



Discussion Paper

**The Cost of Doing Business in Nunavut:
The Need for New Approaches to
Determining National Funding Allocation
Formulas in INAC Economic Development
Programs**

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Context

Inuit organizations in Nunavut have only had access to the economic development programs of Indian and Inuit Affairs since the inception of the CAED Strategy in 1990. Prior to this, economic development programs for Nunavut Inuit were delivered either directly by the department or through administrative arrangements with the territorial government (GNWT at the time).

As a result Inuit organizations welcomed the opportunity CAEDS provided to establish their own institutional capacity to promote and advance community economic development within their regions. With the support provided by INAC, Community Economic Development Organizations were established to deliver a range of programs and services.

These organizations were established at a regional level, with each Inuit CEDO (Kakivak Association, Kivalliq Partners in Development & the Kitikmeot Economic Development Commission) responsible for providing service to widely dispersed, air-access only communities in each of their respective regions (Qikiqtani, Kivalliq and Kitikmeot regions).

In 1996, the Nunavut CEDO coordinated a One-Window Model Working Group which included the CAEDS federal partners, Nunavut Tunngavik Inc. (NTI), the Regional Inuit Organizations and the Regional Inuit Development Corporations. This process resulted in Aboriginal Regional Human Resource Development Agreements (ARHDAs) being signed between the Inuit CEDOs and HRDC. Over time, the plan developed by the Working Group also led to an Alternate Service Delivery (ASD) arrangement between the Nunavut CEDO and Aboriginal Business Canada.

In the sixteen years since CAEDS allowed for the establishment of the Inuit CEDOs in Nunavut, they have grown to be regional delivery agencies responsible for a comprehensive range of programs and services in the area of business development, training and employment, childcare and programs for youth and Inuit with Disabilities. In the various evaluations undertaken by federal government departments they have consistently been identified as some of the more effective CEDOs in the country.

This progress has been made despite the fact that until 2006 the funding the Inuit CEDOs in Nunavut received from INAC under the CEDP was approximately 50% (on a per capita basis) the level received by the First Nations CEDOs in southern Canada. The Inuit CEDOs were pleased that by working in partnership with INAC at both the regional and national levels, this long-standing inequity was finally resolved. However, funding levels even after the inequity adjustment still are only approximately equivalent to the mid-range (on a per capita basis) of that received by CEDOs in other parts of

Canada. There is no adjustment for the much higher costs resulting from the challenging environment faced by the CEDO organizations in Nunavut.

In 2000, the Nunavut CEDO commissioned an independent assessment of the CEDO development process in Nunavut. This study was carried out by Mike Lewis and Dr. Sandy Lockhart from the Centre for Community Enterprise, using a case study approach.

The study noted the considerable progress that had been made in the development of the Inuit CEDOs since their inception in 1990 and strongly endorsed the regional approach to program delivery which was key to providing the 'critical mass' needed to effectively support programs and services. It did, however, identify two key areas critical to the future development of the Inuit CEDOs. These critical areas were:

- Stronger Linkages to Communities

The Inuit CEDOs needed to develop stronger linkages between the communities by focusing more on community empowerment/animation initiatives and by more effectively coordinating local planning priorities with program delivery.

- Improved Coordination with Government of Nunavut

The study noted that the Inuit CEDOs had become significant contributors to economic development and had also played a major role in helping to shape federal programming in Nunavut. It also noted that there was very little coordination between GN programs and those delivered by the Inuit CEDOs. The report strongly recommended that steps be taken to remedy this situation. It called for a clear understanding of respective roles and responsibilities, as well as a plan for moving forward in a coordinated fashion.

Recent Developments

While the CEDOs have taken steps in their operational planning to begin to address the need for stronger linkages with the communities, there has been little progress in establishing coordinated approaches to program delivery with the GN.

The new generation of INAC programs with its renewed focus on broad CED objectives and the establishment of the Nunavut Regional Program Management Advisory Committee (NRPMAC) have provided a forum for these priorities.

The Deputy Minister from GN's Department and Economic Development and Transportation attended the December 2006, Nunavut CEDO and NRPMAC meeting. Discussions focused on partnership building and issues of mutual concern, such as local capacity needs.

As a result of these discussions the NRPMAC has formally asked the Deputy Ministers from ED&T and the Department of Education to become full members of the NRPMAC.

The Nunavut CEDO also invited CEDO representatives from the other Inuit land claims regions to discuss issues of common interest related to CED needs and program design and delivery.

Next Steps

Community economic development in Nunavut presents a number of unique challenges. Geography, the Arctic environment and the large number (27) of small, isolated communities throughout the territory all directly influence the approach the Inuit CEDOs must take to supporting the community development process. The development opportunities for the smaller communities, which have not benefited from the decentralization of Government of Nunavut services, are limited. The importance of the land-based traditional harvesting economy is also much more important than in most other regions of the country.

It is important, therefore, to be clear and realistic about what the objectives of community economic development are for these communities. Program objectives which focus exclusively on a business development approach will not bring about the desired results. To be successful strategies must also provide support to initiatives which generate broad economic benefit to the community.

Nunavut and the other Inuit regions are also unique when compared to other Aboriginal groups in that institutional arrangements, authorities and responsibilities in their region are shared between a territorial public government including municipal governments at the local level and the organizations established under the authority of the Nunavut Land Claims Agreement (NLCA). These arrangements are quite distinct from those found among First Nations communities. Federal program terminology, approaches and objectives, developed primarily to address the First Nations context does not apply in Nunavut. This of course was the motivation behind the successful development of the Nunavut Interpretation of CECDP guidelines by the NRPMAC and INAC Headquarters.

The Nunavut CEDO and the other members of the NRPMAC are hopeful that their December 2006 meeting has provided a foundation for meaningful progress in these areas. The Nunavut CEDO objectives for this meeting included:

- Initiating discussions which will lead to an agreement between the Inuit CEDOs and the GN on program coordination which we feel will lead to more effective development support to local communities.

- Agreement to identify a number of pilot projects (one per region) which can be used to develop and refine coordination strategies, and where:
 - The proposed activity is supported by the community and addresses a need identified by the community
 - The community is ready and willing to become engaged in the project as an equal partner with the GN and the Inuit CEDOs.
 - An implementation plan is developed by the three parties (Inuit CEDOs, GN, Communities) which outlines respective roles, responsibilities and strategies for achieving project objectives

The discussions which took place during the meeting clearly illustrated that the Inuit CEDOs, INAC and the Government of Nunavut share many of the same concerns and the same challenges in achieving their goals. In order to move forward and build upon these initial discussions, the NRPMAC decided to extend invitations to both the Deputy Minister of ED&T and the Department of Education to become full members of the NRPMAC.

