



18th Legislative Assembly of the Northwest Territories

Standing Committee on Government Operations

Report on the Review of the
2016-2017 Public Accounts of the
Government of the Northwest Territories

Chair: Mr. Kieron Testart

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May 31, 2018

SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Government Operations is pleased to provide its *Report on the Review of the 2016-2017 Public Accounts* and commends it to the House.

A handwritten signature in black ink, appearing to read 'Kieron Testart', with a stylized flourish at the end.

Kieron Testart
Chair

**STANDING COMMITTEE ON
GOVERNMENT OPERATIONS**

**REPORT ON THE REVIEW OF THE
2016-2017 PUBLIC ACCOUNTS**

TABLE OF CONTENTS

EXECUTIVE SUMMARY 1
 2016-2017 Recommendations 1
REVIEW OF THE GNWT PUBLIC ACCOUNTS FOR 2016-2017 4
 Introduction 4
 About the Public Accounts 4
 The Significance of a Clean Audit Opinion 5
 Timeliness of the Public Accounts 5
 Timeliness of the Financial Statements for Individual Entities Consolidated
 in the Public Accounts 6
 Recommendation 1 8
NOTABLE AUDIT SUBJECT AREAS 10
 Public-Private Partnerships 10
 Recommendation 2 12
 Environmental Liabilities 12
 Recommendation 3 13
 Fiscal Responsibility Policy 15.03 14
 Recommendation 4 17
 Borrowing 17
 Protection of Privacy and Disclosure of Information 18
 Recommendation 5 19
 Recommendation 6 20
 Accountability and Transparency 20
 Recommendation 7 21
CONCLUSION 21
 Recommendation 8 21

STANDING COMMITTEE ON GOVERNMENT OPERATIONS

REPORT ON THE REVIEW OF THE 2016-2017 PUBLIC ACCOUNTS

EXECUTIVE SUMMARY

The Standing Committee on Government Operations is pleased to present its report on the review of the *2016-2017 Public Accounts of the Government of the Northwest Territories*.

The review took place in Yellowknife, Northwest Territories, from April 18-19, 2018.

The Committee notes that the consolidated *2016-2017 Public Accounts of the Government of the Northwest Territories* received a clean audit opinion from the Auditor General and commends the Government of the Northwest Territories for this achievement.

Members of the Standing Committee would like to take the opportunity to thank Assistant Auditor General Mr. Terry DeJong, Mr. David Irving, Principal, and Ms. Michelle Smith, Director, from the Office of the Auditor General (OAG), who traveled from Ottawa and Edmonton to assist the Standing Committee with its review.

The Standing Committee also wishes to thank Mr. Jamie Koe, Comptroller General and officials from the Office of the Comptroller General in the GNWT's Department of Finance for their appearance before the Committee.

2016-2017 Recommendations

As a result of this year's review of the 2016-2017 Public Accounts, the Standing Committee on Government Operations made recommendations in the following subject areas:

1. Timeliness of the Public Accounts

In 2016-2017, there were twenty-two entities consolidated in the public accounts. 7 entities failed to meet their original deadlines and failed to seek extensions as required by the FAA. The Committee discussed with the Comptroller General the possibility that smaller boards and agencies might

benefit from a more formalized arrangement of support from the Office of the Comptroller General, such as a memorandum of understanding or service agreement. The Comptroller General expressed a willingness to consider this proposal if recommended to do so by the Committee.

Recommendation: The Standing Committee on Government Operations recommends that the Office of the Comptroller General in the Department of Finance consider, and report back to the Standing Committee on, the utility of entering into service agreements or memoranda of understanding with GNWT boards, agencies, or other entities requiring support or assistance to complete their year-end financial reporting as required under the FAA.

2. Accounting Treatment of Public Private Partnerships

The Standing Committee acknowledges the improvements the GNWT is making to the manner in which it reports on P3 projects in the public accounts, given that Public Sector Accounting Board standards have yet to be finalized.

Recommendation: The Standing Committee on Government Operations recommends that the Government of the Northwest Territories considers bringing together all of its information about P3 projects under one note in the consolidated public accounts, until such time as the new Canadian Public Sector Accounting Board Standards on the accounting treatment of P3 projects are put in place.

3. Public Reporting on the GNWT's Inventory of Contaminated Sites

With respect to the GNWT's environmental liabilities, the Standing Committee believes that the GNWT should be doing more to report publicly on its contaminated site inventory.

Recommendation: The Standing Committee on Government Operations recommends that the Government of the Northwest Territories make GNWT's inventory of contaminated sites available online modeled upon, and with a level of disclosure comparable to, the Federal Contaminated Sites Inventory maintained by the Treasury Board of Canada Secretariat.

