



16th Legislative Assembly of the Northwest Territories

Standing Committee on Economic Development and Infrastructure

Report on the Review of the
2008-2009 Draft Main Estimates

Chair: Mr. David Ramsay

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ECONOMIC DEVELOPMENT
AND INFRASTRUCTURE**

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May 29, 2008

SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Economic Development and Infrastructure is pleased to provide its Report on the Review of the 2008-2009 Draft Main Estimates and commends it to the House.

David Ramsay, MLA
Chairperson

**STANDING COMMITTEE ON
ECONOMIC DEVELOPMENT
AND TOURISM**

**REPORT ON THE REVIEW OF THE
2008-2009 DRAFT MAIN ESTIMATES**

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**STANDING COMMITTEE ON
ECONOMIC DEVELOPMENT
AND INFRASTRUCTURE**

**REPORT ON THE REVIEW OF THE
2008-2009 DRAFT MAIN ESTIMATES**

INTRODUCTION

The Standing Committee on Economic Development and Infrastructure is pleased to present its report on its review of the 2008-2009 Draft Main Estimates.

The Standing Committee is responsible for the oversight of the Departments of Aboriginal Affairs and Intergovernmental Relations; Municipal and Community Affairs; Environment and Natural Resources; Northwest Territories Housing Corporation; Industry, Tourism and Investment; Transportation and Public Works and Services. The Committee met to consider the Departmental Draft Main Estimates between April 1 and 11, 2008.

GENERAL COMMENTS

Proposed Reductions and Strategic Investments

Committee members recognize that a reduction to expenditures or an increase to revenues is required if we are to live within our means and find the resources to support the goals of the 16th Legislative Assembly. However, the Committee expressed serious concerns regarding the Government decision-making process that led to the proposed reductions and strategic investments within each Department.

Committee members were disappointed that there was no real opportunity to discuss the proposed reductions or investments in any detail prior to the review of the draft main estimates. Without detailed business plans, it was often difficult to determine on what basis the decision to cut or invest was made and how those decisions supported the vision, goals and priorities established by the 16th Assembly.

The Committee does not support any investments related to the Mackenzie Gas Project at this time and recommends they be cancelled altogether. Committee members noted a number of reasons for this. First, members see these investments as inappropriate given the limited legislative and regulatory authority the Government of the Northwest Territories has in oil and gas development.

Costs associated with the project are properly the responsibility of Canada, which, under the existing regime, stands to gain almost all revenues from the pipeline. Secondly, delays in the final recommendations from the Joint Review Panel and socioeconomic funding from Canada indicate a level of uncertainty as to whether the pipeline project will proceed in the near future. Finally, any new investments made by this government should support the priorities established by Caucus for the 16th Assembly.

Members also find it difficult to support new spending through strategic investments when the reduction exercise is not yet complete and the full costs of those reductions are not totally accounted for. It may be more prudent to reintroduce new strategic investments as part of the Business Planning process in September.

Recommendation

The Committee recommends that the Main Estimates include only those strategic investments that are essential or support initiatives already underway. All other investments could be introduced as part of the Business Planning process in September 2008.

The Committee further recommends the deletion of all strategic investments related to the Mackenzie Gas Project.

Position Reductions

Members are also very concerned with the proposed reductions to staff positions and noted that a substantial number of reductions were occurring at the regional and community level. They also noted that the majority of new positions being created through either forced growth or strategic investments were identified as headquarter positions.

Committee members caution that they do not support the centralization of government services. Regional staff play an important role in linking government programs, services and policies to NWT residents, and provide important regional and community perspectives back to Department headquarters that informs policy and program development.

Recommendation

The Committee recommends that every effort should be made to either retain regional positions by identifying other areas for reduction or identify programs and services that could be decentralized to the regions.

Revenue Generation

Committee members were disappointed by the consistent lack of revenue initiatives brought forwarded by the Departments. Given the current financial pressures, the Government needs to actively consider ways to generate additional revenues, including new initiatives to take advantage of mineral, oil and gas exploration and development.

ABORIGINAL AFFAIRS AND INTERGOVERNMENTAL RELATIONS

The Committee met with the Minister and his officials on April 3, 2008 to consider the Department's draft main estimates.

The Department's proposed operating budget for 2008-2009 is \$6.2 million, a reduction of \$1.12 million or 15.12% from the 2007-2008 fiscal year.

