

**Indian and Northern Affairs Canada  
Corporate Services**

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**Evaluation of the Alternative  
Funding Arrangement (AFA) and  
Flexible Transfer Payment (FTP)  
Funding Authorities**

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## Acronyms and Abbreviations

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AFA	Alternative Funding Arrangement
CA	Contribution Agreement
CFA	Comprehensive Funding Arrangement
CFNFA	Canada/First Nations Funding Agreement
DAEC	Departmental Audit and Evaluation Committee
DFNFA	DIAND/First Nations Funding Agreement
FN	First Nation
FSO	Funding Services Officer
FTA	Financial Transfer Agreement
FTP	Flexible Transfer Payment
HC	Health Canada
INAC	Indian and Northern Affairs Canada
OGD	Other Government Departments
OSR	Own-source revenues
SGFTA	Self-Government Financial Transfer Agreement
TBS	Treasury Board Secretariat
TC	Tribal Council
TPMS	Transfer Payments Management System

# Executive Summary

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## Introduction

Indian and Northern Affairs Canada's (INAC's) role is largely a support role to assist First Nations and Inuit to achieve healthy, sustainable communities. In practical terms, this means working to ensure access to services and a quality of life comparable to that enjoyed by other Canadians. INAC funds First Nations governments and institutions and Inuit organizations and communities to promote access to a range of services reasonably comparable to those enjoyed by other Canadians.

The largest share of the department's program expenditures is for basic services (similar to services delivered off-reserve by provinces) for First Nations on reserve (e.g. education, income assistance, infrastructure and band support) that are delivered by First Nations and Tribal Councils, and for claims and self-government agreements. The department uses a number of funding arrangements to transfer funds and ensure accountability for the delivery of such programs and services.

The choice of funding arrangement is guided by recipients' capacity to administer programs and services. The options are:

- (a) Comprehensive Funding Arrangements (CFAs), which are INAC's basic arrangement for the annual transfer of funds for delivery of programs. The CFA contains in a single document the terms and conditions for grants, contributions, and Flexible Transfer Payments (FTPs). FTPs allow funding on a formula or fixed-cost basis and provide an incentive for recipients to manage programs and services effectively, since surpluses can be retained provided that minimum program requirements are met.
- (b) Canada/First Nations Funding Agreements (CNFAs), which are five-year funding arrangements structured to include multi-year block funding under the Alternative Funding Arrangement (AFA) authority, annual targeted Contribution and FTP funding, and funding from other government departments. To optimize resource use, AFAs give First Nations the authority to apply funds to programs and services of their choice, provided that minimum program requirements are met. The CNFA is an optional funding arrangement available to those First Nations and Tribal Councils that wish to have flexibility to design programs and apply allocated funds to programs and services that address community needs, so long as certain specified minimum program requirements are met, and that meet specific entry criteria; and

- (c) Self-Government Financial Transfer Agreements (SGFTAs), which are five-year funding arrangements INAC enters into with Aboriginal groups that have negotiated a self-government arrangement with Canada. As these self-government arrangements have a unique legislative base, i.e. an Act approved by Parliament, they are not addressed in this report.

Flexible Transfer Payments and Alternative Funding Arrangements are the focus of this evaluation.

## **Purpose of the Evaluation**

INAC undertook this evaluation to determine whether the AFA and the FTP are achieving their objectives and assess their impacts. There were six evaluation issues:

- To what extent has AFA resulted in recipients being able to design and deliver effective programs in accordance with their own needs and priorities?
- To what extent have AFA/FTP enhanced the accountability of participating groups or First Nations to their local communities?
- To what extent have the Minister's requirements for accountability been met?
- To what extent have AFA/FTP resulted in a decline of departmental control of recipients? Are there further controls that should be removed?
- What, if any, have been the unintended impacts of AFA/FTP?
- To what extent could AFA/FTP be improved?

The evaluation Terms of Reference were approved in February 2002. Research was completed and a draft report submitted by December 2004. Evaluation findings were used in a 2005 submission to Treasury Board for renewal of the AFA and FTP authorities.

## **Evaluation Methodology**

Four lines of evidence were employed:

- Telephone and in-person discussions with officials from INAC and other federal departments (n=97)
- On-site community case studies with selected First Nations and Tribal Councils (n=7)
- Telephone discussions with a number of First Nations and Tribal Councils in all regions (n=25)
- A review of literature and documents

The purpose of the on-site case studies was to seek the views of program and administrative officials and elected officials of First Nations and Tribal Councils on two programs: Band-operated Schools and Income Assistance, Basic Needs. The case studies were conducted in the Alberta, Saskatchewan and Atlantic regions. Each involved meetings over two-three days and detailed discussions about program planning, delivery, reporting and accountability. The discussions focussed on accountability (to the community/organization and to the federal government) and flexibility of AFA and FTP compared to Contributions.

## **Evaluation Findings**

There was strong support for the continuation of AFA and FTP authorities, which are considered the foundation of federal government transfers to First Nation administrations.

It was found that the AFA authority has met its objective of giving greater flexibility to First Nations and Tribal Councils to plan, design and deliver their programs.

The FTP authority was viewed as a useful mechanism, but its flexibility was considered limited, since surpluses are rare. Under the FTP, recipients must still abide by terms and conditions similar to those of traditional contributions, limiting recipients' flexibility to design new programs.

The evaluation found that the CFNFA had not achieved its potential as a single window for federal funding. It had improved the way some First Nations budget and plan their activities, but a proper balance had yet to be found between facilitating good governance and imposing controls, since controls could limit the agreement's flexibility.

It was found that there had been improvements in the administrative and financial practices of most First Nations that have used the AFA authority. However, some First Nations felt a higher degree of control due to increased program reporting requirements has created an undue administrative burden, which could negatively impact community governance. In general, although most First Nations have instituted formalized and transparent budgeting practices, they believe that increased reporting has increased their accountability to the department but done little to support accountability to community members.

Regarding Ministerial accountability, both INAC and First Nation officials viewed reporting requirements as burdensome and felt that they would be better able to determine whether funding agreement provisions regarding program terms and conditions are met if reporting was focussed on achievement of minimum program requirements.

The AFA and FTP were not found to have reduced INAC's control over recipients. In fact, it was said that reporting obligations had increased significantly, in large part because of a weakness in data on program results.

The study found unintended impacts in three areas: flexibility (difficulty sustaining debt loads, increased workload because more programs were funded by contribution, annual adjustments for AFA block funding no longer meeting increased program costs, and a lack of clarity in the exceptional circumstances clause); accountability (a need for the AFA management assessment to be revisited at CFNFA renewal, an increased focus on accountability which has reduced incentives to pursue self-government); and control (increased departmental controls that could compromise regions' ability to sustain AFA block funding, and a lack of progress toward single window agreements).

## **Overall Conclusions**

Strong support was found for continued use of the AFA and FTP authorities. They were found to be functioning well for the most part, but their efficiency and effectiveness could be improved. In particular, the need to explore the possibility of AFA re-basing and examine the adequacy of the AFA annual adjustment formula were raised.

## **Recommendation**

Based on the evaluation findings summarized above and explained in greater detail in the report, it is recommended that INAC address the following issues:

### *Funding Formulae*

- (a) review the AFA block funding formula adjustments to develop a more consistent approach across regions; and
- (b) review the CFNFA renewal process and explore the possibility of an AFA re-basing.

### *Application of Funding Authorities*

- (a) ensure that AFA entry criteria continue to be met at the time of a CFNFA renewal;
- (b) clarify fiscal plans as defined in the CFNFA to ensure a common understanding of requirements under the AFA;
- (c) establish guidelines to deal with exceptional circumstances under the CFNFA; and
- (d) explore the option of extending the duration of the FTP to allow multi-year funding.

# Section 1 - Introduction

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This report presents the results of an evaluation of the Alternative Funding Arrangement (AFA) and the Flexible Transfer Payment (FTP) funding authorities.

## Purpose of the Evaluation

INAC undertook this evaluation to determine the effectiveness and impacts of the AFA and FTP. The evaluation looked at flexibility, accountability, departmental control, impacts and areas for improvement. The evaluation was a Treasury Board condition for renewal of the AFA and FTP authorities.

## Structure of the Report

Section 2 of the report gives a profile of INAC funding arrangements and section 3 gives a description of the underlying authorities. Section 4 presents evaluation findings regarding the six issues in the *Terms of Reference*, and conclusions and recommendations are presented in sections 5 and 6.