4. Compliance with the GNWT's Fiscal Responsibility Policy

The Standing Committee acknowledges the improvements that the GNWT has made to its reporting on the government's compliance with its *Fiscal Responsibility Policy*, but believes that there is room for further improvement, to improve government accountability and transparency.

Recommendation: The Standing Committee on Government Operations recommends that the Government of the Northwest Territories, giving consideration to the observations made in this Committee Report, strive to improve upon the information in the *Financial Statement Discussion and Analysis* section of the public accounts that indicates how the GNWT has met the *Fiscal Responsibility Policy* provisions related to debt servicing and infrastructure financing.

5. Balancing the Protection of Privacy and the Disclosure of Information

The Standing Committee continues to have concerns with the way that the GNWT reports student loan remissions in Schedule 9 of the non-consolidated financial statements. To address the optics of including student loan remissions, which is a positive indication of a northern resident student's completion of higher education, with bad debt write offs and forgiveness, the Standing Committee makes the following recommendation:

Recommendation: The Standing Committee on Government Operations recommends that the Department of Finance give consideration to reporting student loan remissions in another schedule in the public accounts, separate from the schedule reporting bad debt write offs and forgiveness.

Even with this change, the Standing Committee is still of the view that the degree of disclosure of information regarding student loan remission in the public accounts constitutes a potential invasion of privacy. Therefore:

Recommendation: The Standing Committee on Government Operations recommends that the Department of Finance, upon completion of a Privacy Impact Assessment in 2018-2019 by the Information and Privacy Commissioner and having considered the Committee's suggestions contained in this Report, reconsider amending the Non-consolidated Schedule of Bad Debt Write-offs, Forgiveness and Student Loan Remissions to better protect the privacy of individuals.

6. Improving Accountability and Transparency

The Standing Committee was advised by the Office of the Auditor General that the GNWT is in the process of ensuring that annual reports of the government's boards and crown corporations be translated into French.

Recommendation: The Standing Committee on Government Operations recommends that the Department of Finance continue its efforts to ensure that all annual reports required under the GNWT's Planning and Accountability Framework be translated in French and made available to the public in a timely manner.

7. Conclusion

Recommendation: The Standing Committee on Government Operations recommends that the Government of the Northwest Territories provide a response to this report within 120 days.

REVIEW OF THE GNWT PUBLIC ACCOUNTS FOR 2016-2017

Introduction

The Legislative Assembly of the Northwest Territories' Standing Committee on Government Operations ("SCOGO" or "the Committee") has a mandate to review and report on the Government of the Northwest Territories' public accounts. This review helps ensure that issues related to public spending the GNWT's fiscal management practices are publicly examined and scrutinized to promote government accountability.

In the course of its review, the Committee makes recommendations to the Government to improve financial management reporting and practices. The Standing Committee on Government Operations is pleased to present this report on its review and looks forward to receiving the Government's response.

About the Public Accounts

The public accounts are the financial statements of the Government of the Northwest Territories (GNWT), which are prepared annually according to Canadian public sector accounting standards (PSAS). They are also prepared in accordance with requirements contained in the federal *Northwest Territories Act*¹ and the GNWT's *Financial Administration Act (FAA)*.²

The public accounts are produced in four sections:

- Section I contains the consolidated financial statements, reporting the combined results of operations for all GNWT departments, revolving funds, public agencies, territorial corporations and other related entities that are considered part of the government reporting entity. This information is audited by the Auditor General. Section I also contains an unaudited *Financial Statement Discussion and Analysis* which provides a management analysis by the GNWT of information reported in the public accounts.

¹ S.C. 2014, c. 2, s. 2

² S.N.W.T. 2015, c. 13

- Section II presents the non-consolidated, unaudited financial statements for GNWT departments only, including the revolving funds and special purpose funds they administer. It also includes the financial statements for the Legislative Assembly and its statutory offices.
- Sections III and IV contain the supplementary financial statements of boards and other entities.

The Significance of a Clean Audit Opinion

In an unqualified or “clean” report, the auditor concludes that the government’s financial statements present its financial affairs fairly, in all material respects. This indicates that the government observed compliance with Canadian public sector accounting standards and statutory requirements. It also demonstrates that any changes in accounting policies, and the impact of those changes, have been adequately determined and revealed.

A clean opinion does not necessarily tell the reader that the government is in good economic health. Its purpose is to provide assurance that Government’s financial report is complete and transparent and has not misrepresented any important facts.

The Committee notes that the consolidated *2016-2017 Public Accounts* received a clean audit opinion from the Auditor General and commends the Government of the Northwest Territories for this achievement.

Timeliness of the Public Accounts

Section 36 of the FAA requires that the interim public accounts be completed by September 30 following the end of the fiscal year in question, and tabled at the earliest opportunity. The interim public accounts contain the financial information of GNWT departments that later form Section II of the public accounts.