Committee members offer the following comments on issues arising out of the review of the 2008-2009 draft main estimates:

Impact of Reductions

The Department of Aboriginal Affairs and Intergovernmental Relations is responsible for negotiating and implementing land claims and self-government agreements on behalf of the Government and residents of the Northwest Territories. It is also responsible for managing the Government's relationship with Aboriginal, federal, provincial and territorial governments.

Proposed reductions in staff positions have the potential to seriously erode the Department's capacity to effectively meet its mandate. Committee members expressed particular concern about the impact the reductions may have on claims negotiations, the implementation of final agreements and the Government's ability to effectively build and maintain relationships with Aboriginal governments.

Given the scope of the proposed reductions to the Department of Aboriginal Affairs and Intergovernmental Relations (DAAIR) and the important role it plays, the Committee makes the following recommendation:

Recommendation

The Committee recommends that DAAIR be rolled back into the Department of the Executive immediately and a review of its mandate and function be undertaken to refocus its efforts on Aboriginal government relations.

MUNICIPAL AND COMMUNITY AFFAIRS

The Committee met with the Minister and his officials on April 4, 2008 to consider the Department's draft main estimates.

The Committee noted that the total operating budget for the Department of Municipal and Community Affairs (MACA) for 2008-2009 is \$114,782,000. The budget also includes \$33.6 million for capital expenditures, of which \$28 million will be provided to community governments to use to support their own infrastructure priorities.

Committee members offer the following comments on issues arising out of the review of the 2008-2009 draft main estimates.

Community Capacity Building

Committee members recognize that MACA's primary mandate is to support community governments in the delivery of essential services to every resident of the NWT. The Committee was pleased that the Department's 2008-2009 draft main estimates did not include any reductions to core community government operations and maintenance funding, water and sewer services funding or capital formula funding.

However, the Committee is concerned with the level of reductions to contribution programs that support community development and capacity building, community emergency response and the impact these cuts may have on communities successfully taking on new responsibilities under the New Deal. Proposed reductions in this area are significant and the overall effect is to diminish support to community governments.

Sports, Recreation, Youth and Volunteers

The Committee was pleased to see that Regional Recreation Coordinator positions will be maintained. Sport and recreation programs provide an effective vehicle through which personal and social development in young people can be positively affected. The regional Recreation Coordinators are an integral part of how Government engages with youth and youth services and this function needs to be supported as part of a broader youth strategy.

Committee members were very disappointed by the lack of support for the voluntary sector. Members noted that as Government reduces its spending, particularly in the areas of health, justice, social services, youth services and community development, communities will rely more on volunteer efforts to weather the storm. Unfortunately, they have less capacity than ever to respond

to the needs in their communities. There is a very real need for more direct support to the sector. The Committee recommends that the Department, as part of the Business Planning process, identify concrete actions, including the necessary investments, to provide meaningful support for the voluntary sector.

ENVIRONMENT AND NATURAL RESOURCES

The Committee met with the Minister and his staff on April 9, 2008 to consider the Department's 2008-2009 draft main estimates.

The Committee noted that the total operating budget for 2008-2009 is \$56,942,000.

Committee members offer the following comments on issues arising out of the review of the 2008-2009 draft main estimates.

Reductions to Forest Management

There were significant reductions to the Forest Management budget. The majority of the reductions were based on a review undertaken by the Department that identified a series of measures that could be implemented to reduce expenditures and still provide effective forest management services. These measures included a reduction to the number of pre-suppression contract fire crews from 39 to 29 and a more cost-effective, coordinated approach in the use of rotary wing aircraft.

Committee members acknowledged that there were efficiencies to be gained within this activity. However, members voiced concerns about the impact the reductions to fire crews would have on people who rely on firefighting for seasonal employment. Firefighting represents a significant employment opportunity for many residents, particularly in smaller communities. This reduction potentially leaves those who rely on employment through these contracts with very few options other than income support.

Also of concern to members was the reduction to the FireSmart program, which supports communities to undertake wildfire risk mitigation planning. The reductions will mean less support and resources for communities to undertake this type of planning. Members note that, overall, the reductions to Forest Management may have left the Department and communities somewhat vulnerable if there is a bad fire season.

The forests in the NWT are an important renewable resource that has significant potential to support sustainable, small-scale industries, such as biomass for heat production, timber harvesting and sawmill operations. The Committee

encourages the Department to work with communities to explore these opportunities as a way to support local economies and promote the use of renewable energy.

Energy Planning and Climate Change

Committee members were supportive of the Government's efforts in moving forward with key renewable energy initiatives such as wind energy and hydroelectric development. These are important initiatives that will support reductions to greenhouse gas emissions over the long term. Committee members want to see these efforts be balanced with more immediate actions to address the mounting challenge of climate change here in the NWT.

