

Fiscal Review

2024-2025

NORTHWEST TERRITORIES

May 24, 2024

Fiscal Review 2024-25

Budget 2024-25 is the first budget of the 20th Assembly and sets the stage to deliver on the Assembly's vision for a territory where people are supported in how they want to live, work and grow in a manner that prioritizes reconciliation and the well-being and prosperity of residents. The Assembly's top priorities towards achieving this vision are to encourage suitable, accessible and affordable housing, build a strong economic foundation, support access to health care and address the effects of trauma, and provide a safe space for residents and communities.

The Assembly's priorities can only be achieved through strong fiscal governance. The 2024-25 budget is step one in the Government of the Northwest Territories' (GNWT or Government) efforts to protect the ability to deliver on Assembly priorities and continue to provide core government programs, while making strategic infrastructure investments needed to support these programs.

Fiscal Sustainability Strategy

In February 2024, before developing Budget 2024-25, the GNWT released *Restoring Balance: A Fiscal Sustainability Strategy for the 20th Legislative Assembly*. The purpose of the fiscal strategy is to guide the territory to real fiscal improvement.

The fiscal sustainability strategy was created to address the high growth rate in the GNWT's expenditure base and rising debt levels. Spending growth in the health care system comes from the rising costs seen nationally as well as unique challenges in delivering health care in the territory. Climate change has contributed to frequent natural disasters, adding emergency and disaster assistance costs that are needed immediately, while the delay in federal disaster relief assistance creates a spike in expenses and a corresponding increase in short-term debt. Inflationary pressures have increased fuel and material costs for GNWT construction and operations and to third parties such as non-governmental organizations, local housing organizations, and public agencies. GNWT costs have also increased because the Government subsidizes the Marine Transportation Services and Northwest Territories Power Corporation for their additional costs due to low water levels so that rates do not have to increase for consumers.

The main objective of *Restoring Balance* is to return the GNWT to fiscal sustainability by increasing operating surpluses, reducing short-term debt, realigning health spending to make the programs more sustainable, allocating funding to priorities, and increasing fiscal capacity to ensure the GNWT can respond to future shocks.

The fiscal sustainability strategy includes the following targets to improve the GNWT's finances:

- operating surpluses must be large enough to:
 - repay a minimum of \$150 million in short-term debt by March 31, 2028, and
 - fund 100 per cent of capital projects from operating surpluses (the *Fiscal Responsibility Policy* requires a minimum of 50 per cent);
- annual supplementary reserves must be held to \$35 million, which means that departments will be asked to find budget overruns within existing budgets; and,
- annual forced growth and new initiatives must be held to \$10 million.

The GNWT is committed to increasing its fiscal capacity to ensure its capability of handling unexpected spending from natural disasters and one-time disruptions. The four-year business plans released at the same time as the 2024-25 Budget include fiscal strategy actions and are the operational plans for government spending during this Assembly. While fiscal circumstances may require adjustments in department spending to be included in the annual department budget plan updates, the over-arching four-year business plan provides the framework for successful compliance with the fiscal strategy. As well, large capital spending will continue to be capped at \$260 million annually.

The GNWT plans to meet the fiscal strategy targets by:

- increasing operating budget surpluses through a combination of new revenue generation and expenditure management by leveraging operating efficiencies,
- reducing the GNWT's short-term debt,
- realigning operating spending for health programs and services to make programs sustainable,
- addressing the costs incurred by the GNWT for Northwest Territories Power Corporation and Marine Transport Services relating to low water levels,
- allocating government spending appropriately to the priorities of Northwest Territories' residents,
- ensuring the GNWT is achieving value for money in the delivery of its programs and services, and
- increasing fiscal capacity to ensure that the GNWT can continue to respond to expenditure shocks such as natural disasters and economic disruptions.

Program evaluations under the *Government Renewal Initiative* will continue throughout this Assembly to ensure the GNWT is getting value for dollars spent on programs and services.

The *Restoring Balance* strategy aligns with the *Fiscal Responsibility Policy (Policy)*. The *Policy* establishes guidelines for debt management and guides the approach used to develop the fiscal

strategy to help ensure that government borrowing is sustainable. The *Policy's* guidelines prevent the GNWT from borrowing to fund day-to-day operations. Expenditures are managed so that operating cash surpluses are generated to fund at least 50 per cent of the Government's infrastructure investments. Fiscal shocks may cause the GNWT to not meet the minimum budgeted 50 per cent threshold on an actual basis but the GNWT has two years to make up the shortfall. If the total servicing payments remain below five per cent of total revenues and total debt is at least \$120 million below the \$1.8 billion federally imposed borrowing limit, borrowing is affordable under the *Policy*.

Fiscal Situation and Medium-Term Outlook

The 2024-25 budget includes the first steps to achieve the fiscal strategy targets with actions that total \$100 million towards the 2024-25 fiscal sustainability goal of \$150 million. The targets originally set for 2024-25 will not be achieved in the 2024-25 budget and departments must find a combination of \$65 million less in spending or new revenues in 2025-26 to achieve the goal of reducing short-term debt by \$150 million over the life of the 20th Assembly.

Revenues are projected to increase for the first two years of the outlook followed by two years of slight decline caused by the Diavik mine closure and slower growth in Territorial Formula Financing resulting from relatively low territorial population growth compared to Canada. Revenue growth is expected to average an annual increase of 0.7 per cent from 2024-25 to 2027-28.

