



HOUSE OF COMMONS
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CANADA

**CHAPTER 6, NUTRITION NORTH CANADA —
ABORIGINAL AFFAIRS AND NORTHERN
DEVELOPMENT CANADA, OF THE FALL 2014
REPORT OF THE AUDITOR GENERAL
OF CANADA**

**Report of the Standing Committee on
Public Accounts**

**David Christopherson
Chair**

MAY 2015

41st PARLIAMENT, SECOND SESSION

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

SIXTEENTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Chapter 6, Nutrition North Canada — Aboriginal Affairs and Northern Development Canada, of the Fall 2014 Report of the Auditor General of Canada and has agreed to report the following:

CHAPTER 6: NUTRITION NORTH CANADA — ABORIGINAL AFFAIRS AND NORTHERN DEVELOPMENT CANADA, OF THE FALL 2014 REPORT OF THE AUDITOR GENERAL OF CANADA

INTRODUCTION

Many of Canada's northern communities are accessible only by air for all or part of the year. As a consequence, the cost of shipping food and other essential goods to these communities is higher than in southern regions. Additionally, stores in these communities face higher electricity, maintenance and storage costs. These factors lead to higher food prices for consumers and make it more difficult for northern Canadians to afford a nutritious diet which is an important component of good health. According to Statistics Canada, in 2009 the average household expenditure on food was twice as much in Nunavut as the Canadian average.¹ Household food insecurity, that is, not having enough food to meet the needs of all members of the household, is greater in the North.

To help with the high cost of food in the North, in the 1960s, the federal government established the Food Mail Program, which provided Canada Post a transportation subsidy to deliver items to isolated communities. In a 2002 audit of the program, the Office of the Auditor General (OAG) found that Aboriginal Affairs and Northern Development Canada (AANDC) had not reviewed the effectiveness of the entry points for food shipments, which could affect financial costs and the quality of food items delivered.² According to officials from AANDC, the Food Mail Program targeted less nutritious items, lacked accountability, and had no monitoring in place to ensure the subsidy was being passed on to consumers.³ Officials identified that 20% of the program was used to subsidize non-food items, such as parts for snowmobiles, as they could be used by hunters to obtain food.⁴ As the program often exceeded its budget, in 2006, the federal government directed AANDC to review the program and to develop options to improve its efficiency while maintaining financial sustainability and predictability.⁵

1 Auditor General of Canada, "[Chapter 6 – Nutrition North Canada – Aboriginal Affairs and Northern Development Canada](#)," *Fall 2014 Report of the Auditor General of Canada*, 2014, para. 6.2.

2 Auditor General of Canada, "[Chapter 11—Other Audit Observations](#)," *2002 December Report of the Auditor General of Canada*, 2002, paras. 11.52-11.54.

3 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 41st Parliament, 23 March 2015, Meeting 51, 1535.

4 *Ibid.*, 1610.

5 Auditor General of Canada, Chapter 6, para. 6.3.

In April 2011, AANDC introduced the Nutrition North Canada (NNC) program, with the objective of making healthy foods more accessible and affordable to residents of isolated northern communities. NNC funds go directly to about 40 retailers, wholesalers, suppliers and food processors, providing an incentive to support healthier, more nutritious foods, and to make the most cost-effective decisions to get the eligible items to communities. Retailers are responsible for passing on the subsidy to consumers by reducing their prices on eligible foods, and payments are based on the weight of eligible foods shipped to eligible communities. Subsidy rates vary by community, from a low of \$0.05/kilogram for Stony Rapids, Saskatchewan, to a high of \$16.00/kilogram for Grise Fiord, Nunavut.⁶

In 2013–2014, AANDC planned to spend \$57.2 million on the NNC program, but actually spent \$66.2 million, with the additional amounts funded through internal re-allocations.⁷ In November 2014, the government announced that the NNC program's base funding would be increased by \$11.3 million in 2014–2015 and a 5% annual compound escalator would be used to calculate the budget in future years, resulting in a subsidy budget of \$68.5 million in 2015–2016.⁸ According to officials from AANDC, the 5% escalator was included to take into account population growth in the North, as well as the success of the program.⁹

In its Fall 2014 Report, the OAG released a performance audit that examined whether AANDC managed the NNC program to meet its objective of making healthy foods more accessible and affordable to residents of isolated northern communities, and to obtain the information required to demonstrate that the full subsidy was being passed on to consumers.¹⁰

The House of Commons Standing Committee on Public Accounts (the Committee) held a hearing on this audit on 23 March 2015. From the OAG, the Committee met with Michael Ferguson, Auditor General of Canada, and Glenn Wheeler, Principal. From AANDC, the Committee heard from Colleen Swords, Deputy Minister, and Stephen Van Dine, Assistant Deputy Minister, Northern Affairs.