Members believe that the Government must develop new initiatives that actually gain net reductions to greenhouse gas emissions in the NWT. Members request the Government move beyond voluntary efforts and establish standards and enforceable regulations as part of the effort to mitigate climate change impacts.

NORTHWEST TERRITORIES HOUSING CORPORATION

The Committee met with the Minister and his staff on April 9, 2008 to consider the Department's 2008-2009 draft main estimates.

The Committee noted that the total operating budget is \$81,427,000.

Committee members offer the following comments on issues arising out of the review of the 2008-2009 draft main estimates.

Market Housing Initiative

The purpose of the Market Housing Initiative is to attempt to improve the availability of rental accommodation for essential services personnel, such as teachers and nurses, who are working in smaller NWT communities. Committee members recognize that the lack of rental accommodation has serious implications for the delivery of essential programs and services. Members support the Corporation's efforts to address the need for market housing in communities and encourage all parties to work together to achieve positive results.

CMHC Funding

Funding through the Canadian Mortgage and Housing Corporation to support operating and amortization costs of public housing is declining on a yearly basis

and will lapse entirely by 2038. This will result in a total shortfall of O&M funding of over \$340 million dollars. Committee members recognizes the critical importance of this funding to maintain social housing. Members support the efforts of the Minister and the Government in working with their provincial and territorial counterparts to lobby the federal government to retain this investment in Canada's social housing programs.

Affordable Housing Initiative

In 2006, the federal government committed \$50 million to the Northwest Territories through the Northern Housing Trust to be drawn down over three years. This funding was matched by the GNWT. The program is delivered through the Affordable Housing Initiative (AHI), and commits the Government to the construction of as many as 530 housing units within those three years.

The availability of suitable land and the lack of land tenure within communities continue to have significant impacts on the delivery of housing under the AHI. Given these challenges, Committee members expressed concern about the Corporation's ability to meet its commitments within the designated timeframe. Members encouraged the Minister and his officials to negotiate an extension of the funding with the federal government.

Committee members also understand that under the Northern Housing Trust agreement, if land issues cannot be resolved in a community, the Corporation has no choice but to move new housing to communities that do have available lots. Members encourage all parties involved in this process to continue to work to resolve these outstanding issues.

Internal Audit Function

As part of the reduction exercise, the Housing Corporation is proposing to eliminate the Internal Audit function. The two audit positions will be re-employed within the NWT Audit Bureau.

Committee members expressed concern with this reduction and noted that one of the key findings from the Auditor General's report was the lack of effective monitoring and evaluation of its operations. Members noted that the loss of this function diminishes the capacity of the Corporation and the LHOs to carry out these important functions. The Minister and his officials indicated that the reorganization of the Corporation would help to focus the operations on continued improvement through monitoring, reporting and staff training. Committee members are prepared to accept this approach, but expect to see significant results and improvement in the future through regular updates to Committee.

Reduction to Homeownership Repair Program

Committee members expressed serious concerns with the proposed reduction to the Homeownership Repair program. Members noted that the reduction would impact the number of low- to moderate-income families being able to afford necessary repairs. As community housing stocks increase through programs such as the Affordable Housing Initiative, repair programs are critical to maintaining the value of the housing stock and avoiding larger repair and replacement expenditures in the future. Members recognize that the Corporation is committed to maintaining repair programs for seniors and persons with disabilities and supports their efforts, but recommend the Corporation make the reinstatement of this program a priority.

Contract Tendering

Some Members raised the issue of the use of bundled contracts by the Housing Corporation. These contracts usually involve the supply, transportation and construction of housing units as part of the bids. Members indicated that this process has the potential to favour larger companies, as smaller contractors do not necessarily have the capacity to meet all of the requirements of the tender. Members suggest that the Corporation consider breaking out the contracts to allow local contractors to bid on a portion of the required work.

Supported Lease Program

The Supported Lease program is the transitional step into the Homeownership Program, whereby assistance is provided through a lease on a Housing Corporation home. After completing a successful two-year lease period, the tenant is expected to transition into owning the unit.

Committee members were concerned that if tenants did not want to move into a homeownership position or were unable to take on the responsibility, the units then could become additional public housing units by default. This could then drive up operations and maintenance costs for public housing stock at a time when the resources to support this work are diminishing. Members request regular updates on this program in order to monitor results.

