

# **Budget Address**

## **2018 - 2019**

***NORTHWEST TERRITORIES***

**The Honourable Robert C. McLeod**  
Minister of Finance

**Third Session of the  
Eighteenth Legislative Assembly**

**February 8, 2018**



## Introduction

Mr. Speaker, this, the third Budget of the 18<sup>th</sup> Legislative Assembly, demonstrates determined progress in providing opportunities for Northwest Territories residents to build a better future, even in the face of declining revenues and economic uncertainty.

At the start of this Assembly we defined what we wanted to accomplish together for the long-term future of the Northwest Territories. This Budget continues to support this vision by investing in the priorities set out in this Assembly's Mandate and by protecting and enhancing existing programs and services while holding firm on restoring fiscal sustainability.

This Budget provides resources to update our land and natural resource management and to work on long-term energy and climate change plans to help lower the cost of living and help our people adapt to the effects of climate change.

This Budget provides the funds to enhance our efforts to provide residents with better training and education for the jobs of the future.

This Budget provides the means to support our communities to become stronger, safer and more caring and to enhance support for our people struggling with personal challenges like mental health and addictions.

This Budget provides resources to further our evolving relationships with Northwest Territories Indigenous governments so that our common priorities benefit all Northwest Territories residents.

This Budget provides investments to continue our work to strengthen traditionally strong sectors of our economy in an environmentally responsible manner and to support economic diversification and new economic opportunities.

I would like to thank my Cabinet colleagues, the Standing Committees, and all the other groups and individuals, for their input and advice.

## **Fiscal Strategy and Budget Highlights**

Mr. Speaker, the 2018-19 Budget proposes operating expenditures of \$1.713 billion, paid for with \$1.75 billion in estimated revenues. This leaves a projected operating surplus of \$23 million, the lowest in seven years. The size of this surplus raises two red flags for our fiscal plan. First, as most would know, we have two spending budgets, the operating budget that I am presenting today and the capital budget that was approved in the last Session, which totalled \$237 million in infrastructure spending for 2018-19. We use our operating surpluses to pay for at least a portion of our annual infrastructure budget. A smaller operating surplus leaves less available cash to continue to invest in our infrastructure plan without adding to our debt.

Second, lower operating surpluses into the future mean that the Government will not be in a position to reduce its overall cash deficit during this Assembly. In fact, short-term borrowing is now projected to increase; but by less than what was accumulated during each of the last two Assemblies.

Coming into the 18<sup>th</sup> Legislative Assembly we knew that our expenditures were growing faster than our revenue and that we needed to adopt a fiscal strategy that aligned expenditure growth with revenue growth, that created capacity to invest in our priorities, and that returned us to generating a cash surplus to reduce our accumulated short-term debt.

The Budget I am presenting today has \$84 million less revenue than what we had at the start of this Assembly. This decline over a three-year period is unprecedented in the history of our government and underscores the need for the steps we have had to take.

When we set our fiscal objectives we knew that achieving them would require difficult choices. We believe that in the medium term we will start to see modest revenue increases, but we will need to continue to manage our financial resources very carefully so that we do not compromise our ability to deliver quality programs and services and our ability to take steps to address the issues we face as a territory.

In this Budget we continue to meet this challenge. We are making investments needed to support existing programs and to address the priorities in our Mandate through new initiatives without compromising our fiscal strategy.

## **Expenditures**

This Budget proposes a net spending increase of \$57 million from the 2017-18 budget, including \$21 million in new initiatives and \$20 million to enrich or maintain existing programs. We are also intending to add \$37.8 million in expenditures to adjust department budgets that currently do not reflect the realities in their spending pressures.

This increase in spending is offset by \$28 million in expenditure savings and from programs that are scheduled to expire. In total, we are proposing to spend \$1.713 billion in 2018-19 of which fully \$1.1 billion, or 64 per cent, will be invested in social programs such as education, health care, social services, housing, policing and corrections.

### ***Economy, Environment and Climate Change***

Mr. Speaker, our economy needs support. Following the oil price collapse, the Beaufort Delta has depended on GNWT infrastructure projects such as the construction of the Inuvik-Tuktoyaktuk Highway for jobs. While the Sahtu region has received the good news that the National Energy Board has approved the plans to repair the Norman Wells pipeline, this is tempered by the announcement last December that the Mackenzie gas project joint-venture has ended and our Delta gas is stranded without access to southern markets for the foreseeable future. In as little as ten years, one of our world-class diamond mines may close.