## Evaluation Approach

The Terms of Reference for the evaluation were approved by the Departmental Audit and Evaluation Committee (DAEC) on February 26, 2002. They set out six evaluation issues, based on those used to evaluate the long-term impacts of AFA in 1993. These are:

- To what extent has AFA resulted in recipients being able to design and deliver effective programs in accordance with their own needs and priorities?
- To what extent have AFA/FTP enhanced the accountability of participating groups or First Nations to their local communities?
- To what extent have the Minister's requirements for accountability been met?
- To what extent have AFA/FTP resulted in a decline in departmental control of recipients? Are there further controls that should be removed?
- What, if any, have been the unintended impacts of AFA/FTP?
- To what extent could AFA/FTP be improved?



Technical input to the evaluation and sampling design was provided by a national Advisory Committee of stakeholders. General oversight and guidance came from a Steering Committee of senior INAC officials. The approach was designed to obtain information about the evaluation issues in the broader context of assessing the trade-offs between accountability and flexibility.

The complexity of the authorities and the process of clarifying the evaluation questions necessitated extensive planning and consultations with both regional INAC officials and the Advisory and Steering Committees. The review of literature and documents was conducted between July and October 2003. Following approval of the sample design and data collection instruments, field work took place between May and November 2004. A draft report was submitted in December 2004.

## **Evaluation Methodology**

Four lines of evidence were employed. The funding authorities were not compared, but were assessed relative to the Contributions authority for purposes of clarity.

The lines of evidence in this evaluation were:

- Seven on-site community visits with selected First Nations and Tribal Councils in Alberta, Saskatchewan and Atlantic regions (51 interviews)
- Telephone and in-person discussions with officials from INAC and other federal departments both in Headquarters and the regions (97 respondents)
- Telephone discussions with selected First Nation and Tribal Councils in all regions (25 interviews)
- A review of literature and documents.

## **Limitations of the study**

The complexity of several evaluation issues necessitated an approach that explored tradeoffs and thus relied to a great extent on qualitative research. Opinions of respondents, gathered through case studies, in-person meetings, telephone calls and conference calls provided a majority of the information that was the basis for evaluation findings. This should be taken into account by the reader; although every effort was made to balance the extensive qualitative feedback with technical analysis from the document review, much of the evaluation feedback reflects the views and opinions of respondents.

## On-site Case Studies

Two program areas were chosen for on-site case studies to determine the extent to which the authorities are working. These were the Band-Operated Schools and Income Assistance Basic Needs program areas. The Band-Operated Schools Program is funded as FTP under the CFA, and as AFA under the CFNFA. The Income Assistance Basic Needs Program is funded as contribution under the CFA, and as AFA under the CFNFA.

In total, there were seven on-site case studies. The sample was comprised of two First Nations and one Tribal Council in each of the Alberta and Saskatchewan regions and one Tribal Council in the Atlantic region. In addition to the financial, administrative and elected officials in each location, program officials responsible for band-operated schools and income assistance basic needs were contacted.

## Interviews with Federal Officials

Region	On-Site	Telephone	Finance and Administration Officials	Program Officials	Total
Headquarters INAC	✓		3	3	6
BC INAC		✓	5	3	8
Alberta INAC	✓		17	4	21
Alberta HC	✓		1		1
Saskatchewan INAC	✓		15	2	17
Manitoba INAC		✓	5	2	7
Ontario INAC		✓	7	3	10
Quebec INAC		✓	10	2	12
Atlantic INAC	✓		13	2	15
TOTALS			76	21	97

## Interviews with First Nation and Tribal Council Officials

Region	On-Site	Telephone	Program and Administrative Officials	Elected Officials	Total
BC		8	8	-	8
Alberta	25	3	21	7	28
Saskatchewan	21	2	16	7	23
Manitoba	-	3	2	1	3
Ontario	-	7	7	-	7
Quebec		3	3	-	3
Atlantic	5	-	5	-	5
<b>TOTALS</b>	<b>51</b>	<b>26</b>	<b>62</b>	<b>15</b>	<b>77</b>

Overall, 60 federal officials were interviewed in person and 37 were interviewed by telephone. There were also 51 in-person interviews with First Nation and Tribal Council officials and 26 telephone interviews. Thus, a total of 174 individuals were interviewed.

The sample of First Nations and Tribal Councils was chosen to allow a comparison of similar programs being delivered using different funding mechanisms in urban and rural settings.

From initial research and consultation with the Advisory Committee, it was concluded that the thrust of the priority issues was valid, but that research should emphasize the balance between: i) accountability and control; and ii) flexibility. Thus, all six of the evaluation issues were investigated in that context.

## Background

INAC's role is largely a support role to assist First Nations and Inuit to achieve healthy, sustainable communities. In practical terms, this means working to ensure access to services and a quality of life comparable to that enjoyed by other Canadians. INAC funds First Nations governments and institutions and Inuit organizations and communities to promote access to a range of services reasonably comparable to those enjoyed by other Canadians.

The largest share of program expenditures is for basic services (similar to off-reserve services delivered by provinces) for First Nations on reserve (e.g. education, income assistance, infrastructure and band support) that are delivered by First Nations and Tribal Councils, and for claims and self-government agreements. INAC uses a number of funding mechanisms to transfer funds and ensure accountability for the delivery of such programs and services.

## **Accountability and Flexibility**

Because the focus of the evaluation approach was to determine whether the AFA and FTP had achieved their objectives by assessing the balance between accountability and flexibility, it is necessary to define these terms.

### **Accountability**

The term “accountability” derives from the higher concept of *responsibility*, which means the assignment and acceptance of a responsibility or set of responsibilities from an individual or group of individuals in an authoritative position or principals.

For purposes of this evaluation, control refers to the rules and processes used by the department and the federal government to ensure that overall funding policy is administered consistently in all regions.

In the *Report of the Auditor General of Canada, December 2002*, Chapter 9 (“Modernizing Accountability in the Public Sector”), accountability is seen to serve three purposes:

- to control against the abuse or misuse of power;
- to provide assurance that activities were carried out as intended and with due regard for fairness, propriety, and good stewardship; and
- to encourage improved performance of programs and policies through reporting on and learning from what works and what does not.

Based on these main purposes, the Auditor General’s report further outlined five principles for the effective practice of accountability:

- Clear roles and responsibilities;
- Clear performance expectations;
- A balance of expectations with capacities;
- Credible reporting; and
- Reasonable review of performance, with adjustments.

The Auditor General’s report identified three signs that accountability is not working well:

- there is no reporting or inadequate reporting on performance;
- there is no serious, informed review of the information reported; and
- there are neither appropriate program changes nor consequences for responsible individuals.

## **Flexibility**

The term “flexibility,” for purposes of this evaluation, means the extent to which funding authorities permit implementation of a variety of complex programs under widely differing circumstances.

## Section 2 - INAC Funding Arrangements

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During the 1980s, a number of new funding arrangements were developed by INAC in response to Penner.<sup>1</sup> It was proposed by Penner that such arrangements relax departmental control and build a financial accountability regime that emphasized band governments' accountability to members rather than one which placed emphasis on accountability to departments.

Funding arrangements are documents containing terms and conditions by which transfer payments are made by INAC for the delivery of programs and services. Recipients are subject to a specific set of rules called funding authorities which represent Treasury Board conditions. The rules stipulate how programs and services will be funded, the responsibilities of federal and First Nation governments, how surpluses and deficits will be treated, and the steps to be taken should recipients incur significant debt or be unable to continue delivery of programs and services.

In 1994, a new type of funding arrangement called a Community-Based Transfer Payment was introduced to replace the Alternative Funding Arrangement. Under the Community-Based Transfer Payment, resourcing would not be based on a series of federally-defined programs and annual program-specific adjustments, but would establish a revenue base for each First Nation with annual adjustments based on changes to total regional budgets and First Nation populations. This macro block funding arrangement was the same one that was being planned to support SGFTAs, so the transition would be more straightforward if First Nations wished to negotiate a self-government agreement.

In 1995, INAC further refined the arrangement by introducing the Financial Transfer Agreement (FTA). Instead of a consolidated revenue base, recipients would be assigned a block/core budget for recurring services, which would be adjusted to take changes to departmental reference levels and First Nation populations into account. Non-core/targeted budget items would be funded under FTPs or Contributions for time-limited initiatives and program-specific adjustments such as Major Capital and Economic Development. The FTA was a top-down or distributional funding formula that was a significant change from bottom-up reimbursement models.

