation program. The goal of this program is to provide facilities within the designated Inuit communities for social and recreational activities. Funding under this program is for the upkeep of facilities, the development of facilities, employment of personnel and the development and delivery of programs.

5.4.6 Library

Another program available for funding through the community councils is the Library program. The aim of this program is to provide the residents of the designated Inuit communities with public reading material and to enhance their access to information. This could involve the purchase books, magazines, subscriptions to newsletters, information pamphlets or any other information bulletin.

5.4.7 Fire Protection

The next program administered by the community councils is the Fire Protection program. The purpose of this program is to give the designated Inuit communities a training program and/or to allow them to purchase fire equipment to minimize fire hazards within the communities. Several conditions are attached to receipt of funding under this program. First, services funded under this program cannot duplicate those that already exist within the community. Secondly, the

training program must be done in consultation with the Provincial Fire Commissioner and fall within the rules and regulations as specified in the program of the Fire Commissioner's Department.

Thirdly, to ensure that any equipment purchased is of sufficient quality, all fire equipment purchased under this program must be purchased in consultation with the Provincial Fire Commissioner. Finally, prior to funding being approved under this program, it should first be sought through the Department of Provincial and Municipal Affairs.

5.4.8 Training

The final community program is the Training program. This program is designed to assist members of the designated Inuit communities to pursue academic and technical training that is not normally covered by the Post-Secondary Student Support Program.⁵⁰ The training program is reviewed by the Management Committee to determine whether it qualifies under this program. If it does qualify, then eligible costs include transportation, program costs and incidentals. Each of these costs is subject to approval, on a case-by-case basis, by the Management Committee.

5.5 Implementation and Process

While they are not signatories to the agreement, the representatives of the designated Inuit communities are involved in negotiating the details that form the federal-provincial agreement. Prior to any negotiation, the federal government specifies the amount of global funding that it has available to allocate to the new agreement. Once this figure has been provided, the provincial government, based on its share of costs, determines the value of in-kind services that it will have to supply. Under the current agreement, this provincial share has been satisfied by the losses on the government stores in the designated Inuit communities, costs of administering the agreement,⁵¹ some portion of the supplementary teacher allocations that has been assigned to these communities over and above the normal teacher allocations for which the community would qualify based on the student-teacher ratio criterion⁵² and the provincial contribution to water and sewer projects.

⁵⁰ This is a separate program that is administered by the Education Committee of the Labrador Inuit Association. Funding for this program comes directly from the federal government to the Education Committee.

⁵¹ Included in the administration of the agreement are parts of four salaries, meeting room costs and costs of government employees travel related to administering the agreement.

⁵² It should be noted that the value of the expenditure on supplementary teacher allocation being provided to the designated Inuit communities exceeds the total value of services that the provincial government would be required to provide under this agreement. Therefore, it acts as a residual category should the losses

The next stage in negotiating the agreement is to involve the various stakeholders in deciding how the cash component of the agreement is to be allocated to the various categories and among the communities. The stakeholders involved in these discussions are representatives of the federal government, representatives of the provincial government, representatives of the designated communities, a representative of the Torngat Regional Housing Association and a representative of the Delivery Agent for the Institutional Training - Occupational Skills Training program. Based on these negotiations, the available funds are allocated to aboriginal-specific educational expenditures, water and sewer expenditures, community-developed programs, the housing program and institutional training.

Community representatives indicate the specific aboriginal aspects of education that they would like to see incorporated into the curriculum being taught in their communities. With the aid of a representative from the Department of Education, estimates of the expenditures required are determined. Next, estimates are derived for water and sewer expenditures, housing and institutional training. All remaining funds are then allocated to the community-developed programs and services.

With respect to the division of expenditures between communities, the *status quo* prevails unless the communities agree to the revised shares. All decisions, according to provincial representatives, are by consensus. Community differences are resolved by the communities' representatives.

To access funding under the community-developed programs administered by the community councils, a written application must be submitted, through the community councils or the Labrador Inuit Association, to the Management Committee for approval. The applicant must specify the purpose of the funding, the objectives to be achieved by the funding, how these objectives are to be achieved, anticipated benefits and a detailed budget.⁵³ While, under the terms of the agreement, the Management Committee can approve or disallow each application by a majority vote of the committee, this, according to a provincial representative on the management

on the government store differ from those estimated at the start of the agreement. While the provincial share can be satisfied entirely by this supplementary teacher allocation, the provincial share continues to be broken out into three sub-heading for internal budgetary reasons of the provincial government. Also, note that the relative share of the losses on the government store has been falling over time and the relative share of the supplementary teacher allocation has been rising over the same time period. The final point is that in the most recent extension to this agreement, losses of the government store in Labrador are no longer included as part of the provincial contribution to the agreement.

⁵³ The budget is to specify the project's or program's capital expenditure, maintenance and operational costs, cashflow requirements and sources of revenue.

committee, has not been the practice that has been followed in the implementation of this agreement.⁵⁴ Rather, each community council submits an annual budget that details the expenditures on the specific programs and services that the community council wishes to fund under this portion of the agreement. Provided that specific budgetary items do not contravene some aspect of the agreement, the Management Committee approves the budget proposed by the community council. In addition, throughout the year, the Community Council can transfer expenditures between budgetary items that have been previously approved by the Management Committee if it follows proper procedures.⁵⁵ It is through these mechanisms that expenditures under the community-developed programs and services can be tailored to suit communities priorities.

A Management Committee consisting of two federal representatives, two provincial representatives, one representative from each designated Inuit community, one representative from the Torngat Regional Housing Association and one representative of the Institutional Training - Occupational Skills Training Program Delivery Agent is established to deal with decisions concerning certain changes in budgetary allocations specified in the agreement.⁵⁶ As well, the role of the committee is to discuss and resolve other outstanding issues and generally to monitor the implementation of the agreement. Decisions of the management committee are determined by a majority vote.