Over the same period, expenditures are expected to increase at an average annual rate of 3.1 per cent, which does not achieve the fiscal strategy objective of limiting expenditure growth below revenue growth. The narrowing gap between revenues and spending implies a shrinking operating surplus. Therefore, although the forecast projects a 3.2 per cent annual average decrease in total debt and a growing capacity to borrow throughout the outlook, the fiscal strategy target for a \$150 million reduction in short-term borrowing will not be met by the end of 2027-28. The Government will need more revenues, savings or efficiencies to meet its fiscal sustainability strategy targets.

The fiscal projections in the medium-term outlook comply with the *Fiscal Responsibility Policy*. Although the projected 2023-24 deficit is not in compliance, the *Policy* allows for two years to return to compliance. The budgeted 2024-25 operating cash surplus is large enough to cover the 2024-25 capital plan and the \$149-million shortfall projected for 2023-24, bringing the GNWT within the parameters of the *Policy* for infrastructure financing.

Debt servicing payments as a share of total revenue is expected to be under five per cent throughout the outlook, indicating debt affordability. With the forecasted decreasing debt load, the GNWT is forecast to remain inside with the *Policy's* requirement for a \$120-million debt cushion under the borrowing limit and the borrowing capacity below the cushion to expected to increase from \$15 million in 2023-24 to \$214 million by the end of the outlook.

Medium-Term Outlook (May 2024 Forecast)

(Millions of dollars)	2023-24	2024-25	2025-26	2026-27	2027-28
	Projected	Main Est.		Forecast	
Total Revenue	2,581	2,633	2,704	2,690	2,688
Operating Expenditures	2,732	2,339	2,387	2,495	2,565
Operating Surplus/(Deficit)	(150)	293	316	195	123
Capital Investment	267	218	216	213	200
Total Debt at March 31					
Short-Term Debt	685	651	620	584	565
Long-Term and Guaranteed Debt	980	965	935	918	901
Total Debt	1,665	1,616	1,555	1,502	1,466
Borrowing Limit	1,800	1,800	1,800	1,800	1,800
FRP Borrowing Limit Trigger	120	120	120	120	120
Available Borrowing Capacity	15	64	125	178	214
FRP Requirements	2023-24	2024-25	2025-26	2026-27	2027-28
1) Infrastructure Financing (Provision 3)					
Minimum Operating Surplus	133	109	108	106	100
Surplus plus Amortization	(15)	434	462	345	276
Coverage (Shortfall) in Cash Generated by Operations	(149)	325	355	238	176
<i>In-Year Compliance (minimum surplus for capital)</i>	<i>No</i>		<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
<i>Shortfall Coverage for non-compliance</i>		176			
<i>2-Year Compliance</i>		<i>Yes</i>			
2) Affordable Debt (Provision 5)					
Debt Service (% of revenue)	2.0%	2.0%	1.9%	2.0%	2.0%
<i>Compliance (maximum 5%)</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
3) \$120-Million Debt Cushion (Provision 5)					
Total Debt	1,665	1,616	1,555	1,502	1,466
Borrowing Limit	1,800	1,800	1,800	1,800	1,800
Debt Cushion	120	120	120	120	120
Available Borrowing Capacity	15	64	125	178	214
<i>Compliance (Available borrowing capacity)</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>

Notes: FRP is *Fiscal Responsibility Policy*. Totals may not add due to rounding.

Fiscal Review

2022-23 Final Results

The GNWT ended 2022-23 with a \$122-million operating surplus, which was \$73 million higher than 2021-22. Total 2022-23 debt was \$1.4 billion, 11.4 per cent higher than the previous year.

Total GNWT non-consolidated revenues were \$2.4 billion in 2022-23, an increase of \$146 million or 6.5 per cent from 2021-22. The main revenue increases were \$39 million from Territorial Formula Financing, \$101 million from other federal transfers, \$24 million in corporate income tax and \$4 million in carbon tax revenue due to the annual rate increase. Personal income tax revenue decreased \$5 million, non-renewable resource revenues decreased \$4 million and general revenues decreased \$15 million.

Total department expenditures for 2022-23 were \$2.2 billion, up 4.0 per cent compared to 2021-22. The Department of Health and Social Services made up the largest portion of departmental spending at \$634 million, or 29 per cent, followed by the Department Education, Culture and Employment at 17 per cent. The Department of Municipal and Community Affairs had the largest increase from 2021-22 at \$33 million, or 22.6 per cent, driven by emergency spending for 2022 flooding.

2023-24 Revised Estimates

An operating deficit of \$150 million is projected for the revised estimates of 2023-24, a decrease of \$332 million from the budget operating surplus projection of \$182 million. Revenues for 2023-24 are projected to be \$2.58 billion and departmental expenditures are estimated to be \$2.59 billion. Debt is expected to be \$1.67 billion by March 31, 2024, which is within the *Fiscal Responsibility Policy* requirement of \$120 million buffer below the federally-imposed borrowing limit.

Revenue is estimated to have increased \$96 million from the 2023-24 budget. This is mainly due to federal disaster assistance, with transfers outside the Territorial Formula Financing grant increasing \$101 million from budget. The Territorial Formula Financing grant is unchanged from its initial projection. Taxation revenues increased \$39 million from budget, driven by a projected increase in corporate income tax revenue of \$37 million, with personal income tax estimated to increase \$6 million and the carbon tax forecast to be close to its budget projection, up \$800,000 or 1.3 per cent. Resource revenues are expected to have decreased \$43 million from budget.

Operating spending for 2023-24 is projected to have increased \$386 million, or 17.5 per cent, from budget estimates and increased largely due to wildfires and flooding. The Department of Municipal and Community Affairs, in charge of territorial emergency spending, is estimated to have increased its spending by \$105 million. The Department of Environment and Climate Change, responsible for forest management and fire suppression, is expected to have increased its spending \$116 million compared to budget.