Section 35 of the FAA requires that the consolidated public accounts be completed by December 31 following the end of the fiscal year in question, and tabled no later than the fifth day of next sitting of the Legislative Assembly. This section of the Act also permits the Minister of Finance to publicly release the public accounts before they are tabled.

Deadlines for the 2016-2017 Public Accounts

- The interim Public Accounts were provided to SCOGO by the Minister of Finance on September 14, 2017 and tabled on October 17, 2017 [TD 4-18(3)].
- The consolidated Public Accounts were:
 - ▶ Signed off by the Minister of Finance on October 26, 2017;
 - ▶ Released to the public on November 8, 2017; and
 - ▶ Tabled on February 13, 2018 [TD 39-18(3)].

Both the interim and final *2016-2017 Public Accounts* were completed to meet the applicable statutory deadlines. The Committee acknowledges the GNWT's effort in meeting these legal requirements again this year.

Timeliness of the Financial Statements for Individual Entities Consolidated in the Public Accounts

Section 31 of the FAA requires that the public boards, agencies and councils forming the government reporting entity (GRE) have their public accounts audited annually. The fiscal year end for these entities differs from the GNWT's and falls on either June 30 or September 30, depending upon the legislation governing each entity. Section 32 of the FAA provides that the Minister of Finance may allow an extension to the deadline for completion of an entity's financial statements, not exceeding 60 days.

In previous years, the Committee recommended that the GNWT include, in the *Financial Statement Discussion and Analysis* part of Section I of the public accounts, a list of the entities consolidated within the public accounts, along with the dates they completed their financial statements. This list, titled *Completion of Entities Consolidated Within the 2016-2017 Public Accounts*,³ identifies the fiscal year-end for each entity, any revised due date resulting from the entity's request for an extension, and the actual completion date of the entity's financial statements for the year in question. In its response to last year's review, the GNWT committed to continue to include this list in the public accounts on an ongoing basis.

Again this year, the Committee reviewed the compliance of public agencies in the government reporting entity with their respective deadlines. During the public review, the Committee was advised by the Comptroller General that the list included in the 2016-2017 Public Accounts was incorrect. The Committee was provided with a revised list that is reproduced below (Figure 1) for the public record.

³Section I, p. 39.

In 2016-2017, there were twenty-two entities consolidated in the public accounts. There were five fewer entities than in the previous year because of the amalgamation of six health and social services authorities into one NWT-wide authority. Of the twenty-two entities:

- 5 entities (Aurora College; the NWT Health and Social Services Authority; NT Hydro; the NWT Business Development and Investment Corporation; and the NWT Housing Corporation) requested 60-day extensions. Of these:
 - ▶ Three met their revised deadlines; and
 - ▶ The remaining 2 entities (the NWT Health and Social Services Authority and the NWT Housing Corporation) missed their extended deadlines by 6 weeks;
- 7 entities failed to meet their original deadlines and failed to seek extensions. Of these:
 - ▶ 4 entities (Beaufort Delta Divisional Education Council; Sahtu Divisional Education Council; the NWT Sport and Recreation Council; and the Status of Women Council of the NWT) were late by less than a week;
 - ▶ 1 entity (the Dettah District Education Authority) was late by less than two weeks; and
 - ▶ 2 entities (the Arctic Energy Alliance and the NWT Human Rights Commission) were late by more than 60 days and less than 90 days.

As in past reviews, the Committee recognizes that smaller government entities often face significant capacity issues that may impact on their ability to complete their financial statements in a timely manner. Nonetheless, there is little excuse for the failure of an entity to seek a 60-day deadline extension, as provided for in the FAA.

The Committee again urges the Office of the Comptroller General to work with the GNWT's boards and agencies to ensure they are working towards completing their financial statements in a timely manner and, where necessary, seeking the Minister's approval to extend the legal deadline.

The Committee raised with the Comptroller General the question of whether smaller boards and agencies might benefit from a more formalized arrangement of support from the Office of the Comptroller General, such as a memorandum of understanding or service agreement. The Comptroller General expressed a willingness to consider this proposal if recommended to do so by the Committee. Accordingly, the Standing Committee makes the following recommendation:

Recommendation 1

The Standing Committee on Government Operations recommends that the Office of the Comptroller General in the Department of Finance consider, and report back to the Standing Committee on, the utility of entering into service agreements or memoranda of understanding with GNWT boards, agencies, or other entities requiring support or assistance to complete their year-end financial reporting as required under the FAA.