Financial accountability of the Inuit community councils, the Torngat Regional Housing Association and the Institutional Training - Occupational Skills Training Delivery Agent is maintained through quarterly reports⁵⁷ and annual audits from the community councils to Newfoundland. As well, provincial recipients of federal funding such as school boards and the Department of Municipal and Provincial Affairs are accountable to the federal government through the provision of annual financial and activity reports. Finally, at the end of the fiscal year, the Government of Newfoundland is required to provide an audit to the Government of Canada.

⁵⁴ In addition, the Management Committee has the power not to fund a program or project if it is not convinced that the applicant has the ability to manage and control staff and funds or the ability to fulfil the technical aspects of the proposal.

⁵⁵ The proper procedure involves majority approval by the community council that has been documented in the minutes of council and submitted to the Management Committee as part of the regular quarterly financial report.

⁵⁶ In addition, a representative of the Labrador Inuit Association is an observer on the Management Committee.

⁵⁷ These quarterly reports must indicate budgeted allocations, actual expenditures and variances on a program-by-program basis.

The final point pertaining to process is that, as part of the agreement, Newfoundland has the right to co-manage or take under trusteeship any community or project when management difficulties are recognized and serious enough in nature to warrant such action. Such action may be warranted if there is: (1) a lack of supporting documents for expenditures; (2) a lack of up-to-date books of record; (3) an expenditure of funds for purposes other than those approved; (4) overspending without proper authority; (5) a loss of records; and (6) a lack of proper audits. Before co-management or trusteeship of a community or project can be undertaken, Newfoundland must request a special meeting of the Management Committee to report the requirement for this action. As well, at the next regular Management Committee meeting, Newfoundland must submit a report outlining actions taken and a plan to return control to the community or project as quickly as possible.

6.0 Native Peoples Health Agreement

6.1 Introduction

Given that the Government of Canada has the responsibility for the health care of native people and that the Government of Newfoundland and Labrador has the responsibility for the delivery of health programs and health services, it was decided to enter into an agreement to provide funding for the provision of health programs and services to the designated Innu and Inuit communities in Labrador. For the purposes of this agreement, these communities have been designated to be: Nain, Davis Inlet, Postville, Hopedale, Makkovik, Rigolet and Northwest River/Sheshatshit. This agreement, entitled: Canada/Newfoundland/Native Peoples of Labrador Health Agreement 1984-85, came into effect on April 1, 1984.

6.2 Agreement Objectives

The objective of this agreement is to make available to the Innu and Inuit people of Labrador health care programs designed to assist them to improve their level of physical, mental and social well-being.

6.3 Agreement Funding

In the original agreement, scheduled to last from April 1, 1984 to March 31, 1985, the Government of Canada agreed to pay the Government of Newfoundland and Labrador the sum of \$664,000. Approximately 18 percent of these funds (\$120,500) were to cover the costs of Non-Insured Health Benefits and the remaining 82 percent (\$543,500) were earmarked for expenses related to the Controllable Costs portion of the agreement.⁵⁸ The original agreement has been extended on a year-by-year basis by an exchange of letters between the relevant provincial and federal ministers. How this agreement has evolved over time is indicated in Table VIII which follows.⁵⁹

⁵⁸ The specific programs and services that are included in these categories are detailed in the next section.

⁵⁹ In each of these interim agreements, the terms and conditions of the original agreement continued to apply.

Table VIII
Native People Health Agreement - Time Profile

Description	Term	Amount
Original Agreement	April 1, 1984 to March 31, 1985	\$664,000
Amendment # 1: Letter of Agreement extending original agreement	April 1, 1985 to March 31, 1986	\$684,000
Amendment # 2: Letter of Agreement extending for a further one year period	April 1, 1986 to March 31, 1987	\$704,520
Interim Agreement # 1 to cover delivery of health services for a one year period	April 1, 1987 to March 31, 1988	\$719,000
Interim Agreement # 2 to cover delivery of health services for a one year period	April 1, 1988 to March 31, 1989	\$737,000
Interim Agreement # 3 to cover delivery of health services for a two year period	April 1, 1989 to March 31, 1990	\$760,000
Covered by Interim Agreement #3	April 1, 1990 to March 31, 1991	\$782,800
Interim Agreement # 4 to cover delivery of health services for a one year period	April 1, 1991 to March 31, 1992	\$846,000
Interim Agreement # 5 to cover delivery of health services for a one year period	April 1, 1992 to March 31, 1993	\$875,610
Interim Agreement # 6 to cover delivery of health services for a one year period	April 1, 1993 to March 31, 1994	\$897,500
Interim Agreement # 7 to cover delivery of health services for a one year period	April 1, 1994 to March 31, 1995	\$901,988

An examination of Table VIII indicates that annual payments under this agreement have increased by approximately 36 percent over the 11 years that it has been in effect. The average growth rate over this period has been approximately 3.1 percent per annum. The largest increase occurred in 1991/92 with an 8.2 percent increase, and the smallest occurred with the latest interim agreement where the size of the budget increased by less than one half of one percent. These increases more-or-less correspond to the increase in the cost of living as reflected in the changes to the consumer price index for St. John's. That is, after adjusting for inflation, there has been no significant increase in funds devoted to this program.

6.4 Specific Programs

Funded within this federal-provincial agreement are two broad categories of programs and services. The programs and services in this agreement are: (1) Non-Insured Health Benefits and (2) Controllable Costs.⁶⁰

Under the Non-Insured Health Benefits program, the Government of Canada makes payments to the Government of Newfoundland and Labrador for: (i) patient transport with respect to medical services; (ii) dental services; (iii) drugs, dressing and medical supplies prescribed by, or under the direction of a physician; (iv) prosthetic and orthotic devices; and (v) such associated costs incurred by Newfoundland as may be approved by Canada in respect of the delivery of the above goods and services to Indians and Inuit in the province of Newfoundland.