In December 2000, INAC introduced the CFNFA, which built upon the features of the FTA and experiences of First Nations and Tribal Councils, and developed in partnership with participating federal departments. Funding continues to be allocated according to recurring block/core programs and services under the AFA authority and non-core/targeted funding under the FTP and Contribution authorities. The most significant change is that all INAC block/core and non-core/targeted programs are now funded under one instrument. In addition, the CFNFA is structured so that INAC and other federal departments may participate in its use thereby

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<sup>1</sup>The 1983 *Report of the Special Committee on Indian Self-Government*, known as the *Penner Report*, is commonly referred to as "Penner" in the context of self-government discussions.

providing First Nations and Tribal Councils with a more comprehensive funding relationship with government departments by consolidating all funding into one arrangement rather than separate arrangements. The main features of the CFNFA are:

- Contains generic terms and conditions in the main body applicable to all government departments;
- Contains program terms and conditions specific to each government department participating in the agreement in separate schedules, which can be added at any time;
- Contains both multi-year block and annual targeted funding;
- Moves from departmental funding to federal funding with the ability to include several departments in one agreement.

Table 1 shows the range of funding arrangements that reflect the varying degrees of recipients' capacity to administer programs and services.

**Table 1 - Range of INAC Funding Arrangements**

<b>FUNDING ARRANGEMENT</b>	<b>DESCRIPTION</b>
<b>Contribution Agreement (CA)</b>	An arrangement INAC enters into with eligible recipients for specific programs or projects which require significant interaction. Funding is based on reimbursement of eligible expenditures. Unexpended balances or unallowable expenditures are debts due the Crown.
<b>Comprehensive Funding Arrangement (CFA)</b>	<p>A consolidated arrangement INAC enters into with recipients for the delivery of all programs and services a recipient is eligible for. Funding is transferred according to the following funding authorities:</p> <p><b>Contribution</b> - a conditional transfer in accordance with specific program terms and conditions and based on reimbursement of eligible expenditures. Unexpended balances or unallowable expenditures are debts due the Crown.</p> <p><b>Flexible Transfer Payment (FTP)</b> - a conditional transfer in accordance with specific program terms and conditions and based on a predetermined fixed level of expenditure. Unexpended balances are not debts due to the Crown provided program terms and conditions have been met.</p> <p><b>Grant</b> - an unconditional transfer in support of the achievement of specific objectives.</p>
<b>Canada/First Nations Funding Agreement (CFNFA)</b>	<p>A consolidated arrangement INAC and other government departments enter into with eligible First Nations and Tribal Councils for a duration of five (5) years. Funding is transferred in two streams: block and targeted, according to the following funding authorities:</p> <p><b>Block Funding:</b>  <b>Alternative Funding Arrangement (AFA)</b> - a transfer in which funding for the initial fiscal year for the programs and services eligible to be funded under the AFA TB authority is established based upon allocation methodologies identified in individually approved program authorities. Subsequent fiscal year funding is adjusted based upon a formula which reflects changes in price and volume. Unexpended balances are not debts due the Crown provided program requirements have been met.</p> <p><b>Targeted Funding:</b>  <b>Contribution</b> - a conditional transfer in accordance with specific program terms and conditions and based on reimbursement of eligible expenditures. Unexpended balances or unallowable expenditures are debts due the Crown.</p> <p><b>Flexible Transfer Payment (FTP)</b> - a conditional transfer in accordance with specific program terms and conditions and based on a predetermined fixed level of expenditure. Unexpended balances are not debts due the Crown provided program requirements have been met.</p>
<b>Self-Government Financial Transfer Agreement (SGFTA)</b>	An arrangement INAC enters into with Aboriginal groups that have negotiated self-government arrangements with Canada. These self-government arrangements have a unique legislative base (i.e. an Act approved by Parliament). The FTA has a duration of five (5) years, subject to renewal.

Table 2 shows the varying degrees of flexibility in the arrangements.



**Table 2  
Comparison of INAC Funding Arrangements**

FUNDING ARRANGEMENT	COMPREHENSIVE FUNDING ARRANGEMENT			CANADA/FIRST NATIONS FUNDING AGREEMENT			SELF-GOVERNMENT FINANCIAL TRANSFER AGREEMENT
				TARGETED FUNDING	BLOCK FUNDING	GRANT	
FUNDING AUTHORITIES	CONTRIBUTION	FLEXIBLE TRANSFER PAYMENT (FTP)	GRANT	CONTRIBUTION	FTP		ALTERNATIVE FUNDING ARRANGEMENT
ELIGIBILITY	Specific program eligibility criteria	Specific program eligibility criteria	Specific eligibility criteria and an application	Specific program eligibility criteria	Specific program eligibility criteria	Specific entry criteria	Self-government legislation required
DURATION	One year			One year		Five years	Five years
TRANSFER OF FUNDS BETWEEN PROGRAMS	Not transferable			Not transferable	Not Transferable	Transferable provided specific minimum program terms and conditions are met	Transferable
PROGRAM REDESIGN	Not applicable. Specific program criteria identify specific program objectives			Not applicable. Specific program criteria identify specific program objectives		Programs may be redesigned in accordance with community priorities provided minimum program terms and conditions are met	Programs may be redesigned in accordance with community priorities provided minimum program terms and conditions are met
REPORTING	Annual audit and operational and financial reports throughout the year			Annual audit and operational and financial reports throughout the year			Annual audit
ACCOUNTABILITY	Primary accountability is to INAC for delivery of programs and services in accordance with terms and conditions of the arrangement		Primary accountability is to members	Primary accountability is to INAC for delivery of programs and services in accordance with terms and conditions of the arrangement		Dual accountability to members and to INAC for delivery of programs and services and allocations	Accountability is primarily to constituents for allocations and expenditures

Source: INAC, Finance Branch, 2005.

## **Section 3 - Description of the Funding Authorities**

INAC funding arrangements include several funding authorities (grant, contribution, FTP and AFA). Funding authorities represent the departmental authority to fund specific programs and services and require TB approval. The following are the three types of funding arrangements used by INAC:

- (a) CFA, which is the basic funding arrangement INAC uses to transfer annual funding to recipients for program delivery and which is structured to include programs funded by grant, contribution and FTP;
- (b) CFNFA, which is a five-year funding arrangement structured to include multi-year block funding under the AFA authority, annual targeted funding as Contribution and FTP and funding from other government departments. The CFNFA is an optional funding arrangement available to those First Nations and Tribal Councils who wish to have the flexibility under the AFA to design programs and apply allocated funds to programs and services that address community needs and priorities, so long as certain specified minimum program requirements are met, and who meet specific entry criteria; and
- (c) SGFTA, which is a five-year funding arrangement INAC enters into with Aboriginal groups who have negotiated a self-government arrangement with Canada. These self-government arrangements have a unique legislative base, i.e. an Act approved by Parliament.

**Table 3**  
**INAC Funding Arrangements by Type (1995/96 versus 2002/03)<sup>2</sup>**

Arrangement	1995/96				2002/03			
	N	%	\$	%	N	%	\$	%
Contribution (CA)	671	37.6	\$477,215,639	15	414	24.5	\$468,257,159	11.1
CFA	927	51.9	\$1,765,287,587	55	1083	64.2	\$2,482,901,424	58.8
CFNFA	181	10.1	\$959,465,186	30	182	10.8	\$1,236,819,849	29.3
SGFTA	8	0.4	\$15,030,560	0.5	9	0.5	\$34,643,757	0.8
<b>TOTAL</b>	<b>1787</b>	<b>100</b>	<b>\$3,216,998,972</b>	<b>100</b>	<b>1688</b>	<b>100</b>	<b>\$4,222,622,189</b>	<b>100</b>

<sup>2</sup>INAC, Transfer Payments Management System (Ottawa: INAC, 1995 and 2002).

Table 3 above provides a snapshot at two points in time of the number and amounts of money transferred through INAC funding arrangements. The table indicates a decrease in the number of contribution agreements between 1995 and 2002, while in the same period, the number of CFAs in force increased from 927 to 1,083, accounting for almost 60 percent of all agreements. Although funding appears to have increased under CFNFA over the period, it remained virtually unchanged as a percentage of total funding.

Readers should exercise caution in attempting to compare data found in the table or drawing inferences, because there are other factors at play which are not reflected. One of the interesting point from that table is that the number of CFNFA agreements remained virtually unchanged over a seven-year period.

## **Contribution**

For purposes of the evaluation, respondents were asked to use the contribution authority as a reference point. A contribution is a conditional transfer payment in accordance with specific program terms and conditions and based on reimbursement of eligible expenditures. Unexpended balances or unallowable expenditures are debts due the Crown. Contribution funding remains one of the core elements of most programs funded by INAC.