Figure 1**COMPLETION OF ENTITIES CONSOLIDATED WITHIN THE 2016-17 PUBLIC ACCOUNTS**

Entity	Due Date	Extension Due Date	Completion Date
Beaufort Delta Divisional Education Council	30-Sep-2016		7-Oct -2016
Commission scolaire francophone Territoires du Nord-Ouest	30-Sep-2016		20-Sep -2016
Dehcho Divisional Education Council	30-Sep-2016		10-Sep-2016
Dettah District Education Authority	30-Sep-2016		14-Oct -2016
N'dilo Divisional Education Council	30-Sep-2016		28-Sep-2016
Sahtu Divisional Education Council	30-Sep-2016		7-Oct-2016
South Slave Divisional Education Council	30-Sep-2016		17-Sep-2016
Yellowknife Catholic Schools	30-Sep-2016		14-Sep-2016
Yellowknife No.1 District Education Authority	30-Sep-2016		13-Sep-2016
Aurora College	30-Sep-2016	27-Nov-2016	24-Nov-2016
Northwest Territories Health and Social Services Authority	30-Jun-2017	29-Aug-2017	10-Oct-2017
Hay River Health and Social Services Authority	30-Jun-2017		30-Jun-2017
Tlcho Community Services Agency	30-Jun-2017		29-Jun-2017
Arctic Energy Alliance	30-Jun-2017		18-Sept-2017
Northwest Territories Hydro Corporation	30-Jun-2017	29-Aug-2017	28-Jul -2017
Northwest Territories Business Development and Investment Corporation	30-Jun-2017	29-Aug-2017	21-Aug-2017
Northwest Territories Housing Corporation	30-Jun-2017	29-Aug-2017	11-Oct-2017
Northwest Territories Human Rights Commission	30-Jun-2017		22-Sep-2017
Inuvialuit Water Board	30-Jun-2017		8-Jun-2017
Northwest Territories Sport and Recreation Council	30-Jun-2017		4-Jul-2017
Status of Women Council of the Northwest Territories	30-Jun-2017		4-Jul-2017
Northwest Territories Surface Rights Board	30-Jun-2017		15-May-2017

NOTABLE AUDIT SUBJECT AREAS

The following subjects have been identified as areas of particular interest to Members of the Standing Committee, which also may be of interest to the public:

Public-Private Partnerships

Increasingly, governments across Canada are using various forms of public-private partnership (P3) arrangements for the provision of assets and delivery of services. In P3 arrangements, the private corporation finances the project. This enables governments to borrow less money up front to develop larger, higher-cost projects, as the full cost of the project is paid over the project's life. This, in turn, allows governments to undertake more projects in a given time frame and to obtain expertise from private corporations.

P3 projects are not without risk, however. P3 agreements require complex, expensive legal arrangements. There is a risk at the end of a project's life – typically 30 years – that the asset will be returned to government in an unfit state and that any compliance penalty provided for in the agreement will be insufficient to remediate the asset. Government may guarantee a higher rate of return to the private corporation, compared with the cost of borrowing, meaning that over its life a P3 project may cost more than a project done through standard procurement practices. Significant issues arising during the construction phase may delay project completion and result in lawsuits and the application of penalties – problems of this latter nature have impacted upon the GNWT's Mackenzie Valley Fibre Link project.

There is a risk that the private partner may not have sufficient equity to pay penalties arising from such issues and may seek compensation from government for excess costs incurred. There is also a related risk that the private partner may experience insolvency or bankruptcy, potentially impacting upon its ability to see a project through to completion or requiring that a new partner step in to take over the original partner's responsibilities. Earlier this year, the collapse of UK based Carillion, the parent company of Carillion Canada Inc., which holds a 50 percent equity interest in Boreal Health Partnership, called into question the impact this bankruptcy would have on the Stanton Renewal project. In this instance, the P3 arrangement served to protect GNWT's interests by requiring the partner to resolve matters relating to the status of other consortium members. As a result, the assets and liabilities associated with the Stanton Renewal project have been assumed by Fairfax Financial Holdings and the project is continuing as planned. Nonetheless, both of the first two P3 projects undertaken by the GNWT have experienced some of the problems associated with this form of procurement. This amply demonstrates their more volatile nature.

At the end of 2015, the Canadian Public Sector Accounting Board (PSAB) approved a proposal to develop a public sector accounting standard specific to

public-private partnerships. While this work is ongoing, the Office of the Auditor General has been working with the GNWT's Department of Finance on the accounting treatment of P3s in the public accounts. As a result, the way that P3 projects are reflected in the public accounts is evolving from year to year.

2015-16 Public Accounts

In the *2015-16 Public Accounts*, information on P3 projects was primarily located in two places in Section I of the public accounts: under the Note 2 summary of significant accounting policies, and under Note 18, contractual obligations, which identified the GNWT's commitments related to P3 projects.

2016-17 Public Accounts

Starting this year, the GNWT has included a section on P3s under the *Financial Statement Discussion and Analysis* part of Section I (p. 35). Much of the information included here is similar to that previously found under Note 18 – contractual obligations.