It is hoped that these invitations will be accepted and that their membership on the committee will provide a basis for planning more effective strategies for coordinating the full range of community economic development programs and resources available in Nunavut.

These resources can then be more efficiently and effectively used to assist communities throughout Nunavut to improve their social, cultural and economic well-being. The challenges in this area greatly exceed the ability of any individual government or organization to address independently. Effective coordination of the full range of resources by all government departments and Inuit organizations is required.

The most critical success factor and the one that has undermined many good initiatives in the past is building the capacity at the community level to assume increased ownership of their development process. Communities must be ready and willing to take charge of their own development, set their own goals and commit to making their development process work. Some communities have made important progress in this area, others have been less successful. In all cases, however, for the development process to be truly successful there is a need to increase local capacity in key areas. A common priority which was the focus of considerable discussion at the meeting was the need to increase the capacity of community Economic Development Officers (EDOs). The establishment of effective Community Development Committees is also critical. It is the responsibility of the GN, NTI, the Inuit CEDOs and others to develop innovative approaches to supporting this capacity development process. This is best achieved by promoting local ownership of the development process and by providing support to community plans and development activities identified as priorities by local communities.

This means that policies and programs must accurately reflect community level needs and aspirations. As discussed previously, an approach which is primarily a business development approach will not ultimately be successful, particularly in those communities with limited economic opportunities. While sound business development opportunities should always receive assistance, a more realistic approach will be to also focus on broader CED objectives, initiatives which address community-wellness and by also making investments in initiatives that generate the greatest socio-economic benefits to the community.

The Nunavut CEDO and its members feel the time is right to make progress on meeting these priority needs. They also feel that strengthening existing partnerships and increasing local involvement are critical to success. The NRPMAC process has provided a useful forum through which to move these agenda items forward in a coordinated fashion.

At the same time, the Inuit CEDOs are aware of the scope of work involved and the realities of operating in a unique and challenging development environment. The ability to successfully move Inuit CEDO operations up to the next level has direct and immediate implications on organizational resources. Throughout their history the Inuit CEDOs have demonstrated their ability to find innovative and practical ways to structure their operations and meet their objectives, despite the inequitable level of funding they received. However, if they are to make significant progress in meeting this next phase of challenges, it is essential to undertake a realistic assessment of the actual operating costs associated with supporting their operations and to make the appropriate adjustments in the level of funding they receive.

Purpose of this Paper

This paper has been prepared to begin the process of quantifying the increased costs associated with doing business in Nunavut. As discussed, Inuit CEDOs in Nunavut currently receive a CEDP allocation that is the average, on a per capita basis, of the allocations provided to other CEDOs on a national basis. This is after fifteen years of being funded at a level approximately 50% below the national average per capita level.

The Nunavut CEDO and its members feel strongly that a realistic approach has to be taken to recognizing the profound affect the much higher costs of living and doing business have in Nunavut. It is particularly important to recognize the limitations inadequate funding levels which are not adjusted for these higher costs impose on the Inuit CEDOs and their capacity to deliver programs and services to the Inuit beneficiaries living in their region. As discussed, this will become particularly critical in the future as they work to increase the level of support they provide to communities in the areas of capacity development and community planning.

This discussion paper was also prepared in response to an invitation to provide Indian and Inuit Affairs Branch (I&IA), INAC with ideas on how to re-design the CEDP national allocation formula. This invitation was made by Mr. Marc Brooks, Director General, Economic Programs, during his presentation at the first NRPMAC meeting. Mr. Brooks emphasized that any proposals put forward should meet the department's requirement that the allocation formula be "objective, quantifiable and transparent".

The paper provides an analysis of the higher costs of doing business in two areas critical to organizational capacity; Human Resources and Operational Expenses. The methodology adopted to explore these areas focuses on a comparison of the existing policies of the Treasury Board of Canada, the Government of Nunavut and Nunavut Tunngavik Inc. Every effort has been made to ensure that the examples used throughout this paper are reliable and accurate. As a result some possible points of comparison have been avoided because it is difficult to ensure.

The CEDP National Allocation Formula

The Community Economic Development Program provides funding to 418 CEDOs across Canada. These CEDOs range in size from stand-alone program and service delivery organizations (as is the case in the Inuit regions) to agreements which fund one full or part-time EDO position that operates as part of a Band Council administration. Only seven (7) of these agreements are with Inuit organizations (IRC, KEDC, KPID,

Kakivak Association, NCEDO, Makivik/KRG and LIA). All other arrangements are with First Nations CEDOs. The vast majority of First Nations CEDOs operate on-reserve.

Although a number of CEDO agreements are with Tribal Councils, which provide service to a number of communities, the majority of the First Nations CEDOs provide service to a single community.

The other major difference between First Nation CEDOs operating On-reserve and Inuit CEDOs is that on-reserve organizations are exempt from paying taxes on goods and services purchased on-reserve. First Nations employees of those organizations are also exempt from paying income tax.

Inuit as individuals as well as their organizations are required to pay both income tax and taxes on all goods and services purchased. This has major implications in terms of overall operational costs, particularly employment costs as well as the actual purchasing power of the funding they receive vis-à-vis other CEDP recipients. Inuit organizations have never taken the position that Inuit should not continue to contribute to the Canadian nation as taxpayers. Rather they have simply asked that this important difference be recognized and accounted for when federal program allocations are developed.

At present, the CEDP regional funding allocations are determined entirely on a per capita basis. From the Inuit perspective there is a clear need to re-visit this allocation model and add variables that will contribute to a more equitable distribution of resources.

Human Resources

Comparison of Base Salaries

Government of Canada

The Government of Canada has a clearly defined system of Treasury Board of Canada approved job classifications and pay scales. As a result, individuals performing the same category of job, at the same level within the category, receive the same base salary regardless of where within Canada they are employed. As we will discuss later the main exception to this for employees employed at locations that fall under the Isolated Post Policy Directive.

Employees within a specific job classification and level advance through a pay scale grid which allows for annual increments based on acceptable job performance. However there is a considerable range of pay within all federal job categories. For example, a Commerce Officer at the CO-2 level has a starting base salary of \$62,344 according to Treasury Board approved remuneration guidelines.

While this system clearly establishes the compensation parameters for each job category by level, managers do have some flexibility. This ensures that the government is able to attract the right candidates and that they have some ability to address local labour market conditions. As a result a newly hired CO-2 in Ottawa or another southern location will most likely begin their employment at the bottom of the CO-2 pay grid (\$62,344).

However, in Nunavut where the cost of living is much higher the department typically starts a newly hired CO-2 at a point mid-way through the pay grid. As a result the actual practice for the Nunavut Regional Office (NRO) of INAC has been to offer a starting salary of \$73,507. This is approximately 15% more than the starting salary than the base starting salary on the CO-2 grid and the starting salary that would typically be offered a newly hired CO-2 in the south.