We are being rewarded for past investments in the economy through jobs and opportunities for our communities. The Inuvik-Tuktoyaktuk Highway is now open. This important piece of our transportation network has attracted national attention for its design and construction and will pay dividends to Northerners in the region through lower prices and year-round access to trade, which will create economic opportunities into the future. This Budget proposes to ensure the continued success of this transportation corridor with an additional \$1.7 million for the incremental operations and maintenance costs for the new highway.

To develop our economy further, the first step is to look to the key economic driver of the territory: mining. The diamond mines account for almost one-fifth of the NWT economy and directly employ almost 3,000 people. When the linkages to other business are considered, the importance is considerably more. We have been through the gold mines closing and know what will happen to our economy as the diamond mines mature if there is nothing else to take their place.

The good news is that the global mining industry is showing signs of growing interest and activity. Capital investment in the Northwest Territories mining sector is increasing as a result of the expansion projects at the existing diamond mines. There are other projects at various stages of development that need capital financing and then could be underway. The exploration sector also appears to be starting to grow as the number of prospectors applying for Mineral Incentive Program funding is increasing.

We need to support the mining sector so that we can maintain a cycle of exploration and development that as much as possible has a new mine starting production as an existing mine winds down. We want systematic development of our mineral resources to provide good paying jobs and business opportunities for Northwest Territories residents for years to come.

To achieve this goal, we are proposing \$1.1 million in this Budget to further work under the *Mineral Development Strategy*, complete the review of the *Mineral Resources Act*, and continue the on-going commitment to the expanded Mining Incentive Program. This funding will continue the GNWT's work in convincing the global mining industry that the Northwest Territories is an attractive place to invest. As important, the funding will also allow us to better evaluate the effectiveness of the *Mineral Development Strategy* over the past few years in advancing the Legislative Assembly's Mandate.

The second step is to strengthen our efforts to support economic diversification. Industries like tourism play an important role in our economy and the investments that we have made in the tourism industry have helped to increase the number of visitors over the last few years. To further support diversification, this Budget proposes to add \$1.3 million to implement the *Agriculture Strategy*. These funds will help reduce the barriers to commercial agriculture by improving access to land that is viable for agriculture and creating the regulatory framework for the safe production, distribution, and sale of farm products. This funding will also be used to protect the environment, wildlife and people through developing both rules governing waste management and plans for reducing the risk of new pathogens and potentially dangerous invasive species and pests that increases with the introduction of different animals and crops.

Over top of the direct actions to support the economy, our over-arching imperative is to protect the land. We want to see a well-managed environment contributing to our economic well-being and quality of life for Northerners. For that reason, we are proposing to invest an additional \$1.2 million for activities in support of climate change resilience and adaptation capacity, to advance candidate protected areas and for caribou management. These new funds will be used to advance the GNWT's five-year northern approach to conservation network planning, including finalizing the

process for existing candidate areas, such as the Thaidene Nënë Park, and defining the ultimate extent and components of the conservation network.

The measure of a strong economy is not just the growth in GDP but whether it provides good jobs for Northwest Territories residents. Our responsibility is to invest in skill development so that our residents have every opportunity possible to develop the knowledge and abilities to take advantage of the jobs that are available. We propose to add \$2.2 million in this Budget to begin implementation of the *Skills 4 Success* strategy, as well as implement a new program that will increase training positions available within the GNWT, and to continue to improve our Student Financial Assistance program.

Every year on average, there are 750 Northwest Territories post-secondary students in their final year of studies who are expected to be seeking employment. This additional funding will create a team to help these students seize the employment opportunities in the territory for the many jobs that require post-secondary education and raise the awareness of high school students and other youth about the many employment and training opportunities that exist in Northwest Territories, the academic requirements of these jobs, and how to acquire the necessary skills and qualifications to obtain them.

### ***Education, Training and Youth Development***

There may not be a more important priority for this government than ensuring that more children finish high school with a quality education that gives them the option of pursuing post-secondary education. We expect that over the next 15 years, over three-quarters of the jobs in the Northwest Territories will require some form of post-secondary schooling and less than one in ten jobs will require less than high school. If our children are already behind by Grade 3, their future choices for employment as adults are already starting to narrow. We must build on successes from our \$155 million annual investment in Junior Kindergarten to Grade 12 system to improve our children and youths' education outcomes.