Fiscal Impacts of the 2023 Wildfire and 2022 Flooding

The fiscal impacts for the 2023 wildfire and 2022 flooding events are estimated to be \$306 million. To date, the GNWT has received \$155 million in federal assistance. The \$150-million remainder represents immediate spending by the GNWT that is either reducing the operating balance or adding

to short-term debt, though disaster financial assistance will cover most eligible expenses when the costs are finalized.

- The estimated costs of the wildfire evacuation and recovery are \$198 million, with \$164 million in 2023-24 and \$33 million in 2024-25. The federal government has advanced \$84 million in financial aid.
- Costs for the 2022 flooding are estimated to be \$108 million in total, with \$71 million of federal support already received. Expenditures in 2022-23 were \$45 million and another \$63 million is approved for 2023-24.

The GNWT projects that financial assistance from the federal government will total \$299 million, covering 98 per cent of disaster costs. This assistance is administered under the federal support programs of Disaster Financial Assistance Arrangements, which provides up to 90 per cent of eligible costs, and the Emergency Management Assistance Plan, which provides up to 100 per cent.

2024-25 Main Estimates

The 2024-25 Budget includes the first steps to achieve the fiscal strategy targets by reducing spending by \$48 million and increasing revenue initiatives by \$52 million. These actions total \$100 million towards the 2024-25 fiscal sustainability goal with the result that debt projections have improved by \$49 million compared to the 2023-24 revised estimates.

Total 2024-25 revenues are estimated to be \$2.6 billion and operating expenditures at \$2.2 billion, providing the GNWT a projected operating surplus of \$403 million before adjustments.

The operating surplus after adjustments is \$294 million. To meet the fiscal sustainability strategy target of reducing debt by \$150 million over the next four years, the 2024-25 operating surplus must pay for the capital plan of \$268 million. The operating surplus includes a \$35-million supplementary reserve to provide a cushion against fiscal shocks during the year that is only partially offset by an estimated \$5 million in appropriation lapses.

Total revenues are projected to increase \$51 million from the 2023-24 Revised Estimates largely due to increases of \$89 million from the Territorial Formula Financing grant, \$15 million in carbon tax revenues because of the \$15 a tonne of greenhouse gas emissions rate increase, \$13 million in non-renewable resource revenue, \$9 million from general revenue (permits, fees, interest, and miscellaneous other revenues), and \$8 million in total other tax revenue excluding corporate income tax revenue. Carbon tax revenue increases have offsetting expenditures to mitigate the effect of the carbon tax on the cost of living and economic competitiveness.

Revenue increases were offset by a projected \$60-million decline in other federal transfers and a forecasted \$21-million decrease in corporate income taxes. Operating transfers decreased \$70 million, with a \$35-million decrease for transfers to Municipal and Community Affairs and a \$30-million decrease for Infrastructure, and a \$10-million increase in capital transfers.

As part of the fiscal strategy, departments examined their budgets and proposed \$48 million in savings. Compared to last year's budget, total spending is estimated to increase \$24 million, or 1.1 per cent. Health and Social Services is budgeted to increase expenses by \$37 million, or 6.0 per cent, and Finance spending is estimated to have increased \$18 million, or 5.4 per cent, compared to last year's

Main Estimates. Municipal and Community Affairs is projected to decrease its spending \$29 million, or 15.8 per cent, compared to the 2023-24 budget in the absence of emergency spending.

The 2024-25 year-end debt projection is \$1.6 billion, \$49 million lower than projected for 2023-24. The remaining borrowing room between the 2024-25 debt projection and the \$1.8-billion federally imposed borrowing limit is \$184 million. The *Fiscal Responsibility Policy* requires total borrowing to be at least \$120 million below the limit, leaving projected remaining borrowing room of \$64 million.

2024-25 Budget Highlights

Revenue Initiatives

Budget 2024 introduces revenue-increasing measures to raise fiscal capacity, make programs cost neutral, continue indexing fees to inflation, and align the Northwest Territories carbon tax system with the federal benchmark.

Total revenues are expected to increase \$52 million in 2024-25 under fiscal strategy measures. This increase is temporary, as the 2025-26 projected revenue increase is \$35 million. For these two years, revenue from the Non-Insured Health Benefits program will be \$24 million annually and will expire thereafter. Starting in 2026-27, \$11 million for will be left for ongoing revenue increases spread through almost all Government departments, including Housing NWT.

Starting in July 2024, the Northwest Territories will receive vaping products excise tax revenues under the *Canada-Northwest Territories Coordinated Vaping Products Taxation Agreement* at the same rates as the federal tax rates. The proposed rates are \$1.12 per two millilitres or grams up to ten millilitres or grams and above that threshold the rate will be \$1.12 per ten millilitres or grams. These rates are subject to the federal government passing its 2024-25 budget; otherwise, both rates will be \$1.00. This new tax is projected to generate \$252,000 in 2024-25 and over \$300,000 annually thereafter.