6 Auditor General of Canada, Chapter 6, para. 6.8.

7 Aboriginal Affairs and Northern Development Canada, [2013–14 Departmental Performance Report](#), 2014, p. 97.

8 Government of Canada, "[Harper Government Announces Additional Funding for Nutrition in the North](#)," News release, 21 November 2014.

9 Meeting 51, 1645.

10 Auditor General of Canada, Chapter 6, para. 6.10.

IDENTIFYING ELIGIBILITY

A. Food Eligibility

As the NNC program seeks to increase the consumption of healthy foods and thereby contribute to improving the health of people, the OAG examined whether AANDC had identified a list of nutritious foods that are eligible for subsidy under the NNC program.¹¹ The OAG found that AANDC's food eligibility list was developed with advice from Health Canada to support access to fresh, nutritious foods.¹² The OAG noted that in response to public pressure, in 2011, AANDC decided to continue subsidizing some less healthy foods, such as ice cream, bacon and processed cheese spread.¹³

B. Community Eligibility

Under the Treasury Board Policy on Transfer Payments, transfer payment programs need to be designed, delivered and managed in a manner that is fair and accessible for recipients.¹⁴ Consequently, the OAG examined whether AANDC established criteria to identify communities eligible for subsidies based on need. The OAG found that AANDC based eligibility on the lack of year-round surface transportation and past use of the Food Mail Program.¹⁵

Ms. Swords explained that prior use of the Food Mail Program was used as an eligibility criterion in order to ease initial implementation.¹⁶ She also said, "the rationale was that those that were using [the Food Mail Program] obviously needed it, and if they weren't using it, it was taken as a proxy for not needing it."¹⁷ Stephen Van Dine, Assistant Deputy Minister at AANDC, provided more detail on how the department calculates subsidies, explaining:

The formula by which we apply the subsidies took into account in the base year the lowest shipping rate for each community of the three biggest providers. From that we took into account a small variation, to take into account, over and above transportation, the higher cost of operating and providing retail establishments in the community. That determined the general approach to setting the initial rates. We then increased those rates the year following, and those rates haven't been adjusted since.¹⁸

11 Ibid., para. 6.13

12 Ibid., para. 6.14.

13 Ibid., para. 6.16.

14 Auditor General of Canada, Chapter 6, para. 6.17

15 Ibid., para. 6.18.

16 Meeting 51, 1540.

17 Ibid., 1605.

18 Ibid., 1615.

The OAG observed that these criteria have led to inconsistencies in the treatment of similar communities because not all communities used the Food Mail Program.¹⁹ For example, for two communities in Northern Ontario that are both isolated and are situated 20 kilometres apart, one receives a subsidy of \$1.60/kilogram, while the other receives a subsidy of \$0.05/kilogram.²⁰ The OAG concluded that AANDC's community eligibility criteria were not fair and accessible and recommended that AANDC review its community eligibility criteria to base them on need.²¹ Michael Ferguson, Auditor General of Canada, told the Committee that his office didn't have specific expectations with respect to the eligibility criteria that should be adopted to ensure fairness. Instead, he commented, "What we would want to do is see that there was a fulsome analysis done by the department to say, 'You know what? This is how we have arrived at what's fair.'"²²

Ms. Swords informed the Committee that AANDC is undertaking a detailed review of remote communities to better understand the challenges they face.²³ AANDC will post information on its website by summer 2015 and will seek feedback from communities on whether AANDC's analysis appropriately represents their situation.²⁴ AANDC's action plan indicates some of the criteria that may be used: community demographics, the number of grocery stores in each community, amount of time isolated, nature and condition of surface access when it exists and distance to supply centre by air.²⁵

In order to ensure that AANDC puts in place appropriate community eligibility criteria for the NNC program based on need, the Committee recommends:

RECOMMENDATION 1

That, by 31 March 2016, Aboriginal Affairs and Northern Development Canada report to the Standing Committee on Public Accounts on its detailed review of the criteria for community eligibility.