For the Controllable Costs portion of the agreement, the payments made by the federal government cover programs and services to all provincial residents who avail of the following programs and services: (i) the services of Public Health Nurses who assist the Innu and Inuit people to identify their needs for public health programs. As well, Public Health Nurses provide public health programs and emergency treatment services in the community to which they are assigned by the provincial Deputy Minister of Health;⁶¹ (ii) ongoing facility maintenance, associated costs and support staff to assist the nurses assigned to the nursing stations at Davis Inlet, Postville and Rigolet; (iii) support staff and associated costs necessary to assist the Public Health Nurses in Hopedale, Makkovik, Nain and Northwest River; and (iv) such associated Native Health Program costs incurred by Newfoundland with the prior approval of the Federal/Provincial/Native Coordinating Committee in respect of the delivery of goods and services to Innu and Inuit in the province of Newfoundland.

⁶⁰ The Non-Insured Health benefits, since 1991/92, have been broken out of the Native Peoples Health Agreement and has been funded *via* direct funding agreements between the Government of Canada and the Innu and Inuit. In 1991/92, \$1,180,826 was paid to the Inuit and \$47,362 was paid to the Innu for Non-Insured Health Benefits. The corresponding figures for 1992/93 are: \$1,656,628 for the Inuit and \$100,096 for the Innu. In 1993/94, \$2,014,530 was paid to the Inuit and \$134,699 for the Innu under this program.

⁶¹ The public health programs are comprised of such services as Maternal and Child Health, Infectious Diseases Control, School Health Assessment, Environmental Health Surveillance and Home Care.

6.4 Implementation and Process

Also associated with the implementation of this agreement is a Coordinating Committee. It consists of one representative from each of the following groups: the Government of Canada, the Government of Newfoundland and Labrador, the Labrador Inuit Association and Naskapi Montagnais Innu Association (Innu Nation). This committee considers the health program needs and provides advice to both levels of government. As well, it provides advice on the appropriate corporations, departments, agencies, organizations, bodies or individuals that should be responsible for implementation of the programs. It evaluates and reviews the administration and operation of the programs of the health agreement. The committee encourages the effective interaction between both levels of government and the native peoples of Labrador with respect to the provision of health programs and services to the designated communities. The final responsibility of this committee is to review submissions from members of the coordinating committee in respect of the administration, operation and delivery of health programs to be funded under the agreement.

Finally, under this agreement, the Government of Newfoundland and Labrador has the responsibility for administering the program, but it can, on the advice of the coordinating committee, delegate to the designated communities the responsibility for the administration, operation and delivery of some of the health programs.

7.0 Assessment and Recommendation

7.1 Assessment of the Innu Agreement and Recommendation

Examination of the Innu agreement and discussion of issues pertaining to this agreement with representatives of the provincial bureaucracy makes it is obvious that, to facilitate self government and foster independence, the funding positions of the provincial and federal governments would have to change very little. As an illustration, consider that in the preamble to the federal-provincial agreement for the benefit of Innu communities, both levels of government expressed an interest in giving the residents of the Innu communities "more control and flexibility in the determination and management of programs available in their communities". Furthermore, the provincial government has indicated a willingness to cooperate with the Government of Canada and the Innu Nation with respect to the direct federal funding of the Innu. In addition, while not signatories to the agreement, the Innu are involved in negotiating the final terms of the federal-provincial agreement prior to it being signed by the Government of Canada and the Government of Newfoundland and Labrador. Together, these points indicate a desire by both governments to tailor the agreement to meet the needs and wishes of the Innu. This is the first step in a process that, at its conclusion, will hopefully see the Innu's destiny under their control through the exercise of self-government.

Besides the inferences that can be drawn from both the stated objectives of government and the negotiation process associated with this agreement, how the agreement gets implemented in practice also has implications for self-government and how the Innu should be funded. For example, the Management Committee has indicated that, as long as no part of the agreement is contravened, it leaves in the hands of the Band Council full discretion with respect to the initial annual allocations of the community-developed programs and services. Moreover, if at some point during the year, a Band Council wishes to change the initial allocation approved by the Management Committee, then it has the flexibility to do so by a majority vote of the Band Council, appropriately documented in the minutes of council and submitted to the Management Committee in the next quarterly report. Finally, according to provincial bureaucrats, decisions of the Management Committee are by consensus, and whenever community differences arise, they are resolved by the community representatives. Each of these points is consistent with the commitment to put in place an arrangement that would be flexible and would promote self-determination for the Innu. This is extremely important in selecting the appropriate fiscal arrangement to fund the Innu.

Notwithstanding this apparent flexibility, the Management Committee still has the ability, under the terms of the agreement, to override the decisions of the Band Council.⁶² Also, Enterprise

⁶² Admittedly, it would be difficult, in the absence a violation of some part of the agreement, for the Management Committee to go against the wishes of the Band Council.

Newfoundland and Labrador still administers the water and sewer projects. As well, once an allocation for aboriginal-specific educational services is determined at the start of the agreement, the Band Council has very little flexibility in deciding how these funds are to be allocated. The only real decision Band Councils have at that stage is how to allocate funds received to cover costs that are beyond those specified in the initial agreement. A Band Council's decision at that point is whether it wishes to have any portion of this increase allocated to education or to have it all paid into the community-developed programs and services administered by the Band Council. In addition, the Band Council is answerable and accountable to the province and to the Management Committee through the provision of quarterly activity reports and annual audits. Finally, the province can undertake co-management or trusteeship of individual projects or the whole agreement if certain conditions (outlined in Section 4.5) are not met. The upshot of these points is that the Innu are not as free to make decisions with respect to their destiny or to make mistakes as is true with an independent government. This freedom is a prerequisite for any form of self-government.