P3 projects are now being booked as assets owned by the GNWT and shown as work in progress on Schedule A – the Consolidated Schedule of Tangible Capital Assets (p. 49). This schedule identifies P3 operational (service) commitments totaling \$284.7 million from March 31, 2017 until 2048; and commitments related to P3 tangible capital asset (building) projects in process at year-end totaling \$72.3 million from March 31, 2017 until 2018.

In 2016-17, the Section I, Note 2 – Summary of Significant Accounting Policies (p. 23) again contains an explanation of the treatment of P3 projects in the public accounts. Some of the highlights of this treatment include:

- P3 agreements may be used to procure services and public infrastructure when the total costs (capital, operating and service) over the life of the project exceed \$50 million;
- There is appropriate risk-sharing between the GNWT and the private partners;
- The agreement extends beyond the capital construction phase;
- There is a clear net benefit to the GNWT as compared with standard procurement processes;
- The operating and service costs, identified in the agreement, are expensed as they are incurred;
- For assets under construction, where the GNWT bears the risks and rewards, the capital asset (classified as a work in progress) and the corresponding liability are recorded based on the actual costs incurred by the P3 partner. Where the GNWT does not bear the risks and rewards of the asset until substantial completion, the future associated agreement is disclosed; and

- Rules are also set out for how a capital asset is valued and how any revenues are reported.

Section I, Note 14 – Long term debt also provides information on P3 projects. It identifies the \$51.2 million loan due to Boreal Health Partnership for the Stanton Renewal project, repayable in monthly installments of \$794,000, starting at the expected in-service date (November 2018) until November 2048; and the \$90.9 million loan due to Northern Lights General Partnership for the Mackenzie Valley Fibre Link, repayable in monthly installments of \$620,000, starting at the expected in-service date (August 2017) until July 2037.

The Committee understands that the manner in which the GNWT reports on P3 projects is driven by evolving PSAB standards. The Committee is pleased to see that the GNWT has taken the initiative to report cohesively on these very important capital projects in the *Financial Statement Discussion and Analysis* part of Section I and encourages the GNWT to continue to do so.

In its discussion with officials from the OAG, the Committee was advised that, in this interim period while the new PSAB standards are under development, the OAG had suggested the GNWT to bring together all of its information about P3 projects under one note in the consolidated public accounts. Accordingly, the Committee makes the following recommendation:

Recommendation 2

The Standing Committee on Government Operations recommends that the Government of the Northwest Territories considers bringing together all of its information about P3 projects under one note in the consolidated public accounts, until such time as the new Canadian Public Sector Accounting Board Standards on the accounting treatment of P3 projects are put in place.

Environmental Liabilities

The accounting treatment of environmental liabilities by public sector bodies is set out in the Public Sector Accounting Board's standard *PS 3260 – Liability for Contaminated Sites*. Under this standard, the GNWT is responsible for recording estimates in its financial statements for the further evaluation or remediation of all known contaminated sites for which it is legally responsible.

Environmental liabilities arise when contamination exceeds established environmental standards. Estimated remediation costs are recorded in the year in which they become known. Where no financial liability has been recognized, this is because the contamination is determined unlikely to affect public health or

safety, cause damage or impair the surrounding environment. These sites continue to be monitored as part of the GNWT's ongoing environmental protection program. Where new information becomes available indicating greater concerns, the remediation costs would be recorded at that time.

As reported under Section 1, environmental liabilities and asset retirement obligations for the government reporting entity totaled \$72.3 million [2016 –\$66.2 million] and included 279 identified sites [2016 – 223] as potentially requiring environmental remediation. Included in the 279 sites are 80 sites for which no financial liability has, as yet, been recognized.

For Section II (government departments only), environmental liabilities totaled \$53.7 million and include 245 sites [2016 – 191] potentially requiring environmental remediation. Included in the 245 sites are 79 sites [2016 – 74 sites] for which no financial liability has, as yet, been recognized.

There were 6 sites [2016 – 2 sites] closed during the fiscal year that were either remediated, or no longer meet the criteria required to record a liability for contaminated sites, in accordance with Canadian public sector accounting standards (PSAS). This is the same information as reported in Section 1, meaning all of the closed sites were under departmental administration or responsibility.

Giant Mine is included as one of the sites and has been formally designated as contaminates under the NWT *Environmental Protection Act*. In 2005, the GNWT recorded a liability for its share of the remediation, the remaining balance of which is \$2.7 m [2016 - \$2.9 m]. There are 6 other abandoned, non-operating mine sites that the GNWT and Canada will be jointly remediating, on a cost-sharing allocation similar to that used for Giant Mine.