The competitive nature of the skilled labour market in Nunavut and the salaries being offered by other potential employers generally result in the need to negotiate higher starting salaries for new employees.

The base salary for a Business Development Officer working for the Nunavut CEDO is \$65,000, significantly lower than the base salary this individual would receive within the federal system. In addition all federal and GN employees operate within a salary grid which includes on-going annual increments pending acceptable performance reviews. The NCEDO and all other CEDOs also are limited in their ability to match these annual increments when the funding they receive to deliver these services do not increase year by year.

Government of Nunavut (GN)

The Government of Nunavut has its own system of job classification and pay scales. A comparison of the starting salaries for a select number of similar positions in the GN and Government of Canada produces results similar to what is found when looking at the CO-2 position discussed above.

For example, in June 2006 the Department of Education advertised for a Data Entry Clerk.¹ The starting base salary for this position was \$46,976. Similarly a Finance Clerk position was advertised by the Department of Culture, Language and Youth on June 2, 2006.² The starting base salary for this position was \$48,477.

A comparable job classification in the federal government for positions of this type would be a Clerk (CR) category at the CR-4 level. The starting salary in the federal system for a CR-4 is \$40,101 per year. The starting base salaries for the GN positions are 15% and 17% higher than for a similar position within the federal government.

¹ Nunavut News/North, Monday June 19, 2006, Job ref.#03-320-0648SA

² Nunavut News. North, June 2, 2006, Job Ref. #01-08-0607-050sQQ

A similar pattern also emerged when more senior management positions were examined. For example, the Department of Education advertised for a Manager, Finance and Administration in the Kivalliq region in June 2006³. The starting base salary for this position was \$73,398.

In the federal system the Financial Management (FI) category is the equivalent job category. This job classification has levels ranging from an FI-1 to FI-4. The starting salary for a FI-3 is \$58,894 and for an FI-4 it is \$65,744. Without a detailed comparison of the two job descriptions it is difficult to make a precise comparison. However, the difference compared to a FI-3 starting salary is 15%. Assuming this position is equivalent to a federal FI-4 position (the most senior level) then the salary is still 10% higher within the GN than they would be in the federal system.

Summary of Findings: Base Salaries

While the examples provided are not exhaustive they do result in very similar results and demonstrate the impact that the higher cost of living, combined with a competitive labour market for individuals with skills and experience, has on the base starting salaries in Nunavut.

The examples where a direct comparison can be reliably made indicate that starting base salaries in Nunavut are 15-17% higher in Nunavut relative to comparable positions in the south. The least variation in the examples investigated was 10%. In this example, however, the highest job classification possible was used as the basis for comparison.

It is reasonable to suggest, therefore, that the combined influence of the cost of living and the competitive nature of the Nunavut labour market results in a 15% inflation of base salaries in Nunavut when compared to similar positions in southern Canada.

Implications for the Inuit CEDOs

The Inuit CEDOs and other non-governmental organizations directly compete with the federal and territorial governments when attempting to attract and keep qualified employees. The ability to recruit and retain employees has a direct affect on the ability of an organization to build organizational capacity over time. This in turn has a direct and immediate affect on program efficiency and effectiveness.

Experience has shown that this is not hypothetical problem for the Inuit CEDOs in Nunavut. In a number of specific instances skilled and experienced employees, recruited from the south at considerable expense, have left positions with the Inuit

³ GN Job ref.# 03-320-0647ET

CEDOs for more lucrative employment with government after gaining some initial northern experience.

This is perhaps understandable when comparing the base salaries the Inuit CEDOs are able to offer. For example, a Business Development Officer position with the Nunavut CEDO provides a base salary of \$65,000 or 12% less than the federal government CO-2 position in Iqaluit that has a starting base salary of \$73,507.00. In terms of qualifications and job responsibilities these are comparable positions.

In addition, the federal government CO-2 will receive an annual increment in their base salary, as outlined in Treasury Board guidelines, pending an acceptable performance review. The Inuit CEDO Business Development Officer can expect to remain at the same base salary level for the duration of their contract which is generally for two or three years depending on funding commitments.

The consequence is that the Inuit CEDOs often recruit, train and give northern experience to individuals who then use this experience to secure other similar employment with government agencies that can offer better compensation for similar job responsibilities.

Northern Allowances: Current Federal, Government of Nunavut and NTI Policies

The other major component of the costs associated with employment in Nunavut are the northern allowance benefits provided by employers. Northern Allowance benefits are in place specifically to compensate employees for the high costs associated with living in Nunavut. The northern allowance benefits provided by the Federal and Nunavut governments, as well as those provided by Nunavut Tunngavik Inc. are described below.

Isolated Posts and Housing Directive: Treasury Board of Canada

The Treasury Board of Canada is responsible for overseeing the application of the federal government's Isolated Post Policy. The purpose of this policy is to, "...facilitate the recruitment and retention of staff delivering government programs in isolated locations and to ensure that employees in government housing are treated in a similar manner equivalent to persons renting similar accommodation from private or commercial sources."

The policy outlines a clear methodology for determining whether an employment location qualifies as an Isolated Post. This methodology including a ranking of locations according to three general sets of criteria:

Environment Allowance

The Environment Allowance is determined through a ranking of a set of indicators including population, climate, barren or taiga lands and access. The payment of the Environment Allowance is a “basic prerequisite to all other provisions of this directive”. Each of the indicators is given a numerical point ranking for each variable. The total points assigned to each location are then used to determine an Isolated Post rating. Table one provides the point range assigned to each Level of Post.

Table One
Treasury Board of Canada
Isolated Posts Classification Levels

Level of Post	Point Range
1	145-210
2	110-144
3	75-109
4	60-74
5	50-59

The regional centres where the Inuit CEDOs are located are ranked as follows under the Environment Allowance:

Table Two
Isolated Posts Classification Levels:
Selected Nunavut Communities

Community	Level of Post:
Iqaluit	2
Rankin Inlet	2
Cambridge Bay	1

A ranking of two (2) is the lowest ranking for any community in Nunavut.

Living Cost Differential

The living cost differential is paid to federal employees located at an isolated post where price of food and other goods and services are ‘abnormally high’ compared to the location considered to be the major source of supply. The Consumer Price Index maintained by Statistics Canada is used to calculate allowances.

Table Three provides a summary of the amounts paid under the Living Cost Differential for communities in Nunavut.

All of the Nunavut communities listed on the Treasury Board website have a classification of between nine (9) and thirteen (13). The regional centres where the Inuit CEDOs are located have the following ratings; Cambridge Bay (9), Iqaluit (9) and Rankin Inlet (12).