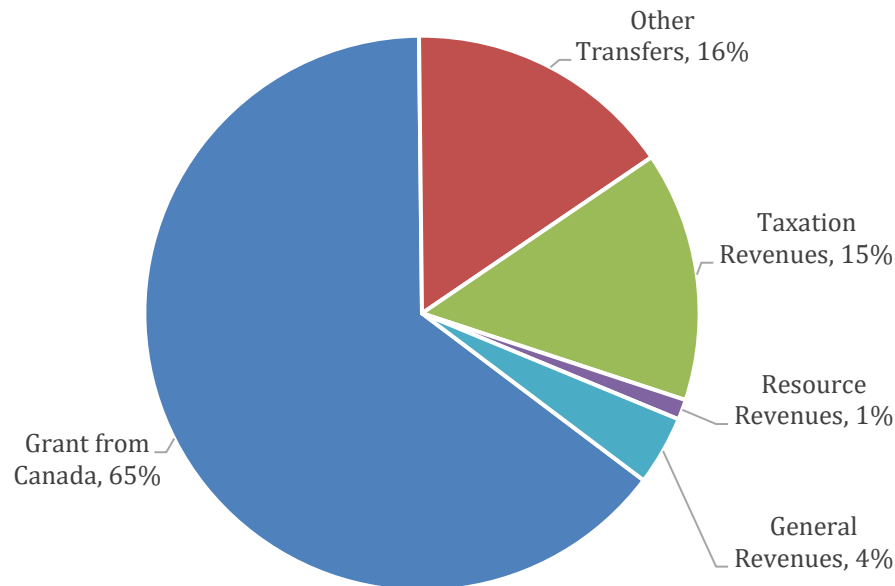
To eliminate the 9-1-1 service deficit, the 9-1-1 levy on telephone users will increase from \$1.70 to \$3.00 per month. The fee increase will raise an additional \$700,000 annually and is expected to make the 9-1-1 service cost neutral.

Property and education mill rates for 2024 will be increased by the Yellowknife Consumer Price Index. This is projected to generate \$875,000 to retain its real purchasing power.

The Northwest Territories carbon tax rate increased \$15 a carbon-equivalent tonne of greenhouse gas emissions to \$80 as of April 1, 2024. Aviation fuel and diesel fuel used to generate electricity for community distribution continues to be exempt from carbon tax. The carbon tax rate increase will generate an additional \$14.7 million in revenue, which is returned to residents, communities and industry through carbon tax offsets and used for projects to reduce greenhouse gas emissions.

Effective April 1, 2024, to March 31, 2027, the Northwest Territories carbon tax on diesel heating fuel deliveries for all but large emitters will be rebated at source. This decision was made following the federal government's October 2023 announcement to suspend the carbon tax on diesel heating fuel under its backstop carbon pricing system for three years.

Projected 2024-25 Revenues by Source



Operating Expenditure

Budget 2024 projects \$2.2 billion in departmental operating expenditures, an increase of 1.1 per cent compared to Budget 2023, or \$24 million.

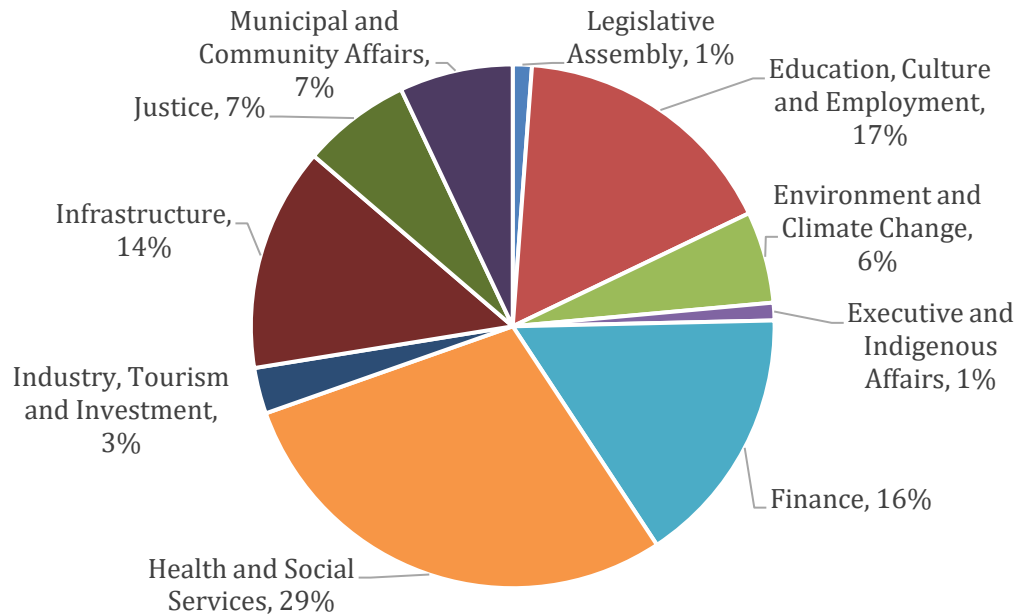
The 2024-25 operating expenditure budget is created by using the previous year's approved department budgets as the budget base. Expenditures for programs that are ending and other reductions are removed from the base and new funding for increased costs due to inflation or increased demand for programs or services are then added to each department's budget. Finally, new spending on initiatives is considered on a government-wide basis within the limits of the government's fiscal resources.

Projected department spending includes \$107.9 million in expiring programs and \$48.4 million in budget savings to help meet the *Restoring Balance* targets. These savings will mean the elimination of 91 positions, 35 of which are vacant. A total of 58 employees may be affected. The GNWT is working to redeploy these employees within the organization.

Spending is budgeted to increase \$23.7 million from the 2023-24 Main Estimates due to:

- \$41.6 million to address higher demand or higher costs for current programming that departments cannot manage within their existing budgets;
- \$7.7 million in new spending for initiatives and enhancements to existing programs, of which \$4.6 million is from new initiatives in 2024-25 and \$3.1 million is to fulfil commitments from previous initiatives;
- \$126.7 million under other approved adjustments; and
- \$3.9 million in amortization.

2024-25 Operating Expenditures by Department



The following provides a description of achievements of each department in response to the fiscal sustainability targets and spending on initiatives.