Seniors Housing

Seniors living in Public Housing pay no rent, utilities or maintenance costs, regardless of their income. There are currently 400 units assigned to seniors housing across the NWT. In many cases, seniors living in these units have the financial means to pay either market rent or contribute to the cost of utilities for their units. Members questioned whether it was fair, for a program of last resort like public housing, to have a segment of the population that is not subject to the same means testing as the rest of the program's client base.

Committee members believe there is a need to strike a balance between respecting the contributions made by our elders and the financial constraints facing the social housing system.

Housing Programs and Support Services for Seniors

Members also identified the need for a coordinated approach around the delivery of programs that would encourage seniors to stay in their own homes. Committee members suggest that the NWT Housing Corporation, along with Education, Culture and Employment and Health and Social Services, work together to provide a more focused approach to housing supports for seniors.

DEPARTMENT OF TRANSPORTATION

The Committee met with the Minister and his staff on April 10, 2008 to consider the Department's 2008-2009 draft main estimates.

The Committee noted that the Department is proposing to spend \$95,947,000 in operating expenses for the fiscal year 2008-2009. The proposed budget for the Department's capital plan is \$56,437,000.

Committee members offer the following comments on issues arising out of the review of the 2008-2009 Draft Main Estimates.

Contracting Out and Own-Force Labour

In an effort to meet its reduction targets, the Department is proposing to reduce costs related to highway maintenance, culvert replacement and chip sealing by using its own forces, rather than use contractors, to carry out a portion of the work. At the same time, they are proposing to contract out airport operations and maintenance services in Fort Simpson. Members were not convinced that, in either case, cost savings would be achieved. There are additional costs that were not factored into the proposed reductions including casual staffing and equipment leasing and severance costs for laid off employees. There are also no guarantees that the private sector can deliver services on behalf of the government for less.

Climate Change Adaptation and Mitigation

Committee members were concerned with the lack of initiatives to address climate change issues within the Department. Transportation accounts for more

than half of the NWT's greenhouse gas emissions and the impacts of climate change are already apparent in the degree of damage to NWT roads and runways as a result of melting permafrost. Members understand that research is currently being conducted to study the effects of climate change on NWT transportation infrastructure. The Committee looks forward to the results of the research and requests that a detailed action plan be developed to establish transportation options that would reduce the impacts of greenhouse gas emissions.

DEPARTMENT OF PUBLIC WORKS AND SERVICES

The Committee met with the Minister and his staff on April 10, 2008 to consider the Department's 2008-2009 draft main estimates.

The Committee noted that the Department is proposing to spend \$57,800,000 in operating expenses for the fiscal year 2008-2009. The proposed budget for the Department's capital plan is \$12.1 million.

Committee members offer the following comments on issues arising out of the review of the 2008-2009 Draft Main Estimates.

Deferred Maintenance Program

The proposed Deferred Maintenance program builds on the work under taken by the Risk Management and Assessment Program to identify critical maintenance deficiencies with the GNWT's current infrastructure stock. The Committee supports this initiative and sees it as an effective approach to managing future maintenance and energy costs and extending the life of these assets.

Water and Sewer Maintenance Services Contracts

Public Works and Services provide water and sewer maintenance services on a contractual basis to several communities in the NWT who do not have trained personnel to carry out those services. Committee members would like to see these services devolved to the community and appropriate training programs be put in place to support community government staff in assuming those responsibilities. Department officials indicated that they have been working with the School of Community Government to establish a job-shadowing program for hamlet staff.

Petroleum Products

The Petroleum Products Division (PPD) purchases, transports and stores the annual requirement of petroleum products for NWT communities not served by

the private sector. Through the Petroleum Products Stabilization fund, which is generated through profits from sales to PPD customers, the PPD has been in a position to subsidize the cost of fuel products to non-government customers. While Committee members recognize that this subsidy helps to offset the very high cost of fuel in small NWT communities, more needs to be done to reduce the reliance on fossil fuels and provide communities with alternative sources of fuel such as biomass.

Members recognize that the shift away from the consumption of fossil fuels is a significant undertaking that will require time and collaboration across Government departments and with communities. The Committee recommends that the Department identify approaches to providing renewable energy sources to communities as part of the Greenhouse Gas Strategy and Energy Plan.

DEPARTMENT OF INDUSTRY, TOURISM AND INVESTMENT

The Committee met with the Minister and his staff on April 8 and April 11, 2008 to consider the Department's 2008-2009 draft main estimates.

The Committee noted that the Department is proposing to spend \$45,593 million in operating expenses for the fiscal year 2008-2009. The proposed budget for the Department's capital plan is \$3,828,000.