The Committee understands that the information on environmental liabilities provided by the Department of Finance in the public accounts is driven by public sector accounting standards. Nonetheless, the information is of considerable public interest and the GNWT has a stated commitment to improving accountability and transparency. Given these considerations, and the fact that the GNWT's inventory of contaminated sites is managed by the Department of Finance, the Committee makes the following recommendation:

Recommendation 3

The Standing Committee on Government Operations recommends that the Government of the Northwest Territories make GNWT's inventory of contaminated sites available online modeled upon, and with a level of disclosure comparable to, the Federal Contaminated Sites Inventory maintained by the Treasury Board of Canada Secretariat.

Fiscal Responsibility Policy 15.03

The GNWT's *Fiscal Responsibility Policy* (FRP) was first established, in 2005, as a policy of the Financial Management Board and later re-issued as a Cabinet-approved policy. The purpose of the FRP is to ensure that the GNWT plans for and achieves sufficient operating surpluses to finance annual infrastructure investments and meets debt servicing payments on any amounts borrowed. This requires the government to adhere to the following parameters that are set out in the policy:

Affordable debt (including debt associated with P3 projects): Non-consolidated debt servicing payments (defined as principal repayments together with debt interest plus any incidental costs associated with administration of the debt) shall not exceed five per cent (5%) of total non-consolidated annual revenues; and

Infrastructure financing (excluding P3 projects): Government will restrict infrastructure investments, as follows:

- (a) A minimum of fifty per cent (50%) from the operating surpluses generated within the non-consolidated (Section II) public accounts; and
- (b) A maximum of (50%) from government debt.

As a result of pressure by the Standing Committee, Finance now reports annually, in the *Financial Statement and Analysis* part of Section 1 of the public accounts (p. 34), on how the GNWT has performed with respect to the numerical parameters set under the FRP:

Figure 2

	2015-16	2016-17
	(\$ in Millions)	
<i>Fiscal Responsibility Policy Provision 6(5)(a)- Debt Servicing Payments</i>		
Revenues (Schedule A of Non-Consolidated Public Accounts)	1,814	1,857
<i>Maximum Debt Servicing Payments- 5% of Revenues</i>	91	93
Debt Servicing Payments		
Capital Leases	0	0
Deh Cho Bridge	8	9
Short-Term Interest Expense	1	2
Total Debt Servicing Payments	9	11
<i>Actual Debt Servicing Payments as a % of Revenues</i>	0.52%	0.59%
<i>Fiscal Responsibility Policy Provision 6(3)- Infrastructure Financing</i>		
Capital Acquisitions (Schedule 4 of Non-Cons. Public Accounts)	288	323
Less: P3 Items- Out of Scope		
Mackenzie Valley Fibre Link P3 (Finance)	(65)	(26)
Stanton Territorial Hospital P3 (Health and Social Services)	(14)	(37)
<i>Cash Required for Infrastructure Investment Expenditures</i>	209	260
<u>Operating Cash Required</u>		
Minimum cash required from operating surplus (50% of Acquisitions)	105	130
Debt Servicing Payments	9	11
<i>Total Operating Cash Requirements</i>	114	141
<u>Operating Cash Available</u>		
Operating Surplus (Non-Consolidated Statement of Operations)	110	155
Add Non Cash Item: Amortization of Tangible Capital Assets	84	89
<i>Total Operating Cash Available</i>	194	244
Excess in cash generated from operating surplus	80	103
Cash Required for Infrastructure Investment Expenditures	209	260
Total Operating Cash Available	194	244
<i>Borrowing Requirement for Infrastructure</i>	15	16

The GNWT concludes that it has met the parameters of the FRP for the 2016-2017 fiscal year. With respect to affordable debt, Figure 2 reveals that debt servicing costs of \$11 million, as compared with non-consolidated revenues of \$1.857 billion, meant that the GNWT's debt servicing payments amounted to 0.59% of total revenues, well below the 5% threshold.

With respect to infrastructure financing, it is less easy to discern how the GNWT has met the requirements of the FRP. While the policy requires that a minimum of 50% of infrastructure investment be funded from non-consolidated operating surpluses and a maximum 50% from government debt, the GNWT concludes that “[t]otal operating cash required of \$141 [million] compared to total operating cash available [of] \$244 million, resulted in an excess in cash generated of \$103 [million].”

Committee believes the Minister of Finance would be the first to agree that the GNWT does not have excess cash at its disposal, which makes the conclusion reached in this section of the public accounts somewhat misleading. The FRP requires the government to generate an annual non-consolidated operating surplus to fund infrastructure development, but the amount of surplus in excess of the government's investment needs is of less importance to the Committee, and hence to the public, than whether or not the surplus generated is sufficient to fund a minimum 50% of investment costs.

With respect to reporting on the FRP, the Committee is pleased to see that the chart presented in Figure 2 identifies where, in the public accounts, some of the key figures may be found that are used in determining the government's compliance with the policy. The Committee would like to see the source identified for all of the figures noted in the chart, so that these calculations may be independently verified – an important aspect of public accountability.