Table Three
Isolated Posts and Government Housing Directive,
Treasury Board of Canada
Living Cost Differential: Salaried Employees

Classification of post for living cost differential	Employee with dependants \$ Per year	Employee without dependants \$ Per year
1	4,413	2,648
2	5,674	3,404
3	6,935	4,161
4	8,196	4,918
5	9,457	5,674
6	10,718	6,431
7	11,979	7,187
8	13,239	7,944
9	14,500	8,700
10	15,761	9,457
11	17,022	10,213
12	18,283	10,970
13	19,544	11,726
14	20,805	12,483
15	22,066	13,239
16	22,696	13,618

The current classification for Cambridge Bay was established in February 2006. The classifications for Iqaluit and Rankin Inlet have not been re-visited recently.

Fuel and Utilities Differential

A Fuel and Utilities Differential is also available to federal employees based on their location. This is intended to supplement an employee's income in locations where; "... prices for fuel and utilities are abnormally high due to higher transportation costs and consumption rates imposed by the geographical location".

Table Four provides the rankings and the benefits for the three regional centres in Nunavut.

Table Four
Fuel and Utilities Differential, Treasury Board of Canada
Salaried Employees in Selected Locations in Nunavut

Community	Classification of Post for Fuel and Utilities Differential	Employee with dependants \$ Per Year	Employee without dependants \$ Per Year
Cambridge Bay	30	7,375	4,425
Iqaluit	9	2,125	1,275
Rankin Inlet	29	7,125	4,275

The classifications for Iqaluit and Rankin Inlet were increased in November 2005, while Cambridge Bay's classification at the highest level (30) has been in place for some time. These classifications are negotiated in partnership by employer and bargaining agent representatives at the National Joint Council.

In all cases, however, the Fuel and Utilities Allowance under-represents actual costs in Nunavut. The calculations for the allowance are based on Statistics Canada's Survey of Household Expenditures which asks people what they spend on certain items during a specific period of time. Since a large portion of Nunavut households are in subsidized housing, the responses under-estimate actual costs.⁴

It is reasonable to expect that these classifications will be re-visited in the next round of negotiations given the Government of Nunavut's recent decision to increase fuel prices. Effective November 1, 2006 the price of all classes of fuel products, including gasoline and home heating oil, will increase by 10 cents per litre plus GST.

This in turn affects the price of electricity since all electricity in Nunavut is produced using diesel generator plants. As reported in the November 3, 2006 edition of *Nunatsiaq News*, the Qulliq Energy Corporation is increasing its rate rider from 3.98 cents to 7.87 cents per kilowatt /hour for all power consumed after November 1/06. This change is expected to have the greatest affect on homeowners and businesses in Nunavut. The average homeowner is expected to pay an additional \$30/month for electricity.⁵

The Fuel and Utilities Allowance is not paid to federal employees living in government owned housing, which is most federal employees in Nunavut. In that case all fuel and utilities costs are paid by government and the employee is charged a rent comparable to the cost of similar accommodation in the south.

⁴ Alison Rogan, *Addressing the Cost of Living in Nunavut, Discussion Paper Four*, Nunavut Employees Union, 2003, pg. 37

⁵ Nunatsiaq News, November 3, 2006

Vacation Travel Allowance

All federal employees living in an Isolated Post with an Environmental Allowance of 1 or 2⁶ are eligible for two round fare trips for themselves and their dependents to the nearest community in the south. The average allowance for a single federal employee working in Nunavut in 2003 was \$17,539 and \$42,854 on average for a family of five.⁷

Table Five
Comparison of Salary and Benefits for a federal Project Officer (CO-2)*
INAC:HQ and Iqaluit

Budget Item	Iqaluit	INAC:HQ
Base Salary (1FTE)	\$ 73,507.00	\$ 73,507.00 ⁸
Isolated Post Allowance (IPA)	20,000.00	Not applicable
Employee Benefit Package (20%)	14,701.00	14,701.00
Housing (gov. housing provided)	23,400.00 ⁹	Not applicable
Vacation Travel Allowance (VTA)	25,000.00	Not applicable
Total	\$ 156,608.00	\$ 88,208.00

Assumption: employee, spouse and two dependents

Table Five provides a comparison of the cost to INAC of staffing a CO-2, Full-Time Equivalent (FTE) position in INAC Headquarters and Iqaluit. The application of the Isolated Post and Housing Directive increases the budget for this position by an additional 44%.

Government of Nunavut: Northern Allowance

The Government of Nunavut's Northern Allowance is designed to compensate employees for the higher costs associated with living in Nunavut communities in comparison to designated southern cities.

⁶ As noted previously this includes all communities in Nunavut.

⁷ Alison Rogan, 2003, op.cit. pg. 38

⁸ For comparison purposes and in order to present the most conservative estimate it is assumed that this position would have a starting base salary of \$73,507 in both locations. However, as discussed previously the starting base salary for a CO-2 is \$63,344. It is unlikely that a new CO-2 in HQ would receive a starting base salary equivalent to that provided in Iqaluit.

⁹ The actual cost to INAC of providing housing in this scenario is \$45,000. However, the employee is charged rent at a rate equivalent to a similar residence in a southern location. In this example, the amount charged would be approximately \$1,800.00 per month or \$21,600 per year. These rent payments do not return to INAC, but rather to the federal government's Consolidated Revenue Fund. So while the net cost of providing housing is \$23,400.00 to the Government of Canada, INAC must budget \$45,000 in its budget to provide this housing. The total annual cost to INAC of staffing this position in Iqaluit is actually \$178,208.

The indicators used to determine the Northern Allowance includes:

- A food allowance to cover the higher cost of food in Nunavut communities,
- A sealift and air freight allowance to offset the cost of shipping goods
- An electricity allowance to offset the higher cost of power in Nunavut
- A gasoline allowance to offset the higher cost of fuel in Nunavut
- An allowance to compensate for the different levels of access to government services in Nunavut communities, and
- An allowance to offset the different levels of access to private sector and municipal services in Nunavut communities.¹⁰

The amounts received by Government of Nunavut employees in the communities where the Inuit CEDOs are based for the period from April 1/05 to September 30/06 are outlined in Table Six.

Table Six
Government of Nunavut
Northern Allowance Benefits: April 1/05 to September 30/06

Community	Northern Allowance
Cambridge Bay	\$16,220
Iqaluit	\$ 12,109
Rankin Inlet	\$ 15,234

Source: Collective Agreement between the Nunavut Public Service Union and the Minister Responsible for the Public Service Act, Expires September 30, 2006. pg. 76

In the past the Nunavut Government provided subsidized housing for many employees as well as a Vacation Travel Allowance. However, the need to reduce government expenditures has resulted in the elimination of these benefits in recent years.