Contributions involve strict terms and conditions stipulating matters such as the service to be provided, to whom, and the eligible expenses for reimbursement. In this sense, it is a bottom-up form of funding whereby expenses incurred by the recipient are submitted for reimbursement up to a specified maximum in the agreement.<sup>3</sup> Any unexpended balance or unallowable expenditure is an amount due the Crown. Likewise, any outstanding expenditures supported by claims eligible for reimbursement according to the terms and conditions are identified as amounts receivable by the recipient. Programs and services must be administered in accordance with INAC's relevant program policies and procedural manual. The manual specifies eligibility requirements and benefit schedules to which recipients must adhere in order to be eligible for reimbursement. The reimbursement process involves financial and operational reporting (e.g., planning report, expected budget) throughout the year, and a final audit at year-end.

## **Flexible Transfer Payment (FTP)**

The FTP funding authority was approved by Treasury Board on July 26, 1989 to be used where annual funding amounts are established on a formula basis or where the total annual expenditure is based on a fixed cost approach. FTP funding is distributed on a program basis and there is strong incentive for recipients to more effectively manage programs and services within the fixed budget, since it is possible under this mechanism to allow recipients to keep any unexpended

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<sup>3</sup>A reimbursement of actuals regime requires significant staff resources because it emphasizes the recording of how each dollar is spent.

FTP balances (i.e. surpluses) provided that minimum program requirements have been met. At the same time, deficits become the responsibility of the recipient. Under an FTP, reporting requirements assess program performance rather than how each dollar was spent. The basic principles of the FTP were that:

- ▶ appropriate contracts are in place to improve the transfer payment management process;
- ▶ defined results or program outputs are obtained from funding recipients for a predetermined fixed amount of expenditures; and
- ▶ specific program criteria identifying the specific program objective, description and eligibility criteria for each component will be on-going.

The focus of the FTP is on program performance, thereby freeing up local human resources to monitor the effectiveness of programs and services rather than recording how each dollar is used as under the contributions regime. FTP performance information is collected through program-specific reports submitted during the year and at year-end. An audit is also required at year-end.

## **Alternative Funding Arrangement (AFA)**

On November 7, 1985 Cabinet authorized the implementation of a new funding mechanism called Alternative Funding Arrangements (AFA) and on June 26, 1986 Treasury Board provided INAC authority to implement the AFA.<sup>4</sup> The objectives of the AFA were:

- ▶ to enable First Nations and Tribal Councils to redesign/establish programs to meet community priorities;
- ▶ to enable First Nations and Tribal Councils to apply funds in accordance with community needs;
- ▶ to foster accountability of First Nations and Tribal Councils to their local community: and
- ▶ to foster the accountability of First Nations and Tribal Councils to the Minister without compromising ministerial responsibility to Parliament.

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<sup>4</sup>Since 1994, CFNFA has been understood to mean all arrangements that use the AFA funding authority.

## Section 4 - Evaluation Findings

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### Issue 1: Flexibility to Design and Deliver Programs

*To what extent has AFA resulted in recipients being able to design and deliver effective programs in accordance with their own needs and priorities? (The evaluation also explored the extent to which the FTP has helped recipients to deliver more effective programs).*

#### **Flexibility under the AFA**

*The flexibility of the authorities is viewed differently among departmental officials and generally considered beneficial by participating First Nations.*

The purpose of the authorities is to provide the department with different tools to fund programs of a short, medium and long-term nature. The issue is whether the funding authorities maintain a balance between flexibility and control. The traditional use of the contributions authority was heavy on control and provided little room for recipients to address their own priorities. The AFA authority was intended to allow greater flexibility for First Nations, because there would be fewer departmental controls.

A minority of regional INAC officials questioned the ability of the AFA to improve the flexibility of recipients to plan and budget their program activities. They viewed the AFA authority as having been implemented to support devolution.

At the same time, INAC officials in several regions saw the AFA as an incentive for well-managed communities to govern their own affairs. That is, well-managed communities could apply to use the CFNFA and reduce the department's involvement in their affairs. The eligibility assessment process was used to ensure bands were operating according to a well-defined management regime. First Nation officials said the flexibility afforded them greater ability to budget, plan and transfer funds to programs in need of additional cash.

Those INAC officials who saw little flexibility for AFA recipients pointed to what they perceived as a growing trend in the department to administer the CFNFA in much the same way as the CFA is administered. They criticized a proliferation of reports and greater departmental control over the administration of the agreements. Such officials attributed this to what they believed were weaknesses in the terms and conditions, which the department is now tightening up.

## **Funding Levels and Adequacy of the AFA Formula**

*Funding limitations were seen by recipients as limiting their flexibility.*

First Nation respondents who used AFAs saw the flexibility as a benefit, but they reported that they often faced budget shortfalls, which diminished the utility of having flexibility to retain surpluses.

Many CFNFA bands wanted to renegotiate their agreements, especially aspects related to the highest pressure points on their budgets. Their view was that adjustments should be tied to local economic conditions rather than the current approach of placing a cap on local budgets in line with what regional offices receive.

The exception was in communities where economic circumstances had improved significantly over the five-year funding period, and where social dependency rates had fallen dramatically. In such cases, committed funds had been freed up for use in other areas, giving added flexibility.

Provincial comparability was viewed as potentially straining regional budgets. Alberta and Saskatchewan interviewees reported that the provinces had upgraded their income assistance and education programs. For example, recent initiatives in Alberta had resulted in changes to the income assistance program. The AFA block funding formula could not accommodate comparable increases during the term of CFNFAs. Thus First Nations were expected to cover the increased costs from their own budgets.

Because the department does not use a national standard indexing formula with respect to the AFA, the funding allocation was perceived by regions to be inconsistently applied, which hindered a comparison of regional experiences.

In the area of education, departmental funding formulae did not recognize many responsibilities associated with education services delivery, such as curriculum development, standardizing teaching approaches, providing itinerant teachers (i.e., teachers who are utilized in grades 7-8 schools, working with regular teachers to support them), planning, education policy development, budgeting, and implementing new departmental funding procedures and formulae.

A major issue raised by education program officials was the tuition block rate charged by provincial schools for First Nation students. In most regions, the tuition rate was increasing faster than INAC's reimbursement rate for CFA bands. For CFNFA bands, provincial rates were often higher than the budgeted rate provided by INAC, and again, shortfalls had to be covered by bands. In some cases, the shortfalls reached \$1,000 per student.

## **Recipient Flexibility under the FTP**

*Regional INAC officials were divided on whether the FTP authority gave recipients flexibility to plan, budget, and deliver more effective programs and services. Most First Nation respondents using the FTP authority reported an improved ability to budget.*

INAC and First Nation respondents recognized that under FTP First Nations could have more control over budgeting, but they still had to deliver programs according to the terms and conditions of their agreements.

The FTP was meant to give greater certainty in the budgeting process. Over a shorter horizon (i.e., one year) and with a specific target for the funding, it is not likely that the architects of FTP envisioned significant surpluses. Essentially, First Nations would deliver whatever they were contracted to do and meet the basic program terms and conditions.

The FTP reporting requirements remained the same as under the contributions authority. Those respondents who believed the FTP gave recipients adequate flexibility to budget and plan their program activities said that recipients were much better able to determine their own program priorities within the envelope of FTP funded programs. The evaluation found that many CFA recipients were improving their ability to budget. Overall, the FTP was generally seen as a sound authority.

## **General Views on Funding Levels to Recipients**

*INAC and First Nation officials were divided on the adequacy of overall funding levels.*

Both INAC and First Nation officials reported that base funding levels for many programs had not been amended or reviewed for several years. As a result, many recipients had to cover shortfalls with funds from other programs or make up shortfalls from their own source revenues (OSRs). The problem of under-funding was somewhat obscured by increasing OSRs from gaming and land claim and other settlements. Recipients with access to OSRs had often topped up program budgets with their OSR funding. However, not all recipients had the luxury of such funds; they continued to rely on federal sources for almost 100 percent of their annual funding .

## **Planning and Budgeting Flexibility**

*The AFA authority was being affected by the increasing use of proposal-driven programs.*

Almost all INAC officials agreed that the proliferation of proposal-driven programs, which are targeted to a specific purpose, is diminishing the flexibility of the AFA authority i.e. the possibility to move money around for other needs and priorities. It was suggested that many of these programs could easily be administered within core funding and that such a move would add a great deal toward the cohesion of the funding agreements.

## **Planning, Budgeting and Program Design**

INAC officials were divided on the flexibility of the FTP authority and its impact on communities. Some said the FTP is operating like a contribution with all of the reporting requirements and extensive terms and conditions. Others, however, said there are fewer conditions on FTP-funded programs which makes administration of these funds much more straightforward for recipients.

Most INAC and First Nation officials agreed that there is still room for some recipients to improve their management capacity, especially in terms of understanding the terms and conditions of their funding agreements.