Another complicating factor contained in the Innu agreement is the in-kind services provided by the provincial government as its share of the agreement's costs. The provision of in-kind services as oppose to cash grants may cause resentment by the Innu who might perceive that the provincial government is appropriating part of the agreement's funding that would otherwise go to the Innu. As well, all the conditions attached to the funding and the provincial administration of both water and sewer projects and aboriginal-specific educational expenditures may be perceived of as an interference with the affairs and aspirations of the Innu.

In summary, despite the apparent independence of decision making, the Band Council is ultimately answerable to the Management Committee and to the province for the decisions it undertakes on behalf of its people. This is compounded by the provision of provincial in-kind services that takes away discretion from the Innu.⁶³ It also opens up the possibility that the Innu may misconstrue that the province is siphoning money out of the agreement. Moreover, the province has direct administration of the overall agreement, the water and sewer projects and aspects of aboriginal-specific education. If the Innu see themselves as an independent government entity, or hope to see themselves in this light, then this approach to funding and the provision of in-kind services may be interpreted as paternalistic and an unacceptable intrusion into the affairs of the Innu.

This last point is particularly interesting because, implicit in the Canadian experience with funding arrangements between the federal and provincial governments is presumption that the grant

⁶³ By providing specific services, as oppose to cash, a Band Council has no choice concerning the types and levels of these services that it wishes to provide. It is in this sense that discretion is taken away from the Innu with respect to the provision of in-kind services.

recipients are the best judges of their self interest. Furthermore, the evolution of Canadian intergovernmental grants has tended to reinforce this presumption. For example, earlier fiscal arrangements were dominated by specific (categorical) grants while later fiscal arrangements involved the provision of more general purpose and block grants that had only minor conditions attached to the use of the grant monies. Regarding the earlier funding arrangements, the provinces objected legitimately that the federal government was usurping provincial authority through the {power of the purse}.

These same types of intergovernmental considerations ought to apply to the funding of the Innu. Who, but the Innu, has the right to say that the Innu should spend more on water and sewer and less on cultural activities?⁶⁴ Presumably a Band Council, being elected by the people, would be in the best position to make the decision concerning what is in their peoples' best interest. In general, a Band Council would be more responsive to the preferences and needs of their people than would be either provincial or federal bureaucrats who are less involved in the communities. Even if mistakes are made by the Band Council in the allocation of funding, this should not preclude even more flexibility and control being vested with the Innu in the determination of what is in their best interest. After all, it is as if the provincial and the federal governments have stellar records when it comes to their expenditure decisions.

With these points in mind, a brief review of the stated objectives of the Innu agreement is in order. There are seven objectives outlined explicitly in the agreement. Four of these objectives relate to improving, in general terms, the well being of the Innu. These objectives are: (a) to make available to residents of the Innu communities community-based and community-developed programs designed to assist and support them in achieving their cultural, social and economic goals; (b) to provide a measure of financial support for existing provincial and community services and programs for the residents of the Innu communities; (c) to assist in the improvement of the standard of living for the residents of the Innu communities; and (d) to enhance the socio-cultural development of the residents of the Innu communities and to enable them to pursue the socio-cultural development within their normal and traditional communities as well as throughout Newfoundland.

The last three objectives differ from the first four in that they relate to the provision of

⁶⁴ As an illustration, consider the fact that it is only recently that the Innu gave up their nomadic lifestyle and settled in established communities. Not surprisingly, hunting and fishing remains an integral part of their culture. The outpost program administered by the Band Council is one way of trying to promote and maintain this cultural identity. Money devoted to helicopters to access hunting camps might be deemed very important by the Innu, but a provincial or federal bureaucrat may perceive this to be a frivolous waste of money in the face of social needs that he or she deems to be more pressing. This cultural difference may be crucially important in allowing the Innu to decide what is in their interest.

specific goods and services. These objectives are: (e) to make available capital funding to facilitate the construction of modern water and sewer systems in the Innu communities; (f) to improve the quality of housing available to the residents of the Innu communities through programs designed to facilitate new construction and the upgrading of existing housing; and (g) to supplement the educational services to the Innu communities.

The first four objectives pertain to improving the general well-being of the Innu. There is no reason to believe (and neither does one have the right to presume) that the Innu are not the best judges of what is in their interest. If one accepts this basic value judgement then, given the discussion presented in Section 2, it follows that funding to achieve these four objectives ought to be given unconditionally. That is, if the Innu receive the funds with very few or no conditions attached on their ultimate disposition, then they are in the best position to undertake expenditure decisions to enhance their well being.

For a grant like this to work, it would have to be formula-driven with the parameters of the formula being based on needs criteria and cost factors.⁶⁵ As well, if self-government also entails independent revenue raising capacity for the Innu, then the grant formula ought to have parameters that reflect the fiscal capacity of the recipient jurisdiction relative to some agreed upon standard. This part of the formula would work much in the same way that the current equalization program operates.

An issue related to this discussion is: as it is the individual members of the Innu whose well-being concerns us as a society and not the well-being of the Band Council *per se*, a case can be made that transfers ought be paid to individual members of the Innu Nation rather than to the Band Councils. By transferring monies directly to individuals, they can chose to do whatever they wish with the funds. If it is in the interest of the people as a whole to have services provided by the Band Councils, then Innu politicians advocating this policy will be voted into office or will retain office. This would improve the accountability of the Band Councils to its people and enhance the likelihood that the goods and services provided by the Band Councils conform to the preferences of its constituents.