Nunavut Tunngavik Incorporated: Northern Allowance

Nunavut Tunngavik Inc. provides its employees with a Northern Settlement Allowance, as well as a Vacation Travel Allowance (VTA). Every employee in Nunavut receives an annual Northern Settlement Allowance of \$5400 or \$450 per month. This allowance is the same regardless of where in Nunavut the employee is based. NTI has offices in three Nunavut communities. They also receive an additional \$12,600 a year, or \$1050 per month as a housing and utilities allowance. Employees who live in government subsidized housing do not receive this benefit.

¹⁰ Alison Rogan, 2003, op. cit. pg. 40

The Vacation Travel Allowance is also provided to every employee who does not have access to this benefit from another source (i.e. a spouse is a federal government employee and is also eligible for this benefit). The VTA benefit provides round trip economy airfare, or the cash equivalent, for the employee and up to six members of their immediate family household members once per year.¹¹

Inuit CEDOs

The Inuit CEDOs follow the policies established by their respective Regional Inuit Organizations (RIOs). The RIOs in turn tend to closely adhere to policies established by Nunavut Tunngavik Inc.

For consistency, the Nunavut CEDO Business Development Officer position will be used as an example of the benefits the Inuit CEDOs provide. The Nunavut CEDO budget for the BDOs includes the following Northern Allowances:

Northern Allowance	\$24,000
Vacation Travel Assistance	10,000
Total	\$34,000

This represents a 35% increase over the base salary of \$65,000.

Summary of Findings: Northern Allowance Benefits

It is clear that the Northern Allowance benefits provided to employees constitute a major additional cost for employers in Nunavut. The benefits provided by the federal government are the most comprehensive in scope, as well as being the most generous. While employees are required to pay rent equivalent to what they would pay for similar accommodation in the south, virtually all federal employees in Nunavut are provided with housing. In the event that housing is not provided the fuel and utilities differential comes into play to compensate for the additional costs associated with living in an 'Isolated Post'. The federal government is also the only employer among those discussed which provides two trips south per year for their employee and dependents.

The federal policy also links the benefits paid to individual communities recognizing that costs vary significantly even within Nunavut.

The Government of Nunavut also has policies which are determined by the costs of living in associated with living in specific Nunavut communities. While these actual

¹¹ A. Rogan op. cit. pg. 39

amounts are not as generous as those paid to federal employees, the methodology used to determine the benefits is similar to that used by the federal government.

As discussed, recent policy changes have resulted in GN employees living in government housing having their rents increased significantly each year until they have reached market value. This also applies to employees with government housing living in the smaller settlements, although the period of transition is longer. The GN also no longer offers Vacation Travel Allowance as a benefit.

All NTI employees receive a standard northern allowance benefit regardless of which community they live in. The NTI policy on housing is structured to reflect the cost differences between those who own or rent their homes versus employees that live in government subsidized housing. As such, it provides an incentive for home ownership among employees, but is not a housing allowance per se. While the NTI Vacation Travel Allowance only provides one trip per year, it does provide employees with the option of taking the cash equivalent of this benefit (for those who wish to use this benefit to support land-based activities) and includes immediate family household members, including a spouse and up to four dependents.

The Northern Benefits provided by the Nunavut CEDO to the Business Development Officers total \$34,000 year. While this position is equivalent to the Iqaluit-based CO-2 position, the base salary for the Business Development Officer is 12% less and the Northern Benefits associated with this position are approximately half of what the federal employee received under the Isolated Post Policy Directive.

None of the positions supported through funding received through the CEDP include an adjustment for the costs associated with providing northern benefits. Indeed, certain programs such as the INAC Youth Employment Strategy do not include any administrative resources whatsoever to support program delivery.

Other federal programs such as the Aboriginal Human Resource Development Agreements (AHRDAs) have minimal allocation model adjustments for remoteness based on taxation zones. However this variable provides adjustments relative to other AHRDA holders and are not determined through a realistic assessment of the actual cost of doing business in Nunavut. The AHRDAs also have strict limits on the amount of funding that can be allocated to operations. In practice these limits are completely unrealistic. As a result, the CEDP which has greater flexibility must be used from time to time to offset actual administration costs associated with the delivery of other programs.

Despite the fact that the federal government recognizes the importance of putting realistic provisions in place for its own operations to account for the much higher costs of doing business in Nunavut, this is not acknowledged in the agreements with Inuit organizations it enters into agreements with to deliver programs and services on its behalf. Despite this the Inuit CEDOs, like other Nunavut employers, must provide these benefits, albeit generally at a lower rate, to attract the type of qualified employees they need to fulfill their mandates.

The Northern Allowance benefits provided to the federal CO-2 employee in Iqaluit (the least expensive community to live in Nunavut) almost doubles (44% increase) the cost of staffing this position in Nunavut.

The Northern Allowance and VTA benefits provided to the Nunavut CEDO Business Development Officer Position results in a 45% increase over the cost of base salary and standard employee benefits (20%).

Table Seven provides an overview of the Northern Allowance benefits paid out under the employer benefits policies discussed above. To continue with the CO-2 example these benefits represent an increase over a base salary of \$70,000 of 98% (TBC), 17% (GN) and 37% (NTI).

Table Seven
Comparison Northern Allowance Benefits by Employer: Iqaluit

Employer	Annual Northern Allowance Benefits			
	Northern Allowance	VTA	Housing	Total
TBC: Isolated Post Policy	20,000	25,000	23,400 ¹²	68,400
Government of Nunavut	12,109	-	-	12,109
Nunavut Tunngavik Inc	5400	7,936.56 ¹³	12,600	25,936.56
Nunavut CEDO: Business Development Officer	24,000	10,000	-	34,000

Income Tax Issues

The other major cost differential faced by the Inuit CEDOs in Nunavut when compared to their First Nation CEDO counterparts funded through the CEDP relates to taxation. While First Nation members working on reserve are exempt from paying personal income tax this is not the case for Inuit.

This is particularly relevant when considering any federal program national allocation model where the recipient organizations include both Inuit and First Nations organizations. In effect, the Inuit CEDOs are disadvantaged on two fronts. There is no

¹² Please refer to footnote eight (8).

¹³ This figure is based on 2005 VTA levels for an employee, spouse and two dependents based in Iqaluit. The rate for Iqaluit (one of the least expensive locations in Nunavut) is \$1984.14 per individual.

adjustment for the higher cost of living and doing business in Nunavut. This puts them at a competitive disadvantage compared to other employers competing for qualified employees within the same job market.

Secondly there is no adjustment for their additional costs vis-à-vis First Nations organizations which make up the vast majority of recipients funded through the CEDP. If we continue to use the CO-2 or Business Development Officer example, the difference in after tax income between an Inuit CEDO employee and a First Nation CEDO employee receiving the same base salary would be excess of 20%.