Most regional INAC officials said the AFA authority provides sufficient flexibility to manage core funds, given its multi-year planning cycle and adjustment factor. However, they also said that budget flexibility can be lost when First Nations assume significant debt, possibly as a result of risky projects. In such cases, debt servicing costs could jeopardize the First Nation's ability to meet program terms and conditions, in which case INAC intervenes.

While the CFNFA can be helpful for planning and budgeting, the departmental budgeting cycle tends to limit recipients' ability to exercise it. Recipients do not anticipate surpluses until the year-end draws near, after basic program obligations have been met. They are reluctant to redesign or enhance AFA programs and services because surpluses may be inadequate to cover or sustain them. This limits the program design flexibility of the AFA authority.

INAC officials were divided about whether the FTP and the AFA authorities are sufficiently flexible to permit the design and delivery of suitable programs and services. Some stated that the need to adhere to INAC or provincial standards in an area prescribes the type of program they can deliver and that inadequate funding may limit the ability to develop new programs.

## **Flexibility and CFNFA Renewal**

*The take-up rate for CFNFAs was very low.*

The principal advantage to First Nation's of using the AFA authority was that it facilitated more future-oriented budgeting as long as recipients did not anticipate a drastic increase in volume for services that have the potential for core/block funded program costs to exceed fixed budget amounts. The take-up rate for new CFNFAs was very low, due in large part to rising prices and anticipated volume. In the current fiscal environment, where the department is already stretching its limited budget, a low annual adjustment factor, and increasing costs for operation of education and income assistance programs, there is little incentive for recipients to consider entering such an agreement.

For these reasons, many regional INAC officials said that as good as the CFNFA is, and with the inherent flexibility of the AFA authority to manage programs in the core/block, a fixed budget with diminishing surpluses, there was significantly reduced interest in this agreement. All



regions reported that CFNFA recipients were continuing to renew their five-year agreements, feeling it is better to maintain the management flexibility offered by CFNFA than to return to the constraints of CFA. First Nation interviewees corroborated this, and all stated their intention to seek renewal of CFNFA agreements. However, some said it might not be feasible to maintain a CFNFA where there is significant debt.

## **Issue 2: Accountability of Recipients**

*To what extent has AFA/FTP enhanced the accountability of participating groups or First Nations to their local communities?*

### **Terms and Conditions and Local Governance**

*The terms and conditions of the agreements were having an impact on local governance.*

Regional INAC officials believed that the terms and conditions of the funding agreements were having an impact on First Nations governance. For example, since its inception, the CFNFA had improved the ways in which some First Nations budgeted and planned their activities and generally communicated with their members. However, they noted a need for balance between facilitating good governance and imposing controls that could limit flexibility within CFNFAs.

With respect to the FTP authority, some INAC officials felt they were taking more accountability because of increased program reporting. Some recipients considered this higher degree of control a constraint on their ability to use the agreements creatively, by imposing an undue administrative burden. For smaller First Nations, this diversion of scarce management resources could have a negative impact on community governance.

Both INAC and First Nation officials noted that recipients would benefit from greater lead time for review of new year funding agreements and discussions with community members. This would improve transparency and enhance accountability to the community. Some officials believed that this would contribute to better governance in the longer term.

Several First Nations expressed frustration because INAC regional offices often provide renewal documents too close to the signing deadline to permit meaningful discussions in the community.

### **Budgeting and Reporting**

*Most First Nations recipients have instituted formalized budgeting regimes.*

Most regional INAC officials believed that the FTP had encouraged recipients to better budget their resources throughout the year. In addition, many CFA First Nations had instituted a formal budget process with their membership whereby members are invited to make comments at band

council meetings when the budget is introduced. In this sense, many communities had been operating with greater transparency. Moreover, most CFNFA First Nations used highly structured consultation mechanisms to determine community priorities and develop their annual budgets.

*There was a general view that reporting emphasizes departmental control.*

Reporting requirements under INAC funding agreements were viewed as onerous. Since the instruments (funding agreements) were introduced, they had not decreased the reporting burden as originally expected. Reporting generally addresses accountability to the department but does little to support accountability to community members. A better understanding of the purpose and use of the information collected might encourage funding recipients to institute more effective internal accountability regimes. They would see the benefits of using the information to better inform members and measure performance.

First Nations respondents said that the CFNFA was definitely having an impact on the quality of community budgeting and reporting activities. Recipients must be able to use their resources as effectively as possible over the five-year time frame or risk unwanted debt. Most First Nations using the AFA authority showed improvement in their administrative operations.

*The application of the fiscal plan was open to interpretation.*

The evaluation found confusion among CFNFA First Nations and Tribal Councils and some INAC regional officials over the concept of a fiscal plan as defined by the CFNFA national model. While First Nations and Tribal Councils under the CFNFA submitted annual budgets to INAC, regional INAC officials did not always identify them as "fiscal plans". CFNFA recipients kept their books current and provided updates to the department when requested. Most respondents were not clear that a "fiscal plan" is essentially a budget with projections for the duration of the CFNFA. As such, while most First Nations, Tribal Councils and regional INAC officials responded that they did not prepare or demand fiscal plans, this requirement was essentially met via the normal budget process.

*Program reporting and accountability*

In the education area, school principals and vice-principals were usually approachable and often informed parents and band members about evaluations of their programs, and how they met provincial and cultural standards. Most communities used school boards or school committees to make budget and planning decisions. However, they are generally the body that addresses community concerns on matters of finance and policy. Several mechanisms were used to ensure accountability for the education program, including regular reports to chiefs and councils, education information in band newsletters, and general education policies that included processes for ensuring that parents and community members have input in school activities. In addition, such policies were spelled out in band newsletters, especially policies regarding post-secondary programs.

In the area of post-secondary education, some Tribal Councils expressed an unwillingness to administer this program in future, arguing that the reporting requirements were excessive, funding was inadequate and there were few resources for administration. INAC regional offices said they were becoming concerned that more recipients would decide to return responsibility for management of some programs to the department unless resourcing and reporting concerns are addressed.

In the income assistance area, accountability was more at the individual level. INAC policy requires that regional guidelines specify the types and rates of assistance, and the conditions and criteria for eligibility according to provincial standards. Where members had a concern, a formal appeal process was available. The Chief and Council were briefed where necessary.

#### *Provincial comparability*

Provincial comparability for income assistance can become an issue in CFNFAs when the provincial rates increase. For example, the Province of Alberta did a major review of its income support program, which created a need for INAC to review and increase rates for CFNFA First Nations. Although INAC provided additional funding as an exceptional circumstance, First Nations were generally encouraged to top up income assistance programs from their other sources of funds. Services from provincial and INAC income assistance programs were not seen as equivalent. There was a perception that the INAC budget only covers reactive programs and not preventative initiatives such as psychological and other support services, or employment training.

### **Financial Management Practices**

*Financial management practices were showing signs of improvement.*

The terms and conditions of the funding agreements required basic controls in the management of First Nation funds. Based on the principles of transparency, disclosure and redress, most recipients had built some basic tools into their operations to ensure the principles were respected, including leadership and conflict of interest codes, financial management policies, and general accounting practices. They attributed the inclusion of these basic tools to funding agreement requirements.

### **Issue 3: Ministerial Accountability**

*To what extent have the Minister's requirements for accountability been met?*

Respondents raised several issues with respect to ministerial responsibility and departmental accountability including the reporting regime, terms and conditions of agreements and a growing reliance on proposal-driven programs.

## **Reporting**

*There was general view that reporting requirements are burdensome.*

Of all issues related to ministerial responsibility, invariably, regional and headquarters officials pointed to a proliferation of reporting requirements as the major challenge to be resolved with respect to all authorities, not just FTP and AFA. They were very critical of the reporting regime imposed on recipients and what they saw as reports that provided no apparent links to results. In particular, officials pointed to several small budget programs, including aspects of the education program, that require reports the department does not always use. Several senior regional officials cited the recent Auditor General's report on First Nations reporting as validating their view that most of the information demanded by the department had little bearing on performance or results.

When the AFA authority was created, there was a notable decrease in reporting required by the department. Initially, AFA recipients were required to complete an Annual Statistical and Management Report, which was perceived as useful and relevant by both the department and recipients. This reduced reporting and facilitated a holistic view of community programming and results. The requirements under this report were expanded in the 1990s to include essentially the same amount and type of reporting as other funding agreements. As a result, CFNFA First Nations submit the same number of reports as CFA First Nations, leading many to question the advantage of CFNFAs. Most CFNFA First Nation participants criticized what they viewed as excessive and often unnecessary reporting requirements in a funding authority that was meant to give them more autonomy.