Seven years ago, the Beaufort-Delta Divisional Education Council started a pilot project that changed distance learning in the district with school-based support teachers and in-person meetings with students. The GNWT's Education Renewal initiative helped transform this project into the Northern Distance Learning program with the happy result that where other approaches rarely saw even one-third of the courses completed, this program has brought student course completion rates to 70 per cent.

We propose in this Budget to build on this success through a \$1.6 million investment in the Northern Distance Learning program for small communities. This initiative will bring a higher level of access to quality education to students in these small schools than we have seen since grade extensions began in the 1990's.

Now that Junior Kindergarten has been implemented in all 33 communities, we are making good on our promise in last year's Budget with an additional \$2.1 million investment. With overall enrolments less than what we expected, we are also going to direct an additional \$881,000 towards providing inclusive schooling funding for Junior Kindergarten students.

Mr. Speaker, discussions with our youth has made it clear that they face our most serious social stressors alone, including substance abuse, family violence, unemployment and homelessness, because the adults in their lives also struggle with these issues. This Budget calls for an additional \$1.5 million to put more Child and Youth Mental Health Counsellors in our schools. These positions will add significant capacity to help our youth and their families address mental health and addiction issues, to support mental wellness, and to build coping and resiliency skills.

We are the only jurisdiction in Canada to have eleven official languages. This Budget includes the \$4.3 million in funding received from the federal government to support French and Indigenous languages within the Northwest Territories. This funding helps to implement our action plans for French and Indigenous languages so that we can better connect to each other, preserve our heritage, and tell our stories about the land that sustains us.

### ***Community Wellness and Safety***

Delivering health and social services to Northwest Territories residents consumes over a quarter of the GNWT's total operating expenses. This year's budget expands and strengthens our health and social services and ensures programs are resourced at appropriate levels through a \$20.7 million adjustment for out-of-territory hospital and physician services, residential southern placements, extended health benefits, and Métis health benefits. We also propose to adjust the departmental budget to provide \$6.8 million in on-going operations support for our long-term care facilities and home care, community care, and mental health and addictions services across the territory and \$500,000 for on-going funding for the youth-in-crisis mental health program. Finally, a further \$6.7 million for the new territorial hospital annual service payment is added to the budget adjustments.

We continue to invest in the priorities of the Assembly through new initiatives. Through this Budget we propose to invest \$1.5 million to improve services for children with development delays and to develop a more co-ordinated and effective approach to enhance services to address the differing needs of children and adults with complex disorders such as Fetal Alcohol Spectrum Disorder and Autism Spectrum Disorder. Almost half of this additional funding will be targeted to expand services for young children in small communities who need speech language therapy, occupational therapy, and audiology services as well as enhancing services for other complex neurological disorders.

Homelessness and public intoxication are issues in our communities. In Yellowknife, the dual tragedies of mental health problems and addictions are played out in public areas and on downtown streets and have increased pressures on government services including the RCMP, the City of Yellowknife's ambulance service, and the Stanton Territorial Hospital's Emergency Department over the past two years. We are working with our partners to put better programs in place to address these issues. As an important step, this Budget proposes \$762,000 for the Yellowknife Sobering Centre to make sure that there is a safe shelter and safe transportation to that shelter, for intoxicated and homeless people at all hours of the day.

We continue to support community safety through a \$2.6 million enhancement to the Department of Justice's budget to improve access to justice services, to increase support for Community Justice Committees, and to further support the RCMP.

Mr. Speaker, we propose to change the way we address murdered and missing persons cases by investing \$304,000 to fund a Historical Case Unit that will focus on the continued investigation of unsolved murdered and missing persons. Currently, the RCMP Major Crimes Unit is responsible for these investigations and has 63 open, but unsolved, cases. A dedicated Historical Case Unit within the RCMP will allow the Major Crimes Unit to continue to deal with the newest cases as they happen while the new unit focuses on solving older murdered and missing cases. We expect to close more cases through this new unit.

We also propose in this Budget to allocate \$224,000 to support assigning the responsibility for prisoner security to the Yellowknife Sheriff's Office, so that our RCMP officers may focus on their other policing responsibilities that require their specialized skills.

## ***Cost of Living***

The high cost of living is a reality for northern communities. The GNWT invests more than \$186 million annually in programs that directly support low income families and that offset the high cost of living for residents across the Northwest Territories. Despite this, almost one in five Northwest Territories residents does not always have enough to eat.