19 Auditor General of Canada, Chapter 6, para. 6.18.

20 Ibid., para. 6.19.

21 Ibid., para. 6.21.

22 Meeting 51, 1550.

23 Ibid., 1540.

24 Ibid., 1610.

25 Aboriginal Affairs and Northern Development Canada, [*Departmental Action Plan in Response to Audit Findings and Recommendations Contained in Chapter 6: Nutrition North Canada – Aboriginal Affairs and Northern Development*](#), March 2015.

PASSING THE SUBSIDY ON TO CONSUMERS

A. Contribution Agreements

Under the NNC program, retailers are required to pass on the full amount of the subsidy to consumers by reducing the selling price of food items. According to the OAG, in order to know whether the full amount of the subsidy is being passed on, AANDC needs to know the landed cost of items, the subsidy provided under NNC, the retailer's profit margin, including store overhead costs, and the corresponding selling price.²⁶

While AANDC stipulated in contribution agreements with retailers that the full subsidy be passed on to consumers, the OAG noted that AANDC did not specify that data on profit margins must be provided to AANDC.²⁷ Instead, AANDC uses information from retailers on food prices to calculate the cost of the Revised Northern Food Basket to verify that the full subsidy is passed on.²⁸ As the OAG believes data on profit margins is necessary to determine whether the full subsidy is passed on, the OAG recommended that AANDC review the requirements of contribution agreements to clarify that retailers must provide information on profit margins.²⁹ Mr. Ferguson told the Committee that the OAG was not asking retailers to release confidential commercial information publicly, as information on profit margins would be provided only to AANDC and an independent contractor conducting compliance reviews.³⁰ He commented that the government needs to know whether the NNC program is having its intended impact, which would be reduced if the profit margin is increased.³¹

Ms. Swords informed the Committee that in response to the OAG's recommendation, a new clause has been added to all contribution agreements with retailers. She said:

While all financial information has always been a requirement, for greater clarity a new clause to this effect will be added to all funding agreements with retailers and suppliers beginning ... April 1 [2015]. This new clause specifies that recipients must provide all the information on eligible items, including current profit margins and profit margins over time.³²

26 Auditor General of Canada, Chapter 6, para. 6.24.

27 Ibid., para. 6.26.

28 Ibid., para. 6.27.

29 Ibid., para. 6.29.

30 Meeting 51, 1600.

31 Ibid.

32 Ibid., 1540.

B. Compliance Reviews

In order to ensure that retailers are complying with the requirements of contribution agreements, AANDC engaged a contractor to conduct compliance reviews on its behalf.³³ The OAG found that the compliance reviews did not verify whether retailers were passing on the full subsidy to consumers, as the reviews only looked at whether the subsidy was deducted from the landed cost of items.³⁴ AANDC did not require the compliance reviews to include an examination of profit margins, as commercial confidentiality may make profit margins unavailable.³⁵ The OAG believes that verifying whether the full subsidy is being passed on would improve the program's transparency and recommended that AANDC specify that compliance reviews examine current profit margins and profit margins over time.³⁶

Ms. Swords informed the Committee that AANDC has conducted compliance reviews on 16 of the 32 recipients, representing about 94% of the total weight of food shipped and all reviews are available on AANDC's website.³⁷ She maintained that "[the] compliance reviews do look at whether or not the subsidy is being passed on, but the Auditor General has pointed out that they can't always provide the data and the information to establish the basis on which they're making their conclusion."³⁸ She added, "when the auditors went out to gather the information [on profits], they didn't get documents that showed something and they weren't able to establish that. The records that some companies had were incomplete."³⁹ She indicated that the specific inclusion in contribution agreements of a clause requesting information on profit margins will allow AANDC to verify that the full subsidy is passed on to consumers, and the statements of work for audit firms engaged to conduct compliance reviews have been amended accordingly.⁴⁰

In order to ensure that AANDC's compliance reviews report on whether the full subsidy is passed on to consumers, the Committee recommends:

33 Auditor General of Canada, Chapter 6, para. 6.30

34 Ibid., para. 6.32.

35 Ibid.

36 Ibid., para. 3.37.

37 Meeting 51, 1615.

38 Ibid.

39 Ibid., 1635.

40 Ibid., 1540.

RECOMMENDATION 2

That, by 31 March 2016, Aboriginal Affairs and Northern Development Canada report to the Standing Committee on Public Accounts on the extent to which compliance reviews were able to determine that the full subsidy for the Nutrition North Canada program was passed on to consumers.