*Regional officials would like to see the Transfer Payment Management System (TPMS) expanded to support performance monitoring.*

Regional officials noted that TPMS has a specific application in the management of funding agreements. Some were concerned that discretion has been removed from FSOs because TPMS halts funding when reports are outstanding and a community is regarded as being in default of its agreement. FSOs cited recent complaints from Tribal Councils that if one member First Nation fails to submit a report, funding to the Tribal Council is withheld, which can have an impact on all First Nation members.

Many regional officials said they would like TPMS expanded to encompass information that would permit the monitoring of results. The types of reports the regions can generate were limited and provided little information that can be used to assess program performance.

## **Agreement Terms and Conditions**

*Officials would be better positioned to determine whether program terms and conditions of the funding agreement had been met if reporting focussed on achievement of minimum program requirements.*

Regional officials in many cases had had difficulty determining the extent to which the terms and conditions of agreements were being met. There were few measures in place to determine whether CFA or CFNFA First Nations are adhering to their program obligations. Several regional officials called for a systematic review of the reporting regime and the information the department uses to determine whether agreement terms and conditions have been met.

Most regional and program officials said they would like to see a reporting system that provides results information. There was frustration that the Auditor General and others found reporting requirements excessive, even though such information fell short of determining whether recipients were adhering to the terms and conditions of their agreements or achieving intended results.

Some program officials viewed the government's current emphasis on financial control as an impediment to the development of performance measures. For example, regional education officials acknowledged that information collected annually provided them with basic statistics, (e.g., number of students enrolled), but did not tell them whether or not the band-operated schools program was yielding desired results.

### **Proposal-Driven Programs**

*Departmental accountability is being advanced through proposal-driven programs.*

Regional officials noted efforts to strengthen recipient accountability through proposal-driven and time-limited programs managed as contributions. This increase in proposal-driven programs was seen as compromising the integrity of the AFA authority, as they were a move away from the flexibility afforded by the AFA.

Almost all senior INAC officials could see no rationale for proposal-driven programs other than for special one-time initiatives. In their view, most of these programs could be funded reasonably, at a minimum, as FTPs. Although there are valid reasons for proposal-driven programs (e.g., capital projects), officials saw little rationale for using them to bolster training funds, or where like funding is already provided.

## **Issue 4: Departmental Control**

*To what extent has AFA/FTP resulted in a decline in departmental control of recipients? Are there further controls that should be removed?*

Several issues were raised relating to departmental control that were seen as having a major influence on how the authorities are administered by recipients.

Issues included increased reliance on the contributions authority, use and application of generic agreements, lack of transparency in the departmental budgeting process, and the departmental policy and planning structure and functions.

## **Balancing Departmental Control**

*Respondents believed that departmental control is out of balance with flexibility.*

Regional INAC officials said the level of control the department should exercise was a key question. In particular, they wanted to know the ideal degree of control over the use of funds that was necessary. Regional INAC officials had mixed views on the level of departmental control that ought to be exercised.

About half of program officials and FSOs felt they exercised an excessive amount of control, evidenced by the increase in reporting requirements and in targeted funding, which they found contradicted the AFA intent. In most cases, recipients regarded FSOs as people who enforce the rules rather than help ensure flexibility of the authorities to build local programs and services. FSOs remarked that they often had a conflict because of their dual role of assisting in community capacity development and enforcing financial policy. Other regional officials argued there was not enough control being exercised, especially in the case of FTP-funded programs and services.

Overall, most officials argued that the balance between control and flexibility was tipping in favour of controls, especially in light of increasing reporting requirements, tight program terms and conditions, and a rigid reporting system.

## **General View of the Funding Agreement**

*First Nations would like input into the crafting of funding agreements*

INAC regional officials said that First Nations viewed funding agreements as documents that ultimately determine the nature of their relationship with the department, and as such, documents that should be crafted with direct participation of First Nations and Tribal Councils. In many respects, they said the agreements are more important than the self-government process, because they impact on the day-to-day operations of programs and services within the community. Many First Nations officials regard the funding agreements as an affirmation of their treaties. Some First Nation officials saw funding agreements as government-to-government arrangements. In that vein, many deliberately chose the CFNFA form rather than a DIAND/First Nations Funding Agreement (DFNFA) form to underscore the point, even when their agreement is only with INAC.

## **The Move Toward Generic Funding Agreements**

*Generic funding agreements were perceived as increasing departmental control.*

Generic funding agreements, because of their consistency in design and application, were considered more conducive to centralized control. Many INAC officials regarded the increase in program staff at headquarters as a sign of increased centralization. Regional officials were concerned that this could lead to a disconnect with their communities as program responsibilities for policy become centralized. The one-size-fits-all approach was thought to be out of step with

the rationale of the AFA to reduce departmental control. Some regional officials believed there should be more opportunity to negotiate CFNFAs as opposed to relying on the generic funding agreements.

### **Reduction of Programs Funded under the AFA**

*There was a perception that fewer programs are being funded under the AFA today than in 1986.*

Many regional INAC officials were concerned over what they believed to be a growing trend toward managing from the centre. They said that the AFA was being weakened and diluted as more programs are removed from the list and moved to contributions. They pointed to recent initiatives to move high-cost special education from AFA to contributions. Some officials perceive this to indicate that headquarters and central agencies are less supportive of the AFA. This suggested to some that the stability of the AFA core/block may be in jeopardy at a time when more First Nations are calling for greater use of the CFNFA with some revisions to adjustment factors, funding, and terms and conditions.

### **The Departmental Budgeting Cycle and the AFA**

*There was a perception of inconsistency in the timing of disbursement under CFNFAs.*

Many First Nation and INAC regional officials regarded the department's budgeting cycle as a matter of control. In their view, many recipients rely heavily on departmental funding for their operations and a consistent flow of funds. For them, CFNFA recipients in particular should be allocated all of their funds at the beginning of the fiscal year to maximize their budget flexibility and supplement targeted programs until those funds are transferred. CFNFA recipients can incur large debt financing charges because funding is not always provided at the time of program or project commencement (e.g., capital projects).

It was suggested that other provisions could be instituted rather than the current instalment process. For example, the agreement could ensure a hold-back of a proportion of funds until the fourth quarter, or there could be provisions for those CFNFA recipients that have demonstrated poor budgeting rather than the current blanket approach.

### **Departmental Structure**

*There was some concern about the relationship between the regions and headquarters.*

Regional officials were concerned that the centralization of control could compromise their ability to monitor how programs operate on reserve. Many thought that the promise of the AFA authority was devolution and facilitation of self-government. Regions said they feel pressure to rebuild program expertise to support demands for increased control and performance monitoring. In a sense, this sent mixed messages to the regions. On one hand they observed trends to

centralized control, which was perceived as reducing regional flexibility and influence. On the other hand, they saw themselves as pressured to develop program expertise and monitor program performance. In some regions this had strained their relationship with headquarters.

Many First Nation representatives did not raise this question, although some said there are circumstances where direct dealings with headquarters would be welcome. A few Tribal Councils indicated that they had observed a trend toward greater involvement by headquarters in policy development with limited regional input.

## **Program Control**

*Departmental control over program funds was still high but accountability was limited.*

## ***Education Programming***

In the area of education funding, regional officials observed that shortfalls are particularly noticeable, especially in First Nations funded under the FTP. They said there were often operating cost shortfalls, especially for teachers' salaries and benefits, relative to provincial teachers. Band-operated schools were usually seen by teachers as a training ground before entering the provincial system. Because teachers salaries were low to begin with, band-operated schools have been unable to attract teachers with more than five years' experience. As a result, schools are continually in the position of training new teachers.

CFNFA First Nations have long complained about funding under this model, since their funding over five years is driven by the number of students enrolled in the base year. If the number increases beyond projections, the community incurs a loss. Several INAC officials noted that the current model is appropriate as student enrolment numbers are generally higher in September, and recipients usually benefit because schools rarely increase their enrolment throughout the year. Others said that First Nation school enrolment is typically transient and it was conceivable that the numbers of students could increase during the winter term. Some regions suggested a second nominal roll count each January 30<sup>th</sup>, but said that recipients had generally objected because numbers can decrease in winter. As such, regional offices had continued to rely on a single nominal roll count. This matter was of concern to AFA communities with band-operated schools, although there were different views on how it could be resolved.

Program officials noted that the funding formulae for the education program were 15 years out of date and significant work had to be invested in their rationale. The formulae have determined the funding necessary to operate the schoolhouse but have provided few links to performance of an actual education system. Several program officials argued that the department does not operate an education system nor does it know what results are being achieved.

In general, most regional officials that spoke of the education program said the department must invest in systems such that school authorities can take advantage of economies of scale and compete with provincially-operated schools that generally have greater per capita funding.