This is unacceptable, especially for a people who can obtain good, nutritious food from hunting, fishing and gathering. This Budget proposes to address the 18<sup>th</sup> Legislative Assembly's Mandate to improve food security by investing \$412,000 in a Country Food Strategy. Working with Northwest Territories residents, we expect to produce a consensus vision and objectives and to propose actions that will guide the development of country food programming and to support the long-term sustainability of country food systems.

We also propose to include \$3.3 million in additional resources to further support low income residents and offset the high cost of living for everyone. The new funding will be directed to increase income assistance, funding for anti-poverty initiatives, and to address pressures in the Senior Citizen and Disabled Persons Property Tax Relief Program and the Territorial Power Subsidy Program.

Affordable housing is a priority for this Assembly and we propose to help address this priority with \$3.8 million to provide incentives for homeowners to replace fuel tanks and to provide funding to cover additional costs for water and sanitation services for public housing. This funding also includes resources for the market rental units being constructed for the RCMP, which will provide ongoing revenue for the NWT Housing Corporation as well as employment opportunities in the communities for the construction and long-term maintenance of the assets.

## ***Governance***

Mr. Speaker, this Assembly has worked together in many ways to change the way we do business to reinforce our consensus government and strengthen collaboration with Northwest Territories Indigenous governments.

This Budget intends to continue improving accountability, transparency and collaboration and general good governance through an additional \$1.3 million in funding for community governments. This includes greater funding for operations and maintenance, and water and sewer expenses for community governments as part of our commitment to ensure that community governments are funded adequately for municipal services.

When we took responsibility for our lands and resources under the Devolution Agreement, we knew we would have a lot of work ahead of ourselves. Together with collaborative partnerships at other levels of government, we transitioned through Devolution smoothly. This Budget allocates \$1.3 million to support the GNWT efforts to increase its capacity for land use planning through a new land use planner position and to advance our tenure enforcement efforts concerning unauthorized occupancy on public lands. This funding will also be used to convert maturing equity leases to fee simple title so that Northwest Territories residents holding these leases can be comfortable with building homes, starting businesses and contributing to the economic development of the territory.

Our Mandate includes collaboration with other Northwest Territories governments and to improve government-to-government relations with all governments. We propose to invest \$1 million through this Budget to help advance lands, rights and resources and self-government agreements and strengthen our capacity to work with the federal government. Creating certainty around land ownership and access to land will help develop the economy, providing jobs, services, and income to Northwest Territories residents.

This Budget proposes to invest \$485,000 to support key partnerships and initiatives including the Northwest Territories-Nunavut Council of Friendship Centres, the Women in Politics Mandate priority, and our annual contribution to the Arctic Inspiration Prize.

## ***Infrastructure***

This Assembly approved infrastructure investments of \$237 million last October for the 2018-19 fiscal year. The 2018-19 capital budget will invest \$133 million for highways, winter roads, bridges and culverts and \$44 million for health facilities, including the Stanton Territorial Hospital Renewal project. Another \$60 million is budgeted for other investments, including community government infrastructure, new and renovated education facilities, information technology upgrades and deferred maintenance and energy retrofits. Including the \$24 million NWT Housing Corporation investments, total GNWT capital investments will be \$261 million.

As many would be aware, the federal government has announced significant new spending on cost-shared programs to invest in territorial infrastructure. While the details of these programs are still being finalized, I want to provide assurance that our fiscal strategy will place the GNWT in a position to be a partner in these critical projects.

## Revenue

Mr. Speaker, with the exception of the property and education mill rates that we increase by inflation every year, this Budget does not propose to change the tax rates on any of our existing taxes.

However, careful management on the expenditure side of our Budget must be balanced with new revenues where possible. During 2018-19 we will be developing detailed proposals to implement a Land Transfer Tax similar to other jurisdictions. This tax will raise an additional \$3.1 million annually and can be structured progressively by levying a smaller percentage on property of lower value to lower the impact on modest income homeowners.

In last year's Budget we announced our intention to introduce a sugary drinks tax in 2018-19 with the objective to discourage consumption of sugary drinks. Excess sugar in the diets of many Northwest Territories residents is a serious public health concern and this tax is one of the ideas to help reduce health problems such as obesity and diabetes and to improve oral health. We will continue to work with stakeholders on a proposed approach and to get feedback from residents.

Last November, we released our plan to address our responsibilities under the federal initiative to legalize cannabis consumption in July 2018 and expect to introduce draft legislation this month. In December, Canadian finance ministers agreed in principle to a cannabis taxation approach that we hope will best meet the objectives to restrict cannabis use by youth and as much as possible eliminate the illegal market. When we formalize this two-year agreement, the GNWT will receive 75 per cent of the federal cannabis excise tax generated in the Northwest Territories below the federal cap of \$100 million and 100 per cent of excise tax generated in the Northwest Territories above the federal cap.