The basic problem with this strategy is that to fund services, the Band Council would have to put in place revenue-raising instruments. This would involved substantial resource costs that could be avoided if the funds were given directly to the Band Councils. These additional administrative costs would imply that fewer resources would be available to fund programs to improve the well-being of the Innu. Hence, grants to individuals may not be as attractive as intergovernmental grants between the federal government and the Band Councils.

⁶⁵ The specific parameters that should be included in this formula would be the subject of negotiation between the various stakeholders.

We now return to the last three objectives outlined above. These objectives relate to the specific expenditure categories of education, water and sewer and housing. Of course, funding for these expenditure categories also could be rolled into the general unconditional grant paid to the Band Councils. A Band Council, in turn, would decide how much of its grant is in the interest of its people to allocate to each category. *Ceteris paribus*, this would be the preferred strategy, but housing, water and sewer and education might be perceived by the grantor as merit goods. From a national or provincial societal perspective, it might be desirable to ensure that all citizens have access to minimum standards of housing, water and sewer and education.

Given the types of services that are specified in these objectives, a reasonable case can be made for this position. As discussed in Section 2, conditional grants are required to ensure that merit goods are provided by the grant recipient in such quantities as to meet minimum standards. In this case, an argument can be made that while the presence of conditional grants reduces the grantee's discretion relative to receiving an equal-valued unconditional grant, this is justified by the presence of merit goods. Therefore, these last three objectives can be achieved by providing the Innu with three conditional Established-Program-Financing-like grants; one for housing, one for water and sewer and one for education.⁶⁶ Over time as the standards of provision of these types of goods and services are raised sufficiently in the Innu communities, these conditional grants can be converted into unconditional grants.

Therefore, based on this assessment, it is recommended⁶⁷ that:

The Government of Canada enter into a direct funding arrangement with each of the Band Councils. This funding arrangement would be in two parts. The first part, which would also constitute the overwhelming majority of the funds, should be provided unconditionally to the Band Councils to enable them to tailor their expenditures to the needs and

⁶⁶ If the Innu were assigned independent revenue-raising instruments, then matching grants could be used more effectively to stimulate expenditure in the target areas. In the absence of such own-source revenue-raising instruments, matching grants are not feasible. Therefore, conditional non-matching grants of the Established-Programs-Financing type would be the next best alternative.

⁶⁷ The one caveat that should be kept in mind with respect to this recommendation is there has not been a detailed assessment undertaken to determine whether current funding levels are sufficient to meet the agreement's stated objectives. That is, this study did not attempt to determine the level of funding that should be made available under a revised arrangement; rather, our focus was on the form in which the funding should be given to the aboriginal people.

preferences of their people as determined by the Innu themselves. The second part of the funding arrangement should consist of three conditional non-matching grants: one for housing services, one for water and sewer services and one for education services. Each conditional grant should be reviewed every five years to determine whether the standard of provision of the relevant service(s) has risen sufficiently to permit the conversion of the conditional grants to an unconditional grant.

7.2 Assessment of the Inuit Agreement and Recommendation

The Inuit agreement is very similar to the Innu agreement. Thus, as in the case of the Innu agreement, it should require only minor modifications to facilitate self-government and foster independence. Unfortunately, however, this is not so because while there is a significant overlap of the agreements, they also differ in one important respect. The specific difference relates to the fact that payments go to the elected representatives of the Innu people, the Band Councils, in both the original and the revised funding arrangement proposed above. However, under the current Inuit agreement, payments are made to the municipal councils in the five designated communities and to the Torngat Regional Housing Authority. That is, grant monies do not go directly to the Labrador Inuit Association, the government representatives of the Inuit, as presumably would be the case in a revised agreement. The Inuit funding arrangement is further complicated by the fact that approximately one-third of the residents of the five designated communities are non-Inuit and slightly less than one-half of those claiming membership in the Labrador Inuit Association live outside the five communities designated as Inuit communities in the agreement. As a result, any change in funding away from the community councils to the Labrador Inuit Association has potential repercussions both for the residents of the designated Inuit communities and for the members of the Labrador Inuit Association who reside outside the designated communities. Therefore, in revising the Inuit agreement, there may have to be a change both to the funding mechanism and to whom the grant monies are transferred.

While this point is probably the most important factor in framing a feasible revision to the current fiscal arrangements, there are other facets of this decision that also must be considered. The first issue that needs to be taken into account is the stated intent of the current agreement. This intent is best illustrated in the preamble to the Inuit agreement. There, the Government of Canada and the Government of Newfoundland and Labrador indicate that they hope this agreement will give the residents of the Inuit communities "more control and flexibility in the determination and management of programs available in their communities". Another fact that is germane to this decision is that the Labrador Inuit Association and the Government of Canada are currently negotiating an "Alternate Funding Arrangement" to fund the Labrador Inuit Association. The

expectation is that this direct funding arrangement would replace the 1989-94 federal-provincial agreement that exists for the benefit of the Inuit communities. Consistent with these negotiations is the fact that the current federal-provincial agreement has expired and no new federal-provincial agreement has been negotiated. Instead, the programs and services covered by the 1989-94 agreement are continuing under a three year extension to that agreement. As well, at this point, there is no plan in place to continue this agreement beyond this three-year extension. In addition, the provincial government has expressed its support for the Alternate Funding Arrangement but with one proviso. The proviso is that the designated communities covered under the current agreement endorse the revised funding arrangement. This proviso is necessary, from the perspective of the provincial government, because the municipal councils currently receive the funding and under the new agreement, the Labrador Inuit Association will receive the funds. Therefore, any funding of the community councils under this revised agreement must come indirectly through the Labrador Inuit Association. Unless, the interest of the Labrador Inuit Association and the five municipal councils coincide perfectly, the potential for conflict over the allocation of funds exists. The final point is that although they are not signatories to the agreement, the Inuit, through the community representatives, the Torngat Regional Housing Association and the Institutional Training - Occupational Skills Training Agent, are involved in negotiating the final terms of the federal-provincial agreement prior to it being signed by the Government of Canada and the Government of Newfoundland and Labrador.