Again, the implications arising from this disparity are not hypothetical. In more than one occasion a First Nation applicant has been the successful in the competition to fill a position within the Nunavut CEDO. In every case the individual, although originally eager to accept the employment offer, has declined upon learning that they would have to pay income tax.

It is also important to recognize that the Northern Benefits outlined in this paper are themselves taxable employee benefits. These include all Northern Allowances or Isolated Posts benefits, as well as Vacation Travel Assistance Benefits.

A taxpayer in Nunavut is eligible for a Northern Resident's Deduction for each day that they "maintained and lived in a dwelling, even if your employer let you live there rent-free and paid all the utility, maintenance and other costs related to the dwelling."¹⁴ However, the total deduction for a household under this provision amounts to only \$7.50 per day or \$2,737.50 per year.

The Northern Residents deductions also include a deduction for travel to the south, but only if an individual meets all of the following conditions:

- you qualify to claim northern residents deductions,
- you are an employee dealing at arms-length with your employer; and
- you have included in your income the taxable travel benefits received from your employment in a prescribed zone.¹⁵

The travel deduction only applies to a maximum of two trips per year unless it is travel for medical reasons.

The taxation system, therefore, serves to reduce the advantage provided by northern or isolated post benefits. The benefits are fully taxable while the available deductions are fairly limited.

From the perspective of the Inuit CEDOs, however, the critical point is that current CEDP funding formula does not take into account the actual costs of doing business in

¹⁴ Canada Revenue Agency, Northern Residents Deductions, T2222 E(06)

¹⁵ *ibid.*

the Nunavut and that this situation is further exacerbated by the impact the taxation system has on Inuit and their organizations.

At the same time, the Inuit CEDOs are subject to the same terms and conditions in their agreements, expected to offer the same level of service as other Aboriginal organizations operating in a much less difficult and costly environment, and are evaluated using the same methodologies.

Operational Expenses in Nunavut

The costs associated with basic operational expenses and delivering of programs and services to clients is the other major category of expenses that have been investigated for this paper. The increased costs of doing business in Nunavut are particularly apparent when considering the costs associated with commercial office space and business travel costs.

Office Space

It is difficult to make direct and reliable comparisons between the costs associated with the rental or purchase of commercial office space in the south and in Nunavut. A wide range of commercial space exists in a southern urban setting. The location of the commercial space, the 'prestige' of the location and range of other factors determines the cost of acquiring or renting office space.

In Nunavut, however, the inventory of available commercial office space is extremely limited, particularly outside the regional centres of Iqaluit, Rankin Inlet and Cambridge Bay. The lack of commercial space is a major barrier to business development in many communities and a significant challenge for all organizations operating in the territory.

The high of constructing commercial space means that this option is simply not an option for most organizations. For example in 1996, the Kitikmeot Economic Development Commission managed the construction of a 2200 square foot Business Service Centre in Kugluktuk. The total cost of completing this building was \$500,000 or \$273 per square foot. Current construction costs for commercial space in Iqaluit are approximately \$300-325 per square foot.

The vast differences in the commercial real estate market in the south and Nunavut makes direct comparison problematic, and increases the probability of comparing 'apples' and 'oranges'. As a result we have confined this comparison to how the federal government calculates its costs of providing office space in the two locations.

In the federal government, individual departments pay a levy to Public Works and Government Services (PWGSC) for the provision of office space, office equipment and maintenance. This levy is calculated as a percentage of the salary portion of each employee or Full Time Equivalent (FTE) position.

At INAC Headquarters this levy is calculated at the rate of 13% of the salary and benefit portion of each FTE in the office. In Iqaluit this levy is 16.5%. Table Eight provides the dollar value of this levy using the CO-2 example discussed earlier.

As this example illustrates, while the percentage difference in the PWGSC levy does not seem that significant between the two locations, the higher combined salary and benefits for the Iqaluit position have a significant affect on the dollar value of the levy in the two locations. The dollar amount of the levy to PWGSC at INAC Headquarters is only 44% of what it is to provide office space for the same position in Iqaluit.

Table Eight
Comparison of PWGSC Office Space levy for CO-2 position: Nunavut Regional Office, Iqaluit and INAC Headquarters

Location	CO-2 Salary and Benefits Portion only (\$)	PWGSC Levy (%)	PWGSC Levy (\$)
INAC: HQ	88,208.00	13%	11,467.04
INAC:NRO	156,608.00	16.5%	25,840.32.

Business Travel Costs

Airfare

The cost of travel in Nunavut is a major contributor to organizational expenses. All communities in the territory are accessible only by air transportation. Tables Nine to Eleven provide a breakdown of the cost to each Inuit CEDO of having *one* program officer make *one round trip* to each community in their respective service area.

While one visit a year from one employee hardly constitutes CED Best Practice, or actual operational practice, it does illustrate the challenges faced by Inuit CEDOs in Nunavut as they strive to provide quality service to their clients.

It is important to reiterate that the current CEDP allocation model makes no provision for these much higher costs, or that the vast majority of CEDP funded organizations provide service to only one community. The majority of those that do serve more than one community are able to access their clients by other less expensive forms of transportation.

**Table Nine
Kakivak Association
Return Airfare: Iqaluit to each regional community**

Community	Return Airfare (net fare and fuel surcharge)
Pangnirtung	385.84
Qikiqtarjuaq	621.16
Clyde River	966.72
Pond Inlet	1,409.80
Arctic Bay/Nanasivik	1,857.12
Resolute Bay	2,028.84
Grise Fiord	3,028.84
Igloolik	1,481.88
Hall Beach	1,091.80
Cape Dorset	568.16
Kimmirut	358.28
Sanikiluaq	2,689.81
Total	\$16,488.25

Source: Airline websites¹⁶: lowest fares allowing ticket changes and booked one month in advance

**Table Ten
Kivalliq Partners in Development (KPID)
Return Airfare: Rankin Inlet to each regional Community**

Community	Return Airfare (net fare and fuel surcharge)
Arviat	340.00
Whale Cove	280.37
Chesterfield Inlet	310.00
Baker Lake	850.00
Repulse Bay	672.90
Coral Harbour	720.00
Total	\$3,173.27

Source: Airline websites lowest fares allowing ticket changes and booked one month in advance

¹⁶ A combination of airline websites and booking agencies were used to compile information including: First Air (www.firstair.ca) ; Canadian North (www.cdn-north.com); Ken Borek Air (www.borekair.com) Kivalliq Air (www.kivalliqair.com)

Table Eleven
Kitikmeot Economic Development Commission (KEDC)
Return Airfares: Cambridge Bay to each regional community

Community	Return Airfare including surcharges and fees (\$)
Kugluktuk	1677.98
Taloyoak	1191.44
Gjoa Haven	907.36
Kugaaruk	1498.84
Total	\$ 5,275.62
Bay Chimo*	3,093.59
Bathurst Inlet*	4,378.99

* **Note:** These communities are air-access only but do not have scheduled air service. Amounts listed represent full cost of charters¹⁷ including GST.