Committee also notes that on p. 30, in the *Financial Statement Discussion and Analysis* Finance reports that the “Government's debt servicing payments to total revenue has increased slightly from 1.48% in 2015-16 to 1.75% in 2016-17.” The report notes that the Government's fiscal responsibility policy was met by having these debt servicing payments not exceed 5%.

Committee found this narrative to be somewhat confusing, given that the 1.75% figure differs from the 0.59% figure noted in the chart on p. 34, Section I. However, section on p. 30 also notes that the increases relate to the consolidation of the NWT Hydro Corporation in the public accounts. This suggests that the 1.75% figure refers to the entire Government Reporting Entity, and therefore to the consolidated debt servicing payments, rather than the non-consolidated debt servicing payments referenced in the FRP.

Committee raised this with the Comptroller General, who agreed that the If Committee is correct in this understanding then the FRP does not apply to the

consolidated debt servicing payments, and should not be referenced in this part of the narrative.

Overall, the Committee is pleased with the progress made by Finance in its reporting on the *Fiscal Responsibility Policy* and challenges the department to strive to improve upon this reporting by considering the Committee's observations. Accordingly, the Committee makes the following recommendation:

Recommendation 4

The Standing Committee on Government Operations recommends that the Government of the Northwest Territories, giving consideration to the observations made in this Committee Report, strive to improve upon the information in the *Financial Statement Discussion and Analysis* section of the public accounts that indicates how the GNWT has met the provisions of the *Fiscal Responsibility Policy* related to debt servicing and infrastructure financing.

Borrowing

When the GNWT does not have sufficient cash resources, it must rely on short term borrowing to meet cash flow requirements, such as payroll. Short-term debt is defined as borrowing for a period of time that is 365 days or shorter. A limit on short-term borrowing used to be set in the *Borrowing Authorization Act (BAA)*. Although Note 8 refers to the *Borrowing Authorization Act*, the new FAA, which came into force on April 1, 2016, eliminated the need for the BAA, which has since been repealed.

Starting with the 2016-17 fiscal year, the short term borrowing limit is now set in the *Appropriation Act* and referenced in the GNWT's annual borrowing plan. The borrowing plan can be found on p. xv of the *2016-17 Main Estimates*. The Comptroller General confirmed for the Committee that the reference to the BAA was outdated, and will be updated to reflect the current legislative framework in future years.

For the Government Reporting Entity, both short- and long-term debt are reported under liabilities in the Consolidated Statement of Financial Position. For 2016-2017, long-term debt⁴ increased by \$110.6 million (24.5%) to \$561.7 million. The GNWT attributes the increase in long-term debt to "work done to date on the Mackenzie Valley Fibre Link and Stanton Territorial Hospital renewal

⁴ Long term debt (Section 1, Note 14, p. 33).

projects.”⁵ Short term loans⁶ decreased by \$42.6 million (15.4%) to \$234.8 million.

Protection of Privacy and Disclosure of Information

The *Non-consolidated Schedule of Bad Debt Write-offs, Forgiveness and Student Loan Remissions (Schedule 9)* contained in Section II of the public accounts continues to identify, by name, all individuals who have received a remission of their student loans and the amount of that remission. Committee has two concerns with respect to Schedule 9.

First, student loan remissions are a positive indication of a northern resident student’s completion of higher education. By reporting these remissions in the same schedule as write-offs and forgiveness of bad debts, which have negative connotations, the GNWT creates a situation in which student loan remissions may be conflated with bad debts. A casual reader, who does not understand what a remission is, or how the process works, might interpret the amounts written beside a student’s name as being indicative of a bad debt, given this wording appears on the page header in the schedule. Schedule 9 does include a description of the student loan remission process, to guard against this, but it is still a risk.

This risk is exacerbated by the fact that the public accounts are text-searchable, meaning that any potential creditor who is searching financial information about a loan applicant would be able to find that applicant’s name and the amount of their loan remitted by the GNWT. This is a data-matching⁷ practice outside the GNWT’s control, but inadvertently enabled by current technology and the GNWT’s decision to post the information as it currently does.

In the past two reviews, the Committee has made recommendations designed to compel the GNWT to reconsider its position on this matter, including a recommendation made in the last review that the department consult with the IPC and with the Department of Education, Culture and Employment to determine whether or not consent is obtained from student loan applicants for the disclosure of this personal information.

The Standing Committee recognizes that government must strike a balance between protecting the privacy of an individual’s personal information and

⁵ 2016-17 Financial Highlights of the Public Accounts, GNWT.

⁶ Short term loans (Section 2, Note 8, p. 29).