## ***Income Assistance Funding***

For First Nations funded by contributions, income assistance funding was found to be adequate although quite restrictive in its eligibility requirements. Respondents complained that the current funding agreement proliferated income assistance dependency rather than providing a positive funding source for training or other programs to improve the economic and social circumstances of communities. Almost all respondents under a CFA found the income assistance terms and conditions too prescriptive, removing First Nations flexibility to reduce dependency. Some First Nation income assistance officials noted, however, that elected officials could interfere in the process and affect the distribution of funds. They saw the INAC policy guide as the only defence against such interference. Some INAC officials believed it was possible to fund income assistance under an FTP. In addition, they regarded the one-year duration of the FTP restrictive in that the advantage for communities would be to make some gains in employment over a longer time frame and use surplus funds in other areas.

For AFA communities, most officials felt that funding levels were adequate for now but that the gap between revenues and expenditures was rapidly diminishing. Most INAC program officials commented that there are communities making substantive gains in economic development and reducing the dependency rates. This enables them to divert funds from the income assistance program for training and other initiatives as individuals move off the roster. The First Nation perspective was similar, with representatives from communities enjoying economic expansion favouring the flexibility to move income assistance surpluses to other priority areas.

A major funding issue raised was that in some reserves, more than 20 percent of the residents were non-band members. Not all jurisdictions automatically provided funding for non-band members living on-reserve, leaving individual communities to provide income assistance from band funds or own source revenues. For AFA First Nations, it was said that the authority provided some flexibility but ignored the realities.

## **Issue 5: Unintended Impacts**

*What, if any, have been the unintended impacts of AFA/FTP?*

Several unintended impacts were noted by respondents. Some related to limitations in the authorities themselves while others related to implementation. These have been organized under the headings of flexibility, accountability and control.

### **Impacts on Flexibility**

#### *Managing Debt*

Several INAC, First Nation and Tribal Council officials pointed to increased access to credit as a growing challenge. Several funding recipients have used their AFA funds as leverage for credit and have had difficulty sustaining their debt loads. A few Tribal Councils in particular said that they are having to provide debt counselling to some of their member First Nations.

### *Targeted Programs*

The proliferation of targeted programs funded mainly by contributions has increased demands on regional officials and First Nation communities and Tribal Councils to manage them. INAC and First Nation officials pointed to increasing workloads as a major problem. They insisted that the accountability being attached to limited program dollars in many cases was not commensurate with the effort required to manage them.

### *AFA Block Funding Formula Adjustors*

A key concern for many INAC and First Nation officials was the lack of appropriate adjustors for the annual adjustment of AFA block funding. First Nation officials in particular said that they were having to dip into own source revenues increasingly as there were few funding efficiencies to be gained from the AFA. Recipients were concerned that the annual adjustment for programs and services funded as AFA would not keep up with actual program cost increases, causing many to reconsider the economic advantages of signing the CFNFA. They said the consequence for not addressing an appropriate cost adjustment factor is the potential abandonment of the multi-year agreement in favour of the certainty afforded by the CFA. Several Tribal Council officials indicated that some of their member First Nations were considering returning program management to the department because they believed it was no longer economically viable for them to provide these services.

### *The exceptional circumstances clause under the CFNFA is unclear.*

There are provisions within the CFNFA to return to INAC for exceptional circumstances which were not reasonably foreseeable at the time the CFNFA was entered into and which have a significant impact on a First Nation's performance of the terms and conditions of the CFNFA. Respondents said there were few guidelines on this, so interpretation was left to the regions. Almost all regions and First Nations expressed a desire for more guidance and greater clarity. Several First Nations expressed frustration regarding situations that they considered to be exceptional but where the regional office did not provide additional funding.

In general, INAC officials said that these provisions have to be clearly spelled out to guide regional decisions. They indicated that in situations where a First Nation requests additional funding, the decision should be taken in the context of an overall review of the First Nation's AFA block funding and not in isolation. This overall review was not supported by First Nations whose main concern about "exceptional circumstances" is that nothing seems to qualify.

## **Impacts on Accountability**

### *AFA Management Assessment*

Several INAC and First Nation officials indicated that the management assessment (undertaken by FSOs to determine the extent to which a First Nation or a Tribal Council meet the specific AFA entry requirements) was a useful tool but was rarely revisited upon agreement renewal.

Some CFNFA First Nation communities said that they would prefer that the department maintain these tools as they had sparked several initiatives to improve reporting and transparency.

### *The Self-Government Agenda*

INAC officials in BC region said that an increasing focus on accountability had reduced incentives to pursue self-government as initially contemplated under the AFA. Although the AFA was intended to promote greater autonomy in First Nation's management of programs and services, AFA has had little impact in assisting First Nations in moving toward self government. Evidence of this is seen through growing debt problems and tighter departmental controls.

## **Impacts on Control**

### *Sustainability of the AFA Block Funding*

Several regional officials and many CFNFA recipients were concerned that increasing departmental control could compromise the sustainability of the AFA block funding. For many regional officials, the combination of increased reporting requirements, more centralized control of budgets and the proliferation of targeted programs had created a situation where they saw little incentive to encourage First Nations to enter CFNFAs. Their key concern was sustainability of the CFNFAs over the long term. In fact, some regional INAC officials reported difficulty maintaining commitments under existing CFNFAs. Regional INAC officials indicated that if the above issues are not addressed, there will be no advantage to maintaining CFNFAs.

### *Multi-Departmental Agreements*

A key concern for several regional INAC officials and First Nation and Tribal Council representatives was the lack of progress toward single window agreements. Many noted that although the CFNFA was designed for such a purpose, the push toward increased control from central agencies and headquarters had slowed progress. Most First Nation respondents would welcome coordinated efforts and single window access to their federal government funding.

While the concept is appealing, obstacles to be overcome may lie in the areas of varying departmental mandates and accountability requirements and challenges for funding recipients who must deal at the same time with different program delivery and reporting regimes.

### *Departmental Administration*

Regions perceived a shift in funding policy that was having an observable effect on their management. Their resources were increasingly being used to monitor the funding agreements. The use of targeted and proposal-driven programs, and the increasing use of contribution funding, meant that staff were becoming overloaded. Staff turnover at the regional level was increasing, leaving an experience gap not easily filled.

In addition, headquarters efforts to rebuild programs were linked to issues of accountability and control. Many regional INAC officials and several First Nation recipients questioned a return to program management at a time when government-to-government relationships were being encouraged.

## **Issue 6: Improvements**

*To what extent could AFA/FTP be improved?*

Respondents proposed several ways to improve the functionality of the authorities or initiatives that they thought would have a positive impact on the way the authorities work. These have been organized by issues of flexibility, accountability and control.

### **Flexibility**

#### ***Funding Requirements***

*Funding requirements for AFA recipients should be reviewed systematically at renewal.*

The current roll-over process at renewal of a CFNFA should be revisited. Social and economic circumstances can change in any particular community and the renewal process should be structured so that such changes are reviewed for impact on the AFA funding levels. The evaluation found support for re-assessing the roll-over policy and a need to ensure that cost and volume adjustments are consistent with current circumstances.

#### ***Functionality of the Authorities***

*The term of the FTP should be extended.*

There is general support for the option of a multi-year agreement cycle (perhaps from three to five years) under the FTP. Such an approach would allow better planning of program activities. It would also allow INAC officials to better plan their annual funding agreement renewals. Efficiencies could be gained on the departmental side and capacity-building opportunities on the recipient side.

Many respondents considered the FTP under-utilized. They said several programs currently covered by a contribution could be funded under this authority. In addition, they proposed that the income assistance program under the CFA could be funded under the FTP.

## ***The AFA Adjustment***

*There is an overall view that the AFA adjustment formula must be addressed.*

INAC and First Nation AFA recipients said that the AFA block funding adjustment factor should be re-thought. If the question of appropriate adjustments is not addressed, the attraction of the CFNFA will continue to diminish and recipients could return to the funding certainty associated with the CFA. The majority of First Nation officials said that a return to open-ended adjustments is not the answer but believed they could not sustain their operations on the basis of an adjustment factor linked to INAC's annual program budget adjustment (e.g., 2 %). In many cases, it was thought that First Nations service population could be growing at a higher rate.

## **Departmental Accountability**

*Clarifying Accountability and the AFA Management Assessment.*

Accountability was practised and implemented differently across most regions. Regions used various means of ensuring departmental accountability that extend beyond reporting practices including assessments, quality assurance, and other methods. They said there was a need for a consistent understanding of accountability and a single set of standards for all regions, built into the funding authorities. They also expressed a need for uniformity of rules for eligibility to the CFNFA.