Hotels

Hotels throughout Nunavut generally cost between \$200-225 for the room plus approximately \$60 a day for meals, for an average total cost of \$260-285 per day. In many cases, these rates apply even when hotels are overbooked and one is required to share a room. In many of the smaller communities the hotel dining room is the only option for meals.

Hotel and meal costs are somewhat unpredictable from a budgeting perspective since adverse weather and cancelled flights are a common occurrence in Nunavut and can add significantly costs to organizational travel budgets.

Meals and Incidentals

Treasury Board of Canada policies once again provide a reliable method for comparing the allowable benefits for meals and incidentals that can be claimed by federal employees or contractors while traveling on business in different regions of the country. Table Twelve outlines the daily maximums that can be claimed under this policy. The total daily allowance when traveling in southern Canada and the United States is \$76.95. In the NWT the maximum daily allowance increases to \$99.55. Nunavut has the

¹⁷ Normal practice would be to attempt to schedule travel so that charter costs can be shared either among other organizations or individuals.

highest allowances at \$116.20 per day. This represents an increase of 34% over the total allowable rate while traveling in southern Canada.

**Table Twelve
Treasury Board of Canada
Allowances for Meals and Incidentals while on Duty Travel
Effective October 1, 2006**

Eligible Allowances	Canadian Dollars (taxes included)		
	Canada & USA	N.W.T.	Nunavut
Daily meal Allowances-100%	59.65	82.25	98.90
Daily Incidental Allowance-100%	17.30	17.30	17.30
Daily Total: Meals and Incidentals-100%	76.95	99.55	116.20

Source: Treasury Board of Canada website

Conclusions

The investigation of the policies of the federal government, the Government of Nunavut and Nunavut Tunngavik Inc. completed for this Discussion Paper clearly illustrate the extent to which the higher costs of living and doing business in Nunavut are reflected in their operations.

While direct comparisons are often difficult, the policies established by the federal government provide several reliable points of comparison. The examples we have provided demonstrate that considerable attention has been given within the federal system to adjusting their policies and budgeting practices to accommodate the much higher cost of living and doing business in Nunavut relative to other locations.

Similarly, the Government of Nunavut recognizes that the economic realities of living and doing business in Nunavut must be factored into their operational policies and practices. Indeed, increasing budget restrictions and declining northern benefits are generally seen as a major factor in the difficulties experienced by the Government of Nunavut in retaining skilled employees¹⁸. This has resulted in an on-going effort to re-negotiate the Territorial Financing Formula (TFF) with the federal government in order to more accurately reflect actual costs in Nunavut¹⁹.

The analysis presented in this paper provides the following key findings:

Base Salaries

A comparison of federal job classifications in INAC Headquarters and Iqaluit indicate that the competitive market for skilled and experience employees in Nunavut results in an average increase in base salaries of approximately 15%. This increase was also seen when comparing similar job classifications and starting salaries between the federal government and the Government of Nunavut.

Northern Allowance Benefits

These allowances have been established specifically to adjust for the higher cost of living in Nunavut. The policies established by the federal government are directly linked to the Cost of Living Index data collected by Statistics Canada. While the benefits

¹⁸Nunatsiaq News, *Teachers, GN Go back to Wage Talks*, www.nunatsiaq.com/archives/nunavut000230/nvt20204_04.html

¹⁹ Nunatsiaq News, March 9, 2007, *GN bides time until March 19*, www.nunatsiaq.com/news/70309_02.html

available to federal employees has been found to be the most generous, the Government of Nunavut and Nunavut Tunngavik Inc. also have policies in place to adjust for these higher costs.

The example of the CO-2 position with an annual base salary of \$73,507 used throughout this paper, illustrates that Northern Benefit Allowances resulted in an increased cost per One Full Time Equivalent (FTE) position of 17% (Government of Nunavut), 37% (Nunavut Tunngavik Inc.) and 98% (Government of Canada).

Operational Costs

Travel Costs

The costs associated with physically getting to the communities served by the Inuit CEDOs is a major contributor to their Operations and Maintenance budgets, as well as a major barrier to being able to increase the level of face-to-face contact with the communities and clients they serve.

All communities in Nunavut are air-access only. In addition, the basic cost of air travel in Nunavut is much higher than in southern Canada or even international destinations. For example, it costs Kakivak Association over \$3,000 to make a return trip from Iqaluit to Grise Fiord, the most northerly community in Canada. In comparison, using similar parameters (booked one month in advance, ability to cancel or make changes to a reservation) a return flight from St. Johns, Newfoundland to Vancouver, B.C. costs \$1,635²⁰, including all applicable surcharges and taxes.

While the cost of airfare is the largest contributor to business travel in Nunavut, hotel and meal costs are also high. Hotel accommodation in Nunavut is approximately \$200 per night. The Treasury Board acknowledges the higher costs of travel in Nunavut by establishing a per diem rate 34% higher in Nunavut than for southern Canada.

The actual cost of travel for organizations such as the Inuit CEDOs in Nunavut is also unpredictable. The arctic environment often results in cancellations due to mechanical problems or weather. Indeed the phrase 'weather permitting' is synonymous with travel in Nunavut. These unpredictable delays do, however, have very predictable implications for budgets, as costs continue to accumulate waiting for the weather to clear and flights to be re-scheduled.

²⁰ Air Canada website: www.aircanada.com

Office Space

The comparison of the costs associated with the construction or rental of office space is somewhat problematic due to the challenges associated with making accurate comparisons in the characteristics of commercial properties in an urban setting and a Nunavut location.

The budgeting practices of the federal government practice appear to provide the most reliable basis of comparison. In the federal system the calculation of the cost of office space is based on the levy charged by Public Works and Government Services Canada based a formula per Full Time Equivalent (FTE) position. Using this methodology the costs associated with providing and maintaining office space as well as the provision of standard office equipment and maintenance (utilities, furniture, phone systems, computers, etc.) is 60% higher in Iqaluit than at INAC headquarters.

It is also important to recognize that the commercial real estate market in Iqaluit is far more developed than in any other community in Nunavut. As a result this comparison represents the least expensive point of comparison.

Implications for Inuit CEDO Operations

Recruitment and Retention of Staff

The Inuit CEDOs must remain competitive in terms of the salary and benefit packages if they are to recruit and retain able and capable employees. Since they do not receive any additional funding to compensate them for the actual labour market conditions they operate within, this leaves them with no choice but to allocate funds from their budgets for this purpose which could otherwise be directed to program delivery and client services.

