

New Fiscal Relationship between First Nation Governments and the Government of Canada

Why a new fiscal relationship?

- The sustainability and equitability of funding levels have a significant impact on the ability of First Nation governments to provide adequate services to their citizens.
- First Nation citizens face some of the most difficult social and economic problems in Canada and as a result First Nation governments often have a more difficult task than other governments delivering adequate services.
- A sustainable funding base is essential to create the conditions necessary for First Nations to develop economically, thereby ending the cycle of poverty and shameful conditions that currently face First Nations across Canada.

What most Canadians enjoy?

- Most Canadians rely upon the security of fundamental programs and services for their health, education and social assistance needs, which prevent and protect them from suffering the excesses of poverty.
- The federal government provides funding to provincial and territorial governments for these core services through the following transfers:

1. Canada Health Transfer (CHT)

The CHT is the largest major transfer and provides long-term and predictable funding for health care. CHT transfer payments are set in legislation to grow by 6% annually through an automatic escalator.

2. Canada Social Transfer (CST)

The CST is a federal block transfer in support of post-secondary education, social assistance and social services, early learning and childcare. CST payments are set in legislation to grow by 3% annually through an automatic escalator.

3. Territorial Formula Financing (TFF)

The TFF is the largest federal transfer to the three territorial governments and supports the funding of essential public services in the North, such as hospitals, schools, infrastructure and social services. The transfer is designed to recognize the high costs of providing public services to a large number of small and isolated communities. For example, in 2010-11 the per-capital transfers for the three territories were: NWT (\$21,285); Nunavut (\$33,281) and Yukon (\$19,232).

4. Equalization

Equalization is the transfer program that addresses the fiscal disparities among provinces, enabling less prosperous ('have-not') provinces to provide their residences with public services comparable to those in other provinces. Equalization payments have been increasing at a stable rate of at least 3.5% annually.

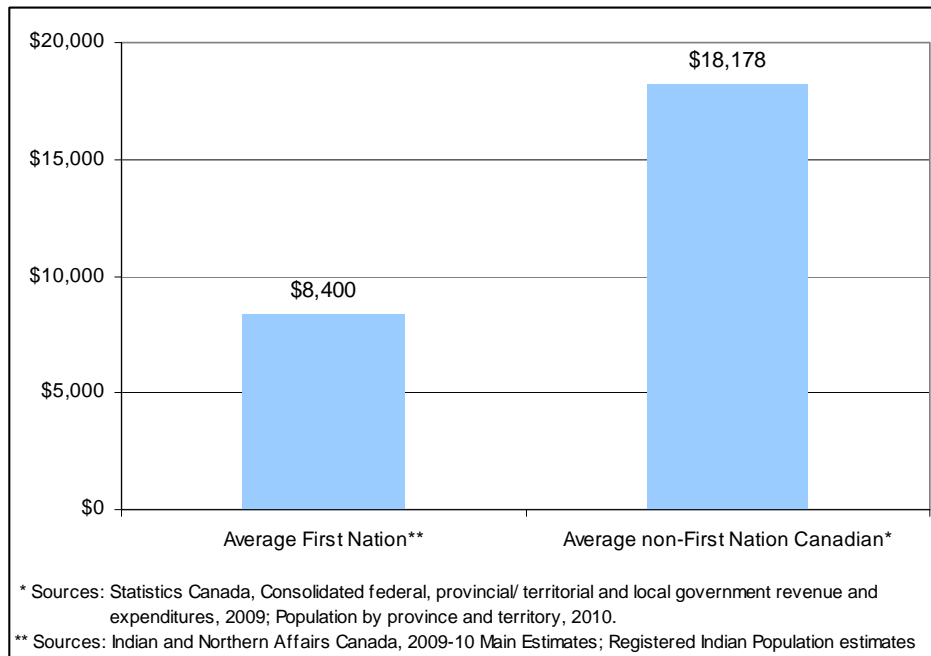
What First Nations receive?

- In comparison, First Nation governments are forced to get by on discretionary program funding that has no legal protections.
- Since 1996, Finance Canada has maintained an arbitrary 2% cap on spending increases for core services, which is one-third of the legislated 6% increase that most Canadians will enjoy through the CHT.
- In fact, when adjusted for inflation and the rapid population growth of First Nations communities since 1996, the total budget for INAC has decreased by 3.5% and funding for

core services such as education, economic and social development, capital facilities and maintenance has decreased by almost 13% since 1999-2000.¹

- AFN analysis finds that in 2009 First Nations received roughly \$8,400 per capita in programs and funding from the federal government. While this may seem significant, it is important to realize that this funding is for all services, including services that other Canadians receive from both provincial (education services) and municipal (infrastructure).
- In comparison, all three levels of government spent an average of \$18,178 on each Canadian citizen—more than twice as much as was spent on a First Nations citizen.²

Figure 1: Total per-capita funding provided from all levels of government, 2009



What would a new fiscal relationship look like?

- The AFN is continuing its commitment to confirm a process to develop a new fiscal relationship between the Government of Canada and First Nations Governments.
- A nation-to-nation agreement that will eliminate the 2% cap and create fundamentally new and stable fiscal transfer arrangements based on predictable escalators such as demographics, inflation and factors of need.
- This new relationship will ensure First Nations governments receive the funding they need to look after their citizens, wherever they reside, and affirm First Nations governments as leaders in accountability and successful administration.
- There currently exist some models which provide a good standing for which to start. For example, the vision of a new Fiscal Relationship put forward by the Royal Commission on Aboriginal Peoples (RCAP) begins by defining First Nations governments as nation-based rather than community-based. To pay for the many services First Nations governments provide, RCAP proposes the development of a tax system transfer approach modelled after Canada's Equalization program is suggested. This would specify the relationship between tax revenues and transfer entitlements for all First Nations. However, given that First Nations are often very remote and impoverished, RCAP proposes introducing the element of 'need' in the transfer formula, similar to what is done with the financing of territories.

¹Financial data are from INAC 2009 Departmental Performance Reports and TBS Main Estimates. Population data are from INAC Registered Indian data, both on and off-reserve.

² Figure is derived from Statistics Canada Table 385-000112 "Consolidated federal, provincial, territorial and local government revenue and expenditures, for fiscal year ending March 31, annual (Dollars)" <http://www40.statcan.ca/l01/cst01/govt01b.htm>