Taken together, these points suggest a desire and a willingness by both governments to tailor the current agreement, or to have the agreement revised, to meet the needs and wishes of the Inuit. This bodes well for the possibility of devising an alternate funding arrangement that will hopefully see the Inuit's destiny under their control *via* self-government.

In addition to the inferences that can be drawn from both the stated objectives of the federal and provincial governments and the negotiation process associated with this agreement, the implementation of the agreement also has implications for self government and how the Inuit should be funded. For example, the municipal councils have full discretion with respect to the initial annual allocations of the community-developed programs and services.⁶⁸ Moreover, if at some point during the year, a community council wishes to change the initial allocation approved by the Management Committee, then it has the flexibility to do so by a majority vote of the community council, appropriately documented in the minutes of council and submitted to the Management Committee in the next quarterly report. In addition, each community council has discretion about whether the Institutional Training funds are used in the community-developed programs and services or are left for institutional training purposes. Finally, according to provincial bureaucrats, decisions of the Management Committee are by consensus and whenever

⁶⁸ This is subject to the caveat that no part of the agreement is contravened in the exercise of this discretion.

community differences arise, they are resolved by the community representatives. Each of these points is consistent with the commitment to put in place an arrangement that would be flexible and would promote self-determination by the Inuit. This is extremely important in determining the appropriate fiscal arrangement for funding the Inuit.

As in the Innu agreement, the Management Committee also has the ability, under the terms of the agreement, to override the decisions of the community councils.⁶⁹ Also, the Department of Municipal and Provincial Affairs administers the water and sewer projects. As well, once an allocation for aboriginal-specific educational services is determined at the start of the agreement, the community councils have very little flexibility in deciding how these funds are to be allocated. In addition, the community councils are answerable and accountable to the province and to the Management Committee through the provision of quarterly activity reports and annual audits. Finally, the province can undertake co-management or trusteeship of individual projects or the whole agreement if certain conditions (outlined in Section 5.5) are not met. The upshot of these points is that a prerequisite for self-government is missing in that the Inuit are not as free to make decisions with respect to their own destiny or to make mistakes as is true with an independent government.

Similar to the Innu agreement, the in-kind services provided by the provincial government as their share of the Inuit agreement's costs potentially complicate matters. The provision of in-kind services as oppose to cash grants may cause resentment by the Inuit who might perceive that the provincial government is diverting part of the agreement funding from the Inuit to the provincial bureaucracy. As well, all the conditions attached to the funding and the provincial administration of both water and sewer projects and aboriginal-specific educational expenditures might be perceived of as an unwelcome interference with the affairs and aspirations of the Inuit.

In summary, in spite of the apparent independence of decision making, the community councils are ultimately answerable to the Management Committee and to the province for the decisions it undertakes on behalf of the residents of the designated Inuit communities. Their discretion is also reduced by the provision of provincial in-kind services. These in-kind services also open up the possibility that the Inuit may misconstrue that the province is appropriating part of the funds that would otherwise go to the Inuit. Furthermore, the province has direct administration of the overall agreement, the water and sewer projects and aspects of aboriginal-specific education. If the Inuit see themselves as an independent government entity or hope to see themselves in this light, then this approach to funding and the provision of in-kind services may be interpreted as paternalistic and an unacceptable intrusion into the affairs of the Inuit.

⁶⁹ As in the Innu agreement, it would be difficult, in the absence of a violation of some part of the agreement, for the Management Committee to go against the wishes of the community councils.

As explained in the assessment of the Innu agreement, the configuration intergovernmental grants in Canada have evolved from more specific to more general grants. This has allowed the grant recipient to decide what is in the best interest of its constituents. There is no obvious reason why these same types of intergovernmental considerations ought not to apply to the funding of the Inuit. It is the Inuit who should decide what is in their best interest. Presumably the community councils or the Labrador Inuit Association, being elected by the people, would be in the best position to make the decision about what is in their constituents' best interest. In general, the community councils and/or the Labrador Inuit Association would be more responsive to the preferences and needs of their people than would be either provincial or federal bureaucrats. The fact that mistakes in the allocation of funding may be made by the elected representatives of the Inuit is not sufficient grounds to preclude more flexibility and control being vested with the Inuit in the determination of what is in their interest.

It is with this discussion in mind that a brief review of the stated objectives of the Inuit agreement is undertaken. There are four objectives outlined explicitly in the agreement and they relate to improving, in general terms, the well-being of the Inuit. These objectives are: (a) to make available to residents of the Inuit communities community-based and community-developed programs designed to assist and support them in achieving their cultural, social and economic goals; (b) to provide a measure of financial support for existing provincial and community services and programs for the residents of the Inuit communities; (c) to assist in the improvement of the standard of living for the residents of the Inuit communities; and (d) to enhance the socio-cultural development of the residents of the Inuit communities and to enable them to pursue the socio-cultural development within their normal and traditional communities as well as throughout Newfoundland.