The nature of the labour market in Nunavut for those with skills and experience means that the Inuit CEDOs have often experienced high staff turnover rates. This is directly attributable to people moving to similar positions with other employers which can provide more lucrative employee benefits. Ironically, in many cases it is the federal government itself that has drawn away skilled employees from the Inuit organizations it funds to provide programs and services.

Implications for Organizational Capacity

The need to allocate adequate resources to employee salary and benefit packages means that important priorities must be delayed or abandoned.

The two key priorities for the Inuit CEDOs in Nunavut are:

- Identifying strategies for increasing coordination with the Government of Nunavut and through these partnership arrangements identify new and innovative ways to more effectively promote broad CED objectives and best practices.
- Increasing the level of service and the effectiveness of program delivery at the community level and through this approach increase local capacity and ownership over the development process.

The failure by INAC and other federal funding agencies to acknowledge and address the much higher costs associated with doing business in Nunavut puts important limitations on the Inuit CEDOs ability to be effective partners in this process. Since their inception, the Inuit CEDOs in Nunavut have demonstrated their ability to show leadership as Inuit controlled development agencies in Nunavut, as well as their ability to provide practical approaches to meeting the priority development needs of Inuit. They have also taken proactive steps to coordinate and consolidate programs from a variety of sources into single, regional CEDO delivery structures, in order to maximize operational efficiencies and simplify client access.

The Inuit CEDOs continue to demonstrate their leadership by initiating discussions with the Government of Nunavut through the NRPMAC process. If their organizational capacity is to move to a higher level they must have the resources needed to operate in such a challenging environment.

A recent service review study carried out by Kakivak Association, for example, clearly illustrates that clients at the community level rate Inuit CEDO programs and services very highly. However, the priorities local communities identified included:

- More continuity in program staff
- More community visits
- Stronger linkages between local planning initiatives and CEDO programs and services

If the Inuit CEDOs are to aggressively pursue these priority agenda items, they must receive a level of funding that acknowledges the real cost of operating in Nunavut. As the examples discussed throughout this paper clearly demonstrate, the federal government itself factors these higher costs into their own policies and operational practices. In doing so, the federal government explicitly acknowledges the critical importance that competitive salaries and benefits to their own organizational capacity. As well, departmental budgeting practices are also adjusted to reflect real costs. This begs the question of how the Inuit CEDOs they fund to provide programs and services

in Nunavut can be expected to operate at funding levels which represent the 'average' level received by other CEDP funded organizations in the south.

Implications for Clients

The primary purpose of this Discussion Paper has been to attempt to reliably quantify the higher costs associated with CEDO operations in Nunavut. In the future the Nunavut CEDO plans to extend this work to address the ways in which these higher costs affect our clients, particularly those who either currently own or wish to start a business. Even though this is not the primary purpose of this paper, it would be remiss not to at least acknowledge in this paper the additional challenges our clients face as a result of these much higher costs of living and doing business.

The Inuit CEDOs operate from the largest and easiest to access community in each of their regions. The challenges they experience are that much greater for clients living in the smaller settlements where the availability of services, lack of commercial space, distance from markets and suppliers, and reliability of supply are even greater.

The cost of transportation is generally identified as the most urgent priority in the smaller communities. The most cost effective way to ship goods to Nunavut is through annual sealift operations. However, perishable goods and supplies that for whatever reason cannot be shipped by sealift must be shipped by air cargo at considerable additional expense. In many instances this is simply not practical. As a result, it is not uncommon for business plans to be set back a year or more because sealift deadlines could not be met. In some cases this has led to time sensitive business opportunities being abandoned. As well many national programs establish funding limits which once again do not reflect actual costs in Nunavut.

Implications for Future Funding Agreements

The analysis outlined in this paper clearly illustrates the significantly higher costs associated with doing business and delivering programs and services in Nunavut versus other regions of the country. It also demonstrates that there is indeed an objective and comprehensive point of reference for determining the magnitude of this difference: the federal Isolated Post Directive and the budgeting practices federal government departments use for their own operations in Nunavut, compared to elsewhere in the country.

The paper also highlights the inequities that arise when all Aboriginal groups are dealt with in a similar fashion, despite the major differences which exist in terms of basic cost differentials, as well as the advantages from a taxation perspective of First Nation service delivery agencies which operate on-reserve.

Despite these obvious inequities, not a single federal government agreement entered into by the Inuit CEDOs in Nunavut provides specific provisions to adjust for these much higher costs. In fact, most agreements are far more restrictive in terms of the use of funds than the CEDP. The HRSDC Aboriginal Human Resource Development Agreements (AHRDAs), for example, have rigid limits on the percentage of funds that can be assigned to operational expenses. These limits are the same as those for agreement holders operating in the south or on-reserve. Consequently the more flexible funding sources often are used to cover operational costs which more appropriately should be assigned to other agreements.

The analysis also serves to demonstrate that making comparisons on current spending practices of Inuit versus other Aboriginal delivery agencies is fundamentally unsound. In part, as just discussed, this is because conditions in existing agreements constrain the amount allocated to operations by the Inuit CEDOs. As well, however, these comparisons do not take into account the vastly different institutional structures (often part of larger Band Council structure) and tax advantages of most First Nations delivery organizations that are vastly different than the institutional and political context in Nunavut.

It is important to recognize that in addition to the operational implications discussed previously in terms of service levels to clients and staff recruitment and retention issues, these issues also have a direct affect on other key priorities of government. For example, Governance is a major issue for the federal government. While Inuit have sound governance structures in place through the provisions of the Nunavut Land Claims Agreement and the Inuit CEDOs place a high priority on sound governance mechanisms, this comes at considerable costs in comparison to other groups. For southern CEDO organizations the cost of Board meetings is negligible. For the Inuit CEDOs a single Board meeting costs tens of thousands of dollars due to the high costs of airfare, hotels and meals.

The Inuit CEDOs also strive to ensure that the maximum level of resources is available to clients. Diverting larger amounts of fixed resources to operations is not an acceptable solution. The only real solution is to explicitly recognize the economic reality of Nunavut and adjust federal funding agreements accordingly.

Finally, the ability to continue to make improvements in program results is put at jeopardy by this long-standing inequity. Although the Inuit CEDOs in Nunavut have often been recognized for their successes in past evaluations, the ability to continue to progress and improve will ultimately be compromised by a lack of resources. Indeed, the on-going failure to adequately address this issue begs the question of whether Inuit organizations should continue to be evaluated using the same methodology and standards as those used for Aboriginal groups with much lower operational costs and program delivery challenges.

Given the implications of the current situation for Community Economic Development Best Practices; the clear double standard that exists between the federal government's own internal policies and practices and those it uses to determine funding levels for Inuit organizations, it is incumbent upon all federal departments to realistically address this issue at the earliest opportunity.