Revenue estimates from cannabis taxes are not included in 2018-19 Budget because federal legislation to legalize cannabis has not been passed. Early estimates indicate that revenues from cannabis for the GNWT will be modest and that there are likely to be some increased expenditure pressures.

As noted in last year's budget we have signed the *Pan-Canadian Framework on Clean Growth and Climate Change*, which includes carbon pricing as one of the pillars to reduce greenhouse gas emissions. Over the course of this year, we have considered the implications of carbon pricing on the Northwest Territories economy and cost of living and have held a public discussion on the issue through an online survey. Later this year, the GNWT will announce its plans for carbon pricing and appropriate offsets to mitigate the effects on our already high cost of living and doing business in the Northwest Territories. We also look forward to further discussions regarding

the Prime Minister's commitment to work with us to address our unique circumstances and to mitigate any Territorial Formula Financing implications.

## **Looking Ahead**

Mr. Speaker, looking ahead is about our expectations for the legacy of our changes. We are building a future on changes in the way we offer programs and services and are making the necessary investments to support the economy and our communities and to create the environment for our residents to seize opportunities to create better futures for themselves. We are two years from the start of a new Assembly and we are continuing to look for ways to improve the future for our children and grandchildren.

The Northwest Territories economy continues to be built on a foundation of resource development. We are, however, facing the reality of maturing diamond mines and we cannot take for granted that this economic foundation will last forever. Our challenge, and perhaps our legacy, is to ensure that we are making public investments that strengthen our economic foundation, while also supporting diversification initiatives. We need to ensure that we have the infrastructure and the legislation and regulations to support our Northern goal of a balanced approach to our economy and our environment.

Our investments in our children's education will enhance our next generation's chances for success and provide the economy with a well-educated workforce with the skills and knowledge needed to take advantage of any opportunities that will arise in the Northwest Territories. We are looking ahead almost a generation with our investments now.

At the moment, we face serious health and social issues and are making investments now to support our residents and meet the challenging social issues that many of our residents currently are struggling with. We see a future healthy and thriving population taking advantage of our enhanced ability to deliver health care services at home and in health care facilities. We see residents benefitting today from our increased investments to address mental health issues and addictions so they may achieve a better tomorrow.

We know that our territory is truly spectacular and we see our investments as helping to secure a future with the same spectacular environment that we enjoy today. At the same time, we see rapid changes in our landscape that are rooted in climate change. Our land is vital to our well-being and we embrace our duty to be responsible stewards and protect it through our investments to conserve our land,

waters and wildlife. These are investments in our traditions and culture and in our future.

This Assembly has worked very hard to make these investments in our future a reality while sticking to the fiscal strategy and plan and accepting the challenges of restoring fiscal sustainability that make these investments possible.

## **Conclusion**

Mr. Speaker, the 18<sup>th</sup> Legislative Assembly has done a remarkable job of managing expenditure growth, which has become more important with revenue growth faltering. We have, through careful management of our expenditures, proposed substantial investments in this Budget to harness change in program delivery and to add initiatives to build a better tomorrow. We have focused our new spending on building on the success of past initiatives and in addressing our priorities through increased funding for key programs and services so that we are supporting our residents where it is needed most.

We cannot rest yet. Revenue shocks beyond our control have meant we are not where we wanted to be by this time in our fiscal plan. We must accept that we are still adding to the debt that future residents will have to pay. However, we must not lose sight of the fact that our revenue decreases this year and next year and slow revenue growth into the future reflect the state of our economy and the critical importance of making investments that will help support economic growth in the future.

Our fiscal situation creates challenges but we remain committed to reducing our level of expenditures so that we can ensure on-going operating surpluses that are, in addition to prudent borrowing, critical to supporting investments for the benefit of Northwest Territories residents for decades to come. Our investments in our priorities are supporting current Northwest Territories residents and will also benefit future generations by ensuring a well-managed environment that contributes to our well-being and quality of life and a strong economy that provides jobs and opportunities for our communities.

This Assembly's past actions as responsible fiscal stewards have kept our fiscal strategy on track. The fiscal plan is working. With the continued support of this Assembly we can address our fiscal environment while still investing for a better tomorrow.

Thank you, Mr. Speaker.