Committee members offer the following comments on issues arising out of the review of the 2008-2009 Draft Main Estimates.

Energy Initiatives

Committee members support the proposed energy initiatives to further develop renewable energy potential in the Northwest Territories. Members noted that the proposed Review of Electricity Rates, Regulations and Subsidy Programs is an important first step in the provision of reliable and affordable energy sources to residents of the NWT. Members look forward to providing additional input into the Review as it moves forward.

The Committee recognizes the potential for hydro development in the NWT to provide more affordable, efficient and reliable energy sources. Members support the Taltson Hydro Expansion project but stress the need to continue to invest in the development and implementation of mini-hydro projects and other approaches to renewable energy.

Energy Coordination

Members had a number of comments and questions related to the approach to energy policy and planning within the GNWT. Currently, ITI has the responsibility

for overall energy management and planning within the Government. ENR's responsibilities are primarily related to climate change adaptation and mitigation and the development of alternative energy sources. Members questioned why some renewable energy development such as hydro, are the responsibility of ITI, while other approaches, such as wind energy development, fall under ENR.

Members also noted that separating responsibilities for the implementation of the Energy Plan and the Greenhouse Gas Strategy between the two departments might not be an effective approach to achieving the intended outcomes of either strategy. The Committee believes it would be useful to review the role of the two Departments in the development of renewable energy policy and planning in order to ensure greater efficiencies and effectiveness.

Support for the Traditional Economy

The traditional economy - agriculture, fishing, trapping and commercial game harvesting – is an important, but increasingly undervalued sector of the NWT economy. The NWT is rich with an abundance of renewable resources that could be developed into small-scale businesses that can diversify local economies, promote greater self-reliance and preserve traditional land-based activities.

Committee members are very concerned with the lack of support for this important sector. The Committee recommends that the Department develop a comprehensive framework that identifies strategies to enhance the traditional economy, particularly agriculture, market gardening and other forms of local food production.

Reduction to the Commercial Fishery

Committee members were disappointed with the reduction of funding to the commercial fishery. Members recognize that there are serious challenges within the commercial fishing industry. However, a large part of the problem is the low price for fish set by Freshwater Fish Marketing Corporation. The set price does not keep pace with increased operating costs experienced by NWT fishers.

The proposed cuts further diminish the viability of this industry. Members felt that more could be done to establish and implement a meaningful recovery plan. Such a plan could include assisting NWT fishers to find alternate markets; providing assistance in marketing their product and establishing appropriate manufacturing facilities.

Economic Development Initiatives

The Committee is generally supportive of departmental efforts in the area of business and economic development. It is particularly pleased with the Support

for Entrepreneurs and Economic Development (SEED) program and sees it as an important tool for expanding local economies, particularly within the smaller NWT communities.

Committee members raised issues related to the potential overlap in services through the Business Development Investment Corporation, Community Futures and other business development support services. Recommendations have been made in the past for the Department to consider establishing a one-window approach for these services at the regional level. The Committee encourages the Department to consider ways to streamline these services in order to ensure better coordination and avoid duplication.

Tourism and Parks

The Committee raised concerns about the proposed Cultural Interpretation at Parks program as a new strategic initiative. Under this initiative, the Department is proposing to develop cultural programs at a number of territorial parks to increase visitation and improve the overall park experience for tourists. Members support the concept, but noted that this could be achieved using existing resources. For example, campground operators or cultural organizations could apply through the Tourism Product Diversification program to deliver a range of cultural programs within the parks. Members recommend that the Department pursue other means to support this activity.

The Committee also recommends that the Parks Renewal Strategic Infrastructure project be cancelled. Members noted that, at a time of fiscal restraint, there are greater priority needs that could be addressed through this level of investment.

Under the Territorial Parks Act, there are regulations that support the creation of wilderness and cultural conservation areas, natural wilderness parks and protected areas. While ITI is responsible for the creation and regulation of territorial parks, ENR has the responsibility for conservation and protected areas. Members discussed the overlap of responsibility between the two departments and recommend that there be a review to determine if conservation goals can be effectively met through ITI.

Maximizing Benefits from Resource Extraction

Committee members noted with concern the lack of proposals to increase revenues to the Government from non-renewable resource extraction. Members identified a number of potential revenue streams, including owning equity stakes in diamond mines and oil and gas production; implementing a mineral or resource tax and exploring opportunities to expand secondary and tertiary industries related to diamond and oil and gas production.