MANAGING THE PROGRAM

A. Performance Measurement

In order to support the management of a program, the Treasury Board Policy on Transfer Payments requires departments to develop a performance measurement strategy and to measure progress toward the achievement of the program's objectives. Consequently, the OAG examined whether AANDC used performance information to manage the NNC program, and to measure and report on the achievement of the program's objective.⁴¹

As outlined by the OAG, AANDC's performance measurement strategy for the NNC program used the following performance indicators:

- weight of eligible food shipped;
- Revised Northern Food Basket prices;
- estimated weight of food purchased per person; and
- level of awareness about the NNC program.⁴²

The OAG observed that AANDC did not have an indicator to measure whether the full subsidy was passed on to consumers. Also, AANDC assumed that if food is shipped and is affordable, then food is available, but AANDC had not defined what is meant by affordability.⁴³

The OAG noted that AANDC reported that 26.4 million kilograms of food were subsidized in 2011–2012 and 25.6 million kilograms were subsidized in 2012–2013.⁴⁴ AANDC reported that 25 million kilograms of food were subsidized in 2013–2014.⁴⁵ The

41 Auditor General of Canada, Chapter 6, para. 6.39.

42 Ibid., para. 6.41.

43 Ibid., para. 6.42.

44 Ibid., para. 6.43

45 Aboriginal Affairs and Northern Development Canada, *2013–14 Departmental Performance Report*, p. 98.

OAG also observed that while it had not audited the numbers, AANDC data show that the weight of items subsidized under the Nutrition North Canada program in 2012–2013 had increased by 25% compared with the weight of food subsidized in the final year of the Food Mail Program.⁴⁶ Accordingly, Ms. Swords told the Committee that, “the average volume of eligible items shipped to northern remote communities increased by approximately 25% over the first three years of the program.”⁴⁷

AANDC also reported information on the Revised Northern Food Basket prices, which includes 67 foods whose combined cost is a measure of the overall cost of feeding a family of four over one week. As noted by the OAG, AANDC reported that the cost of the Food Basket in March 2013 was 2.4% higher than in March 2012 for communities eligible for a full subsidy, and 3.6% higher for communities eligible for a partial subsidy.⁴⁸ AANDC also reported that the cost of the Food Basket decreased by 5.6% under the NNC program compared with the Food Mail Program for the period March 2011 to March 2013.⁴⁹ Ms. Swords noted, “Between March 2011 and March 2014, for example, the cost of the Revised Northern Food Basket for a family of four in communities eligible for a full subsidy under Nutrition North Canada fell by an average of 7.2%. ... According to the Consumer Price Index, food prices elsewhere in Canada increased by approximately 5.5% over the same period.”⁵⁰

The OAG commented that the Revised Northern Food Basket had weaknesses. AANDC had limited assurance regarding the accuracy of prices because it did not systematically verify the prices reported, and at least 30 stores were excluded from the calculation of prices. Also, the information did not allow AANDC to measure whether the full subsidy was passed on to consumers because prices included eligible and ineligible items.⁵¹ The OAG found that AANDC had not collected data to report on the estimated weight of food purchased, spoilage rates or the level of awareness of the program.⁵² There was also some quality control issues affecting the information reported.⁵³ The OAG recommended that AANDC review and update its performance measurement strategy.⁵⁴

Ms. Swords informed the Committee that AANDC had updated the NNC program’s performance measurement strategy in September 2014, and it is now available on the

46 Auditor General of Canada, Chapter 6, para. 6.43

47 Meeting 51, 1540.

48 Auditor General of Canada, para. 6.44.

49 Ibid.

50 Meeting 51, 1540.

51 Auditor General of Canada, Chapter 6, para. 6.45.

52 Ibid., para. 6.46.

53 Ibid., para. 6.48.

54 Ibid., para. 6.49.

department's website.⁵⁵ She said, "It focuses on ensuring that performance indicators and data collection methods are well defined and in place to support program monitoring. Key activities in the performance measurement strategy include providing, monitoring, and verifying subsidies for eligible foods and promoting program awareness, outreach, and engagement."⁵⁶ She observed that AANDC uses the Revised Northern Food Basket as an indicator because it is the same food basket that was tracked under the Food Mail Program.⁵⁷