## **Reporting Requirements**

*Reporting requirements should be streamlined under both authorities.*

There was an overwhelming consensus that reporting requirements under the AFA and FTP must be streamlined in favour of more results-based reporting. First Nation and Tribal Council officials proposed that they only be required to submit audits and annual updates on progress, especially under the CFNFA. They said this could replace several program-specific reports without any loss of accountability.

## **Funding Agreements**

*Agreement Terms and Conditions*

Both INAC and First Nation officials noted that recipients would benefit from greater lead time to review new year funding agreements and have discussions with community members. This would improve transparency and enhance accountability in communities. Some officials believed that this was one factor that could contribute to better governance in the longer term. First Nations would welcome the opportunity for earlier involvement in the process to allow sufficient time for meaningful discussions in the community.

## Section 5 - Overall Conclusions

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There was strong support for the continued funding under the AFA and FTP authorities, which are considered the foundation of federal government operating fund transfers to First Nations.

For the most part, the authorities were found to be functioning well, but some funding formulae and application of funding authority improvements were suggested.

It was found that the AFA authority had met its objective of giving greater flexibility to First Nations and Tribal Councils to plan, design and deliver their programs.

The FTP authority was viewed as a useful mechanism, but its flexibility was found to be limited, since surpluses are rare. Under the FTP, recipients must still abide by terms and conditions similar those of traditional contributions, limiting recipients' flexibility to design new programs.

The evaluation found that the CFHFA had not achieved its potential as a single window for federal funding. It had improved the way some First Nations budget and plan their activities, but a proper balance has yet to be found between facilitating good governance and imposing controls, since controls can limit the flexibility of agreements.

It was found that there had been improvements in the administrative and financial management practices of most First Nations that had used the AFA authority. However, some First Nations felt that a higher degree of control due to program reporting requirements had created an undue administrative burden which could negatively impact community governance. In general, although most First Nations had instituted formalized and transparent budgeting practices, they believe that increased reporting had increased their accountability to the department but done little to support accountability of community members.

Regarding Ministerial accountability, both INAC and First Nations officials viewed reporting requirements as burdensome and felt that they would be better able to determine whether funding agreement provisions regarding program terms and conditions are met if reporting was focussed on achievement of minimum program requirements.

The AFA and FTP were not found to have reduced INAC's control over recipients. In fact, it was said that reporting obligations had increased significantly, in large part because of a weakness in data on program results.

## Section 6 - Recommendation

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It is recommended that INAC address the following issues arising from this evaluation:

### *Funding Formulae*

- (a) review the AFA block funding formula adjustments to develop a more consistent approach across regions; and
- (b) review the CFNFA renewal process and explore the possibility of an AFA re-basing.

### *Application of Funding Authorities*

- (a) ensure that AFA entry criteria continue to be met at the time of a CFNFA renewal;
- (b) clarify fiscal plans as defined in the CFNFA to ensure a common understanding of requirements under the AFA;
- (c) establish guidelines to deal with exceptional circumstances under the CFNFA; and
- (d) explore the option of extending the duration of the FTP to allow multi-year funding.

# **Terms of Reference**



## Terms of Reference

### Evaluation of the Alternative Funding Arrangements and Flexible Transfer Payments

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**Purpose:** To determine if the Alternative Funding Arrangements (AFA) and the Flexible Transfer Payments (FTP) have been effective in achieving their objectives and to assess their impacts.

**Background:** As a result of increased transfers to First Nations of the delivery of their programs and services, and in order to provide more appropriate responses to local community needs, Cabinet authorized the implementation of a number of new funding mechanisms. Two of them, the AFA and the FTP, were authorized in 1986 and 1989 respectively and have been implemented across the country. The short term impacts of AFA was evaluated in 1989, and its long term impacts in 1993. The FTP process was evaluated in 1992.

Alternative Funding Arrangements provide First Nations the opportunity to negotiate multi-year funding arrangements and the authority, responsibility, and flexibility to apply funds to programs and services of their choice in an effort to optimize resources to meet current demands. Flexible Transfer Payments on the other hand provide funding for specific purposes as described by statements of results. Recipients retain surpluses and are responsible for deficits. FTPs reduce the reporting required under contributions.

Under the current Treasury Board *Transfer Payment Policy*, the authority for AFA and FTP will expire in 2005. There is a need to evaluate the impacts of these funding mechanisms again in order to meet the information requirements for the renewal of the authorities.

**Issues:** At a starting point it is proposed to base the evaluation on the same issues that were assessed for the long term impacts of AFA, subject to revisions at the planning stage. The issues are:

- To what extent has AFA resulted in recipients' being able to design and deliver effective programs in accordance with their own needs and priorities?
- To what extent have AFA/FTP enhanced the accountability of participating groups or First Nations to their local communities?
- To what extent have the Minister's requirements for accountability been met?

- To what extent have AFA/FTP resulted in a decline in departmental control of recipients? Are there further controls that should be removed?
- What, if any, have been the unintended impacts of AFA/FTP?
- To what extent could AFA/FTP be improved?

**Approach:** The evaluation will start by establishing a national Advisory Committee of stakeholders that will include representatives of some other federal departments and the Treasury Board Secretariat to support and advise INAC and the consultants in carrying out the project. It will then refine the definition of the TOR in consultation with the Advisory Committee, FNs and INAC officials. This approach will ensure that partnership is pursued as close to the design stage as possible.

Although the AFAs and FTPs will be evaluated jointly, it will be necessary to refine the issues for each and develop methodologies that appropriately reflect the different nature of the funding instruments, the conditions where they operate and the specific audiences that they target. It will also be necessary to conduct a number of case studies for each instrument as well as assessments of specific programs included in the AFA authority, such as education and social. The evaluation will address the framework to support the development of an RMAF and RBAF.

The revision of the TOR, the clarification of the issues, the determination of the methodology and the selection of case studies will be all reflected in a planning report to be issued at the end of the detailed planning stage.

**Regions:** It is expected to include all regions in the evaluation. The extent of the work in each region will be determined during the detailed planning stage.

**Cost:** Total estimated cost is \$250,000 to be shared equally between DAEB and Economic Development and Special Initiatives.

**Timeframe:** The evaluation will begin in June 2002 and will be completed in June 2003.

**Approved:**

Gordon Shanks  
Assistant Deputy Minister  
Economic Development and Special Initiatives  
February 26, 2002

# **Action Plan**

## Action Plan

**Project Title:** Evaluation of the Alternative Funding Arrangements and Flexible Transfer Payments  
**Region or Sector:** Corporate Services

**Project:** 01/21  
**Page:** 1 of 2

Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p>It is recommended that INAC address the following issues arising from this evaluation:</p> <p><i>Issues related to the Funding Formulae</i></p> <p>(a) review the AFA block funding formula adjustments to develop a more consistent approach across regions; and</p> <p>(b) review the CFNFA renewal process and explore the possibility of an AFA re-basing.</p>	<p>Establish a working group consisting of representatives from regions, program sectors and First Nations and Tribal Councils to:</p> <p>(a) review the AFA block funding formula adjustments to ensure a consistent approach across all regions; and</p> <p>(b) review the CFNFA renewal process and explore the possibility of a potential AFA re-basing.</p> <p>The planned implementation date is March 2008. Three years is considered reasonable given that INAC will need to engage First Nations in the review.</p> <p>The findings of these reviews will result in the development of national direction.</p>	<p>Director, Transfer Payments Directorate</p>	<p>March 2008</p>

## Action Plan

**Project Title:** Evaluation of the Alternative Funding Arrangements and Flexible Transfer Payments  
**Region or Sector:** Corporate Services

**Project:** 01/21  
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Recommendations	Actions	Responsible Manager (Title)	Planned Implementation Date
<p><i>Issues related to the Application of Funding Authorities</i></p> <p>(a) ensure that AFA entry criteria continue to be met at the time of a CFNFA renewal;</p> <p>(b) clarify fiscal plans as defined in the CFNFA to ensure common understanding of requirements under the AFA;</p> <p>(c) establish guidelines to deal with exceptional circumstances under the CFNFA; and</p> <p>(d) explore the option of extending the duration of the FTP to allow multi-year funding.</p>	<p>(a) provide direction through development of a national policy on management of a CFNFA to ensure AFA entry criteria are met at the time of a CFNFA renewal;</p> <p>(b) provide clarification through development of a national policy on management of a CFNFA to ensure common understanding of fiscal plans;</p> <p>(c) provide direction following the review of the AFA block funding formula adjustments to ensure a consistent approach in dealing with exceptional circumstances; and</p> <p>(d) explore, in consultation with regions, program sectors and Treasury Board, the option of extending the duration of the FTP to allow multi-year funding.</p>	<p>Director, Transfer Payments Directorate</p>	<p>March 2007</p>