⁷ Data-matching is the practice of combining sets of data from two or more separate sources. When combined with the practice of using this information for purposes other than those for which the information was collected, data-matching can result in unreasonable or illegal infringement of an individual’s right to privacy. With advances in technology, data matching has become an area of increasing concern, and one that has been touched on by the NWT IPC in discussion with SCOGO during the review of the IPC’s 2014-15 Annual Report.

disclosing information that is in the public interest. However, Committee believes that the degree of disclosure related to this information is not required under Section 65(1)(b) of the *Financial Administration Act* and may, in fact, constitute a breach of privacy of those individuals named in the schedule, which is the Committee's second concern with Schedule 9. It should be noted that the Committee's view is shared by the Information and Privacy Commissioner of the Northwest Territories (IPC) who has communicated her views to the Department of Finance.

The Committee is pleased to hear that the Comptroller General expects to engage the IPC in a privacy impact assessment related to this issue in the 2018-2019 fiscal year, but is disappointed that this has not already been completed given the Committee's concerns. The Committee was also interested to learn that ECE has since amended its student loan application to clearly identify that remissions will be disclosed in the public accounts. This suggests that the information was, before the amendment, being collected and disclosed in a manner inconsistent with the requirements of the *Access to Information and Protection of Privacy Act*.

To address the concern about the optics of reporting loan remissions and bad debt write offs and forgiveness in the same schedule, the Committee considers that a simple solution might for the GNWT publish the forgiveness and write-off of bad debts in a separate schedule from student loan remissions. Committee discussed the viability of this option with the Office of the Auditor General whose officials indicated that they did not see any impediment to this approach. Therefore, the Committee makes the following recommendation:

Recommendation 5

The Standing Committee on Government Operations recommends that the Department of Finance give consideration to reporting student loan remissions in another schedule in the public accounts, separate from the schedule reporting bad debt write offs and forgiveness.

With respect to the protection of students' privacy, Committee believes that the practice of identifying students by their initials and surname only, might further enhance privacy. As well, Committee notes that in a number of previous years' public accounts, forgiveness and write-offs have been published as aggregate amounts, which would appear to be inconsistent with the government's insistence that loan remissions must be reported as individual amounts. If it is possible for the GNWT to publish these amounts as totals, then it should hold that the same should be possible with respect to the total amount of student loan remissions. This brings us to the Committee's next recommendation:

Recommendation 6

The Standing Committee on Government Operations recommends that the Department of Finance, upon completion of a Privacy Impact Assessment in 2018-2019 by the Information and Privacy Commissioner and having considered the Committee's suggestions contained in this Report, reconsider amending the *Non-consolidated Schedule of Bad Debt Write-offs, Forgiveness and Student Loan Remissions* to better protect the privacy of individuals.

Accountability and Transparency

A commitment to improving accountability and transparency is one of the key priorities of the 18th Legislative Assembly, and a fundamental component of the Government of the Northwest Territories' Mandate. Public information must be clear, concise, and easily understood by the average reader.

The public accounts are the definitive source of information for the public on the GNWT's fiscal performance. However, they are prepared for a very specific purpose, according to federal and territorial legislation and following standards set by the Public Sector Accounting Board. As a result, these documents are not easily understood by non-expert readers.

In previous reviews, the Standing Committee has urged the Department of Finance to find ways to make the information contained in the public accounts as clear as possible for interested readers lacking expertise in finance or accounting. Finance has responded positively, first producing a document in 2015-2016 titled "The Public Accounts: An Overview," which provides non-expert readers with an introduction to the public accounts and the information contained within them. In 2016-2017, this was supplemented by a document titled *2016-17 Financial Highlights of the Public Accounts* which, Committee understands, will be updated annually to coincide with the release of the public accounts.

Officials from the OAG advised Committee that the Department of Finance has been working to complete the translation of government annual reports in French and will be ensuring that those of the territorial corporations will be completed for 2016-2017 and annually moving forward. The Committee supports this work and encourages the department to continue to make available in French all annual reports required under the GNWT's *Planning and Accountability Framework*.

Recommendation 7

The Standing Committee on Government Operations recommends that the Department of Finance continue its efforts to ensure that all annual reports required under the GNWT's *Planning and Accountability Framework* be translated in French and made available to the public in a timely manner.

The Standing Committee again thanks the Department of Finance for its positive response to the Committee's recommendations to improve public communications related to the public accounts and commends the department for its work in this area.

CONCLUSION

The Standing Committee on Government Operations has a mandate to review the public accounts of the Government of the Northwest Territories so that GNWT financial management practices and decisions receive public scrutiny.

Committee members were grateful for the assistance provided by the Office of the Auditor General in support of this work. Committee members also appreciate the appearances before the Standing Committee by staff from the Office of the Comptroller General in the Department of Finance.

The Standing Committee looks forward to the Government's response to this report.

Recommendation 8

The Standing Committee on Government Operations recommends that the Government of the Northwest Territories provide a response to this report within 120 days.