Legislative Assembly

The Legislative Assembly achieved a \$1.4-million decrease from the 2023-24 budget of \$26 million because of a \$2.4-million reduction for programs that expired at the end of 2023-24. This reduction was offset by \$478,000 to address inflationary pressures, \$141,000 for new intern positions, \$25,000 for an independent commission, and \$309,000 in other program adjustments.

Education, Culture and Employment

The 2024-25 budget for the Department of Education, Culture and Employment is \$375 million, a \$9.9 million decrease from the previous budget. To support the fiscal strategy, the Department achieved almost \$13 million in reduced spending and a further \$4.5 million for expiring programs. However, this reduction was offset by \$484,000 to address the higher costs associated with Aurora College and the Senior Citizens Supplementary Benefit and \$3 million in other adjustments.

The Department budget also includes the following new spending:

- \$2.6 million for the *Canada-NWT Early Learning and Child Care Agreement* to increase the affordability of the territorial childcare system and support improvements in the quality of the early childhood learning programs.
- \$3.8 million for a child and youth counselling program that was paid for by a budget transfer from the Department of Health and Social Services for a similar program and has no effect on the overall GNWT budget.

Environment and Climate Change

The 2024-25 budget for the Department of Environment and Climate Change is \$126 million, an increase of \$1.9 million from the 2023-24 budget. The Department reduced spending by \$5 million, had almost \$3 million in programs that ended and limited cost pressures to a \$7,000 increase for forest management personnel.

The Department does not have any new initiatives but added \$9.1 million in spending for third-party agreements including \$3.2 million in Natural Resources Canada funding to improve resilience to natural disaster.

Executive and Indigenous Affairs

The 2024-25 budget for the Department of Executive and Indigenous Affairs is \$24 million, a \$1.4 million increase from the 2023-24 budget. The Department was able to reduce spending by \$838,000 and was able to fund increased cost pressures from within the existing budget.

Increased Department spending includes:

- \$854,000 for Integrated Service Delivery program functions that are transferred from the Department of Justice with no effect on overall GNWT expenditures; and
- \$2.2 million for the implementation of the National Action Plan to End Gender Based Violence.

Finance

The 2024-25 Department of Finance budget is \$358 million, an \$18.4-million increase from the 2023-24 budget. Although the Department found \$9.3 million in reduced spending, it required additional spending including:

- \$2 million for increased costs to cover employee medical travel benefits, and
- \$30 million for a contribution to the Northwest Territories Power Corporation to address low water levels and support northern residents and businesses by not increasing power rates.

Health and Social Services

The 2024-25 budget for the Department of Health and Social Services is \$644 million, a \$36.5-million increase from the 2023-24 budget. The Department identified \$3.0 million in reductions and a further \$23.1 million in programs that expired in 2023-24. The Department also transferred \$3.8 million of its budget to the Department of Education, Culture and Employment.

The Department's budget included \$1.4 million in new initiative spending for the Transitional Housing Addictions Recovery Programs in Inuvik and Yellowknife that will be delivered in partnership with the Department of Infrastructure and Housing NWT.

Because reductions to the Department budget were not enough to address health spending cost pressures, the Department was provided with the following additional spending:

- \$28.3 million to address rising costs of existing programs and services, such as the out of territory supportive living program, hospital and physician services, in-territory child and family support, and other health related contracts and services; and
- \$34.1 million under other approved adjustments, including,
 - \$14.1 million for the Northern Wellness Agreement,
 - \$8.3 million for the Canada-Northwest Territories Agreement to work together to improve health care for Canadians,
 - \$2.4 million for the Canada-Northwest Territories Aging with Dignity agreement, and
 - \$9.3 million for other adjustments in health system investments, home and community care agreements, crisis hotlines responding to gender based violence, chronic disease surveillance and other systems funding.

Industry, Tourism and Investment

The Department of Industry, Tourism and Investment budget increased \$1.9 million from the 2023-24 budget to the \$63 million 2024-25 budget. The Department reduced spending with \$2.7 million in reductions and \$913,000 in expiring programs. This was offset by \$279,000 to address park contracts, maintenance and utilities cost pressures.

The Department budget included additional spending of \$3.3 million in approved adjustments, including \$2.4 million for Hay River fish plant operations.

The Department also has the following proposed initiatives to support the Assembly priorities:

- \$529,000 for the NWT Film Strategy to improve the competitiveness of the Northwest Territories film and media sector and support the sector's growth,
- \$521,000 to complete the *Mineral Resources Act* regulations for improved mineral rights governance and administration within existing co-management frameworks for land, water, and resources, and
- \$100,000 for the *Tourism 2025* investment strategy.

Infrastructure

The 2024-25 budget for the Department of Infrastructure is \$307 million, a \$320,000 increase from the 2023-24 budget achieved through \$7.7 million in spending reductions and \$6.6 million from programs that expired in 2023-24.

The spending reductions offset increased Department spending of \$4.0 million to support the rising costs of contracts, maintenance and utilities for territorial infrastructure and \$8.8 million in adjustments, including funding of \$6.9 million for Hay River harbour dredging.

The Department also has the following initiatives to support the Assembly priorities:

- \$433,000 for the Energy Action Plan,

- \$360,000 to support the 2030 Energy Strategy for developing the Zero Emission Vehicle Infrastructure Program and building the network of fast-charging stations for electric vehicles, and
- \$154,000 for the Transitional Housing Addictions Recovery Programs in Inuvik and Yellowknife in conjunction with the Department of Health and Social Services.