These objectives pertain to improving the well-being of the Inuit. There is no reason to believe, and neither should one presume, that the Inuit are not the best judges of what is in their interest. If one accepts this basic value judgement, then, given the discussion presented in Section 2, it follows that funding to achieve these four objectives ought to be given unconditionally. That is, if the Inuit receive the funds with very few or no conditions attached on its ultimate disposition, then they are in the best position to undertake expenditure decisions to enhance their well-being.⁷⁰ Whether this grant ought to be given to the Labrador Inuit Association or the community councils

⁷⁰ A similar sentiment has been expressed by Mr. Toby Anderson, Director of Land Claims for the Labrador Inuit Association in a letter to Dr. Peter Townley dated February 10, 1994. In that letter, Mr. Anderson suggests that "the best way in which to provide governmental transfers to Labrador Inuit is on a government-to-government basis under an Intergovernmental Block Funding Arrangement. In other words, there should be genuine Inuit self-government which includes general-purpose transfers that leave program discretion and priorities to the Inuit." In another part of that same letter, Mr Anderson states: "Discretionary power to spend is essential in order to guarantee that Inuit representatives in self-government institutions can make decisions according to their own political, economic and cultural priorities and values."

will be considered below.⁷¹

For this funding mechanism to be feasible, the unconditional grant would have to be formula-driven with the parameters that go into the formula being based on needs criteria and cost factors.⁷² As well, if self-government also entails independent revenue-raising capacity being provided to the Inuit, then the grant formula ought to have parameters that reflect the fiscal capacity of the recipient jurisdiction relative to some agreed on standard. This part of the formula would work much in the same way as the current equalization program operates.

As in the Innu agreement, the case can be made for direct transfers to individuals. But, as was argued there, administrative costs associated with revenue collection would presumably make grants to individuals an infeasible option for benefitting the Inuit.

The next issue to be dealt with is whether the grant ought to be paid to the Labrador Inuit Association or to continue to be paid to the municipal councils of the designated Inuit communities.

If there is a change in the designated recipient of the funding, then the potential exists that some people who benefit under the current arrangements will be made worse off while other people who receive very little or no benefit from the current agreement could be better off by the change. Specifically, the non-native residents of the Inuit community could be adversely affected by the change and members of the Labrador Inuit Association who do not reside in the designated communities could benefit with a new funding arrangement.

The first question to be addressed is whether this expectation is reasonable? The answer to this question is a qualified yes. To the extent that the priorities of the Labrador Inuit Association do not mesh perfectly with those of the community councils, there will be some reallocation of expenditure away from the community councils. While this is true, this effect might not be too pronounced for a variety of reasons. First, less than 22 percent of the current federal funding under the current agreement gets devoted to community-developed programs and services that are administered by the community councils. The balance is allocated to water and sewer projects and

⁷¹ It is certainly the position of the Labrador Inuit Association that the current funding arrangement be scrapped and replaced by a direct funding arrangement with the Labrador Inuit Association. This position is clearly articulated in Mr. Anderson's letter to Dr. Townley where he states: "I believe that the old system whereby the federal government fulfilled its responsibilities toward Labrador Inuit through a cost-sharing arrangement with the province needs to be eliminated and replaced with an arrangement that recognizes federal responsibility to the Inuit, that treats Inuit on a government-to-government basis, and that transfers funds directly to Inuit for purposes of spending on public programs and services according to Inuit priorities and discretion. Ideally, there would be a mirror image arrangement involved with the province!!"

⁷² The specific parameters that should be included in this formula would be the subject of negotiation between the various stakeholders.

education services. As explained below, there is reason to believe that water and sewer and education will maintain their prominence in the expenditure priorities of the Inuit. Secondly, the majority of the Labrador Inuit Association live within the five designated communities that currently receive funding. If there is a significant reduction in funding to these communities for community services that are currently funded under the agreement, then these same individuals will be faced with higher municipal taxes. As this will reduce their disposable income that is available for the purchase of other goods and services, one should expect that this will be unpopular and something the residents of the designated communities would wish to avoid. Therefore, given their voting clout within the Labrador Inuit Association, they should be able to get this point communicated effectively to the Inuit politicians who wish to retain power. This political influence would tend to mitigate the reduced spending that might otherwise occur in the designated communities. Thirdly, the communities will still qualify for provincial capital works grants for water and sewer projects. Fourthly, provincial expenditure on education far exceeds the amounts required under the cost-sharing arrangement of the federal-provincial arrangement. Presumably, this level of expenditure is based on pedagogical factors. Unless, these factors change with the revised funding arrangements, then one should not expect drastic changes in the provincial expenditures on education.

Therefore, while one can be reasonably certain that there will be some realignment of expenditure priorities if the funds are paid directly to the Labrador Inuit Association, it is also true that these changes should not be too drastic for the reasons just outlined. An additional reason for giving the funds directly to the Labrador Inuit Association is that it is the elected representative of the Inuit people. The members, presumably, are concerned with what is in the best interest of the Inuit people. Given that they are elected, they should form the appropriate body to decide how to spend funds for the benefit of the Inuit people. Thus, the funds should be given to the Labrador Inuit Association to spend at their discretion on programs and services that they deem to be in their interest.

The next issue to be addressed is whether the absence of explicit mention of specific expenditure categories in the Inuit agreement implies that conditional grants, similar to those recommended in the Innu agreement are not needed. For example, there is no explicit mention of encouraging expenditure on housing services, education services and water and sewer services. Before making a recommendation on whether conditional grants should be part of a revised Inuit agreement, it is informative to consider why the expenditure categories were not included in the Inuit agreement.

The explanation for the exclusion of housing may be the existence of the Torngat Regional Housing Association and its membership on the Management Committee. This may be sufficient to ensure that housing gets adequate weight in the expenditure priorities exercised under the federal-provincial agreement. As well, the Torngat Regional Housing Association was established

at the request of the designated communities because of the difficulties associated with the allocation of housing funding under the general agreement. This, in turn, indicates that housing is important on the Inuit's list of priorities. There is no reason to believe that this would change under a revised funding arrangement where grants are given directly to the Inuit. Therefore, while the Torngat Regional Housing Association should remain, its funding should come from the Labrador Inuit Association's unconditional grant that has been calculated with this expenditure responsibility taken into account.