D. Cost Containment

One of the conditions for approval of the NNC program was the implementation of a cost containment strategy, which included two main options for controlling costs—adjustments to the subsidy rate and streamlining the food eligibility list.⁵⁸ Other options for controlling costs included setting community limits, establishing a dedicated revolving fund, and transferring funds from other programs within the department.⁵⁹

In 2010, AANDC established an Oversight Committee for the NNC program, whose responsibilities included monitoring the effectiveness of cost containment measures and approving community subsidy rates. The OAG found that the committee rarely met and AANDC was re-examining its role at the time of the audit.⁶⁰

The OAG observed that in the first year of the program, in 2011–2012, AANDC increased the subsidy rates in order to use more fully the program's budget. As AANDC did not want to increase the price of food in subsequent years, it left the increased rates in place. However, this led to shortfalls in the program's budget, which have been covered by transferring funds from elsewhere within AANDC.⁶¹ The OAG also noted that subsidy rates were based on freight rates in 2011, which have changed in the interim as some northern retailers have been able to lower their freight rates.⁶² The OAG recommended that AANDC consider all options in implementing its cost containment strategy.⁶³

Ms. Swords told the Committee that, "The Minister of Aboriginal Affairs and Northern Development has considered and continues to consider all options related to

55 Meeting 51, 1540.

56 Ibid.

57 Ibid., 1600.

58 Auditor General of Canada, Chapter 6, paras. 6.50 and 6.51.

59 Ibid., para. 6.51.

60 Ibid., para. 6.52.

61 Ibid., para. 6.53.

62 Ibid., para. 6.54.

63 Ibid., para. 6.55.

cost containment, especially how any such decisions may affect Northerners.”⁶⁴ She also said that the NNC Advisory Board will be engaging Northerners, retailers and suppliers on ideas to keep the program on a sustainable path.⁶⁵ When asked how many communities would be visited, Ms. Swords responded that AANDC was still working out its engagement plan and will be seeking to reach the most people in the most cost effective manner.⁶⁶

As many people residing in northern communities may wish to participate in consultations regarding modifications to the NNC program, the Committee recommends:

RECOMMENDATION 3

That, by 31 March 2016, Aboriginal Affairs and Northern Development Canada report to the Standing Committee on its engagement strategy for the Nutrition North Canada program.

CONCLUSION

Access to affordable healthy foods is an important component of good health. This access is often taken for granted by residents of Canada’s larger cities, but residents of many northern communities face substantially increased costs for healthy foods. The federal government seeks to reduce costs for northern residents by subsidizing the price of healthy foods through the NNC program.

In its audit of the NNC program, the OAG concluded that AANDC had not managed the program to meet its objective of making healthy foods more accessible to residents of northern communities because it had not based community eligibility on need. AANDC also had not met its objective of making healthy food more affordable because it had not defined affordability, nor had it verified that retailers were passing on the full subsidy to consumers.⁶⁷ If AANDC were able to demonstrate that the full subsidy was passed on to consumers, it could lessen public skepticism and increase confidence in the program.

In response to the audit, AANDC has committed to revising its community eligibility criteria, included a clause in contribution agreements to require retailers to provide information about profit margins, clarified expectations that compliance reviews should examine whether the full subsidy is passed on to consumers, updated its performance measurement strategy, and will be engaging Northerners on how to keep the program on a sustainable path. The Committee expects that AANDC will continue to make

64 Meeting 51, 1540.

65 Ibid.

66 Ibid., 1705.

67 Auditor General of Canada, Chapter 6, para. 6.57.

improvements to the NNC program in order to ensure that residents of northern communities have access to affordable healthy foods.

APPENDIX A LIST OF WITNESSES

| Organizations and Individuals | Date | Meeting |
|---|-------------|----------------|
| Department of Indian Affairs and Northern Development | 2015/03/23 | 51 |
| Colleen Swords, Deputy Minister | | |
| Stephen Van Dine, Assistant Deputy Minister Northern Affairs | | |
| Office of the Auditor General of Canada | | |
| Michael Ferguson, Auditor General of Canada | | |
| Glenn Wheeler, Principal | | |

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 51 and 55](#)) is tabled.

Respectfully submitted,

David Christopherson

Chair