Justice

The 2024-25 budget for the Department of Justice is \$149 million, a \$3.8 million increase from the 2023-24 budget, which includes \$2.9 million in spending reductions and \$747,000 in expiring programs. The spending reductions were offset by \$1.9 million to address rising costs at Royal Canadian Mounted Police detachments and \$5.1 million in other spending including \$2.4 million for the expansion of First Nations and Inuit policing programs.

The proposed Department budget also includes \$270,000 to help meet its responsibilities to the public under the *Access to Information and Protection of Privacy Act*.

Municipal and Community Affairs

The Department of Municipal and Community Affairs 2024-25 budget is \$156 million, a \$29.4-million decrease from the 2023-24 budget. The Department found \$624,000 in savings, reduced spending by \$1.6 million under fiscal strategy measures, and had \$61.7 million removed for flooding in the prior budget because it was no longer required.

The Department budget includes a proposed \$29.5 million of approved spending adjustments, including \$29.0 million for the 2022 flood and 2023 wildfire response and recovery and \$4.2 million to address community government cost pressures in operations and maintenance, water and waster services and grants-in-lieu of property taxes.

The Department also has the following initiatives to support the Assembly priority for safe communities:

- \$332,000 for one indeterminate position and six relief positions for reliable staffing of 9-1-1 emergency calling.
- \$483,000 to improve emergency management, community fire protection, and communication with three new full-time positions for an Assistant Fire Marshal, Emergency Management Incident Command System Trainer, and Senior Communications and Planning Advisor.

Housing NWT

Housing NWT is a GNWT-funded agency that also receives revenues from the Canada Mortgage and Housing Corporation. The proposed 2024-25 GNWT contribution is \$76 million.

To support the fiscal strategy, Housing NWT identified \$2.4 million in reductions and has \$5 million in programs that ended in 2023-24, partially offset by \$230,000 in additional spending adjustments.

As part of the Assembly's housing priority, a proposed \$1.0 million will be provided to Housing NWT to satisfy the annual cost share requirements for the Canada-Northwest Territories Housing Benefit program over the next three years.

Capital Investment

The 2024-25 Capital Estimates were approved in October 2023. The capital budget includes \$347 million for the GNWT's infrastructure plans and \$13 million for Housing NWT for a total planned infrastructure investment of \$361 million.

Highlights of the 2024-25 Capital Estimates include:

- \$94 million for highways and roads.
- \$63 million for airports and runways.
- \$73 million for community government infrastructure.
- \$55 million for health care facilities, services and equipment.
- \$26 million for renewable energy.
- \$13 million for housing.
- \$6 million for technology.
- \$3 million for new education facilities and renovations for existing facilities.

The 2024-25 Capital Estimates maintain a \$260-million limit on departmental capital spending to reflect the GNWT's ability and the economy's capacity to supply necessary labour and material to complete projects. This maximum does not include infrastructure contributions for community governments and funding for Housing NWT. Smaller capital projects and deferred capital maintenance budgets are not affected by the cap.

Borrowing Plan

The Legislative Assembly is required to approve an annual *Appropriation Act* to establish limits on GNWT debt for the following year. The borrowing plan projects total GNWT borrowing of \$1.261 billion at year-end and the requested borrowing amount is \$1.316 billion, which includes a \$50-million contingency amount to cover the possibility that spending requirements may require additional borrowing during the year and a \$5-million contingency for a real return bond.

The 2024-25 borrowing plan for the government reporting entity totals \$1.616 billion. This is a 2.9 per cent increase from the March 31, 2024 projection.

GNWT short-term debt is forecasted to decrease 4.9 per cent from the projected \$684 million at March 31, 2024 to \$650 million at March 31, 2025.

The forecast \$611 million in long-term debt is down \$9 million or 1.5 per cent. The majority of GNWT long-term debt consists of bonds and P3 debt for the Stanton Territorial Hospital, the Tłı̄chǫ Highway and the Mackenzie Valley Fibre Optic Link.

Borrowing Plan Summary (year ending March 31)

(Millions of dollars)			<u>Change</u>	
	<u>2024</u>	<u>2025</u>	<u>%</u>	<u>\$</u>
GNWT Debt	1,304	1,261	<i>(3.3)</i>	<i>(43)</i>
Short-term	684	650	<i>(4.9)</i>	<i>(34)</i>
Long-term	620	611	<i>(1.5)</i>	<i>(9)</i>
Bonds	365	363	<i>(0.4)</i>	<i>(1)</i>
P3	255	247	<i>(3.1)</i>	<i>(8)</i>
Other	0	0	<i>(100.0)</i>	<i>(0)</i>
Contingency	..	55
<i>Appropriation Act Limit</i>	..	1,316
Public Agencies	361	356	<i>(1.5)</i>	<i>(6)</i>
Total Consolidated	1,665	1,616	<i>(2.9)</i>	<i>(49)</i>

Risks to the Fiscal Outlook

GNWT fiscal risks include:

- *The NWT's economic dependence on resources* – Market conditions in the resource sector can fluctuate significantly and global price volatility can create uncertainty for GNWT resource revenues. When a mine stops operations GNWT own-source revenues decline directly because of the loss of the mine's royalty and tax revenues but also indirectly from reduced demand for goods, services and labour. Reduced economic activity also may cause the Northwest Territories' population to decrease, affecting the federal transfers that the GNWT receives. However, mineral exploration investments have recently increased and this may result in new resource projects opening as existing mining operations wind down.
- *Revenue volatility* – Corporate income tax has historically been the GNWT's most volatile own-source revenue although the Territorial Formula Financing Grant is responsive over time to such changes. Resource revenues are also volatile but their variability is not offset through Territorial Formula Financing. Resource revenues are sensitive to commodity price swings, exchange rate fluctuations, and operational decisions made by resource developers. The risk to the operating budget of large resource revenue shocks is largely neutralized by the GNWT's commitment not to spend resource revenues on operations, but rather only on contributions to the Heritage Fund, debt repayment and infrastructure. Furthermore, 62.5 per cent of resource revenues are shared with other governments, further reducing the revenue risk to the GNWT fiscal framework.
- *Slow revenue growth* – Territorial Formula Financing is on average 70 per cent of total revenues, affording considerable year-to-year revenue stability but also dominating revenue growth. An underdeveloped private sector limits the ability to raise own-source revenue through tax changes. Growth in Territorial Formula Financing relies on provincial/local government spending and population growth relative to Canada. The combination of provincial and local government spending forecasts and predicted slow Northwest Territories population growth relative to Canada is expected to reduce long-term growth in the Territorial Formula Financing Grant to an annual average of two per cent. The slow revenue growth will require careful expenditure management.

- *Ongoing operating expenditure pressures* – Constant pressure exists to enhance current programs and to implement initiatives while not reducing existing program and service expenditures. Operating spending has grown over time through a combination of initiatives, adjustments to enhance or improve programs, and forced increases based on higher costs and demand for services. The GNWT is actively mitigating this risk through the fiscal sustainability strategy Restoring Balance. The task of reducing expenditures and finding value and efficiency will continue throughout the 20th Assembly's term.
- *Unexpected expenditures and capital project cost overruns* – Typical operating expenditure shocks are extraordinary fire suppression needs, flooding, and other natural disasters. All provinces and territories benefit from federal disaster assistance for natural catastrophes, though costs incurred are immediate and assistance follows in later years, increasing short-term borrowing until the aid is received. The GNWT limits the annual large capital budget to \$260 million to reduce the risk of large capital project cost overruns.
- *Debt Position and Financing* - The GNWT issues debt to partially finance its capital program and to meet short-term borrowing requirements. Debt has increased steadily since 2009-10, reflecting investments in capital projects to take advantage of cost-shared dollars under federal programs to develop the territory's infrastructure. The GNWT is currently near the federally imposed \$1.8-billion borrowing limit and another year of unexpectedly high costs could push the GNWT over the limit. The *Restoring Balance* fiscal strategy includes a target to reduce short-term borrowing by \$150 million over the next four years to reduce this risk. Increasing debt raises the following risks:
 - *Sustained high interest rates* – The current high interest rate environment has the largest effect on short-term debt, which comprises a large share of GNWT debt. Debt risk is considered low because debt servicing costs are expected to be less than five per cent of total revenues over the outlook, A relatively low overall debt burden provides protection against the risk of rising interest rates. However, as rates have risen substantially over the past two years and GNWT debt has increased through new issues, higher debt service payments have reduced funds available for programs, services, and infrastructure investment.
 - *Credit Rating* –A high credit rating leads to lower borrowing costs and less interest rate risk. The GNWT's high rating reflects fiscal sustainability to lenders. Institutional investors often have minimum credit rating restrictions on where they can invest.

Summary of Operations

(thousands of dollars)

	2022-2023	2023-2024	2023-2024	2024-2025
	Actuals	Main Estimates	Revised Estimates	Main Estimates
REVENUES	2,408,393	2,484,891	2,581,190	2,632,584
OPERATIONS EXPENSE				
Compensation and Benefits	435,209	432,685	450,637	425,441
Grants, Contributions and Transfers	1,021,679	1,038,458	1,144,973	1,093,035
Amortization	125,253	131,899	131,899	135,761
Chargebacks	28,142	25,998	34,738	33,976
Computer Hardware and Software	9,798	7,896	8,129	7,691
Contract Services	271,174	307,194	438,332	270,560
Controllable Assets	2,938	3,062	3,074	2,911
Fees and Payments	169,547	126,489	205,594	126,250
Interest	37,251	27,263	45,263	27,263
Loss on Sale of Assets	41	-	-	-
Materials and Supplies	23,217	22,933	36,451	22,325
Purchased Services	18,355	18,258	20,460	17,615
Travel	17,694	16,552	19,323	16,115
Utilities	52,152	44,273	50,168	48,033
Valuation Allowances	4,783	3,193	3,193	2,833
TOTAL OPERATIONS EXPENSE TO BE VOTED	2,217,233	2,206,153	2,592,234	2,229,809
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	191,160	278,738	(11,044)	402,775
Infrastructure Contributions	(67,208)	(64,948)	(137,065)	(77,080)
Deferred Maintenance	(2,232)	(1,800)	(1,967)	(1,800)
Supplementary Reserve	-	(35,000)	-	(35,000)
Estimated Appropriation Lapses	-	5,000	-	5,000
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	48,719	40,617	73,318	54,576
Expenditures	(48,719)	(40,617)	(73,318)	(54,576)
OPERATING SURPLUS FOR THE YEAR	121,720	181,990	(150,076)	293,895
ACCUMULATED SURPLUS, BEGINNING OF YEAR	1,738,303	1,806,729	1,860,023	1,709,947
ACCUMULATED SURPLUS, END OF YEAR	1,860,023	1,988,719	1,709,947	2,003,842