Again, like housing, expenditure on education does not show up in the list of objectives specified for the Inuit agreement. This is probably because education, due to the Inuit's long established contact with the Moravian missionaries, has been a priority of the Inuit. Even though education is no less of a merit good when provided to the Inuit, they already allocate substantial amounts of their funding for educational purposes. This is not likely to be changed by funding expenditure with a conditional non-matching grant rather than leaving it to the discretion of the Inuit by rolling the same amount of funding into an unconditional grant. That is, unless the conditional grant is much larger than current funding levels, the conditions of the grant are likely to be more than met. Therefore, the decision with respect to the funding of aboriginal-specific education ought to be left to the discretion of the Labrador Inuit Association by rolling the funding into their unconditional grant.

Although expenditures on water and sewer was not explicitly documented as one of the objectives of the federal-provincial agreement for the benefit of the Inuit communities, they have continued to be important items in the list of services funding under this agreement. While the lumpiness of the expenditures attached to water and sewer projects does cause problems in deciding which communities will get allocated the scarce water and sewer resources in which year, this problem would exist regardless of the group making the allocation decisions. That is, a program administered by the Inuit would be no more prone to this problem than the same program administered by the province. Therefore, it should be left to the discretion of the Inuit which communities should receive water and sewer funding. However, given the special nature of the types of expenditures involved, this funding ought to be given conditionally to the Labrador Inuit Association who, in turn, might delegate this responsibility to the Torngat Regional Housing Association (or a similar body).

Therefore, based on this assessment, it is recommended⁷³ that:

⁷³ The one caveat that should be kept in mind with respect to this recommendation is there has not been a detailed assessment undertaken to determine whether current funding levels are sufficient to meet the agreement's stated objectives. That is, this study did not attempt to determine the level of funding that should be made available under a revised arrangement; rather, our focus was on the form in which the funding should be given to the aboriginal people.

The Government of Canada enter into a direct funding arrangement with the Labrador Inuit Association. This funding arrangement would be in two parts. The first part, which would also constitute the overwhelming majority of the funds, should be provided unconditionally to the Labrador Inuit Association to enable them to tailor their expenditures to the needs and preferences of their people as determined by the Inuit themselves. The second part of the funding arrangement should consist of a conditional non-matching grant given for the funding of water and sewer projects.

7.3 Assessment of the Health Agreement and Recommendation

In arriving at the recommendation presented below, a number of points are considered. The first point is the Non-Insured Health Benefits portion of the Native Peoples Health Agreement has been removed from the agreement and has, since 1991/92, been funded by separate arrangements between the federal government and the Innu and the Inuit. Hence, the only issue with respect to the Native Peoples Health Agreement is whether to continue to have the Controllable Costs portion of the agreement funded through this federal-provincial agreement.

The second point that needs to be considered is the Canadian constitution provides for provincial jurisdiction in the provision of health care. Therefore, however funded, the services would still have to be provided by the province. Even so, it might be reasonable to allocate funding directly to the Innu and the Inuit for this purpose and let them contract the provincial government for their desired level of services.

The third point is provincial expenditure on items included in the controllable costs portion of this agreement far exceed that required under the agreement. A fourth point is this agreement seems to be working relatively well. The final point is that it would be very difficult to distinguish those expenditure on controllable costs item that go directly to the Innu and Inuit of Labrador from those that go to non-natives. This is particularly true of overhead costs and other fixed costs associated with staffing and maintaining the various nursing stations.

Given the constitutional considerations, the size of provincial expenditures on controllable costs and the difficulty of distinguishing native from non-native expenditures in certain types of the services provided, it is recommended that:

The Government of Canada and the Government of Newfoundland maintain the current funding arrangement for the provision of the controllable costs item included in the Natives Peoples Health Agreement.

8.0

Conclusion

In this report, the various type of grants that are available to redesign the funding federal-provincial funding arrangements for the benefit of the Innu and Inuit of Labrador were reviewed. Part of this study was devoted to a critical assessment of three federal-provincial agreements: one funding designated Innu communities, one funding designated Inuit communities and the Native Peoples Health agreement.

To facilitate community decision-making and self government, changes were recommended to the first two agreements but not to the health agreement. The specific recommendations made in this report are that:

- (1) The Government of Canada enter into a direct funding arrangement with each of the Band Councils. This funding arrangement would be in two parts. The first part, which would also constitute the overwhelming majority of the funds, should be provided unconditionally to the Band Councils to enable them to tailor their expenditures to the needs and preferences of their people as determined by the Innu themselves. The second part of the funding arrangement should consist of three conditional non-matching grants: one for housing services, one for water and sewer services and one for education services. Each conditional grant should be reviewed every five years to determine whether the standard of provision of the relevant service(s) has risen sufficiently to permit the conversion of the conditional grants to an unconditional grant;**
- (2) The Government of Canada enter into a direct funding arrangement with the Labrador Inuit Association. This funding arrangement would be in two parts. The first part, which would also constitute the overwhelming majority of the funds, should be provided unconditionally to the Labrador Inuit Association to enable them to tailor their expenditures to the needs and preferences of their people as determined by the Inuit themselves. The second part of the funding arrangement should consist of a conditional non-matching grant given for the funding of water and sewer projects; and**
- (3) The Government of Canada and the Government of Newfoundland should maintain the current funding arrangement for the provision of the controllable costs item included in the Natives Peoples Health Agreement.**

Hopefully, the information contained in this report and these recommendation will help serve as a useful guide in the future negotiations with respect to the funding of the Innu and the Inuit of Labrador.

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