Summary of Revenues

	(thousands of dollars)			
	2022-2023 Actuals	2023-2024 Main Estimates	2023-2024 Revised Estimates	2024-2025 Main Estimates
GRANT FROM CANADA	1,519,233	1,610,836	1,610,836	1,699,357
TRANSFER PAYMENTS	436,571	372,307	472,873	412,393
TAXATION REVENUE				
Personal Income Tax	128,570	117,887	124,297	127,848
Corporate Income Tax	48,468	39,611	76,775	55,609
Cannabis Excise Tax	978	1,040	1,038	1,090
Carbon Tax	16,299	62,723	63,523	78,249
Tobacco Tax	14,387	16,354	14,080	14,635
Vapour Products Tax	-	-	-	252
Fuel Tax	20,450	20,083	19,500	20,486
Payroll Tax	47,522	50,131	49,850	50,847
Property Taxes and School Levies	27,012	29,247	27,483	28,843
Insurance Premium Taxes	6,834	5,500	5,500	5,610
	310,520	342,576	382,046	383,469
Non-renewable Resource Revenue				
Licences, Rental and Other Fees	2,576	4,016	4,016	4,001
Minerals, Oil and Gas Royalties	35,356	56,868	13,421	26,801
Quarry Fees	105	205	205	205
	38,037	61,089	17,642	31,007
GENERAL REVENUES				
Revolving Funds Net Revenue	26,190	26,770	24,088	24,628
Regulatory Revenues	28,886	25,303	26,126	28,507
Interest	310	340	340	340
Investment Income	4,869	1,379	1,379	1,788
Lease	4,727	4,622	4,622	4,722
Program	25,889	26,738	26,865	25,956
Grants	73	-	-	-
Service and Miscellaneous	4,085	9,931	11,373	17,417
Recovery of Prior Years' Expenditures	9,003	3,000	3,000	3,000
	104,032	98,083	97,793	106,358
TOTAL REVENUES	2,408,393	2,484,891	2,581,190	2,632,584

Summary of Operations Expenditures

(thousands of dollars)

	2022-2023 Actuals	2023-2024 Main Estimates	2023-2024 Revised Estimates	2024-2025 Main Estimates
Department				
Legislative Assembly	25,302	27,655	27,681	26,275
Education, Culture and Employment	374,617	384,847	392,633	374,989
Environment and Climate Change	130,445	124,309	240,103	126,205
Executive and Indigenous Affairs	22,548	22,848	25,566	24,253
Finance	334,122	340,042	389,876	358,407
Health and Social Services	634,713	607,709	671,625	644,228
Industry, Tourism and Investment	60,651	61,476	65,929	63,392
Infrastructure	306,176	306,827	337,777	307,147
Justice	145,998	144,759	150,466	148,586
Municipal and Community Affairs	182,661	185,681	290,578	156,327
	2,217,233	2,206,153	2,592,234	2,229,809
Expenditure Category				
Compensation and Benefits	435,209	432,685	450,637	425,441
Grants, Contributions and Transfers	1,021,679	1,038,458	1,144,973	1,093,035
Amortization	125,253	131,899	131,899	135,761
Chargebacks	28,142	25,998	34,738	33,976
Computer Hardware and Software	9,798	7,896	8,129	7,691
Contract Services	271,174	307,194	438,332	270,560
Controllable Assets	2,938	3,062	3,074	2,911
Fees and Payments	169,547	126,489	205,594	126,250
Interest	37,251	27,263	45,263	27,263
Loss on Sale of Assets	41	-	-	-
Materials and Supplies	23,217	22,933	36,451	22,325
Purchased Services	18,355	18,258	20,460	17,615
Travel	17,694	16,552	19,323	16,115
Utilities	52,152	44,273	50,168	48,033
Valuation Allowances	4,783	3,193	3,193	2,833
	2,217,233	2,206,153	2,592,234	2,229,809

Summary of Infrastructure Investment

(thousands of dollars)

	2022-2023 Actuals	2023-2024 Capital Estimates	2023-2024 Revised Estimates	2024-2025 Capital Estimates
Tangible Capital Assets				
Legislative Assembly	514	200	259	105
Education, Culture and Employment	9,939	5,623	20,782	3,590
Environment and Climate Change	3,012	2,297	8,501	21,078
Finance	30,895	16,118	27,450	3,847
Health and Social Services	36,721	35,904	55,221	56,997
Industry, Tourism and Investment	12,306	3,078	10,579	4,428
Infrastructure	124,155	160,814	193,157	176,779
Justice	1,410	1,480	2,801	1,480
Municipal and Community Affairs	138	160	160	166
	219,090	225,674	318,910	268,470
Infrastructure Contributions				
Education, Culture and Employment	9,728	3,500	6,729	-
Health and Social Services	-	-	2,555	-
Infrastructure	9,847	32,448	32,448	22,500
Municipal and Community Affairs	47,633	29,000	95,333	54,580
	67,208	64,948	137,065	77,080
Deferred Maintenance (non-capital)				
Infrastructure	2,232	1,800	1,967	1,800
	2,232	1,800	1,967	1,800
Public Private Partnerships				
Infrastructure	1,604	-	4,204	-
	1,604	-	4,204	-
Total Infrastructure Investment	290,134	292,422	462,146	347,350

Summary of Cash Flow

(thousands of dollars)

	2022-2023 Actuals	2023-2024 Main Estimates	2023-2024 Revised Estimates	2024-2025 Main Estimates
OPERATING TRANSACTIONS				
Cash Received From:				
Canada	2,000,000	1,959,000	2,083,000	2,112,000
Other Revenues	408,000	378,000	498,000	521,000
	<u>2,408,000</u>	<u>2,337,000</u>	<u>2,581,000</u>	<u>2,633,000</u>
Cash Paid For:				
Operations Expenses	(2,244,000)	(2,237,599)	(2,539,755)	(2,331,203)
	<u>164,000</u>	<u>99,401</u>	<u>41,245</u>	<u>301,797</u>
Cash Provided By Operating Transactions	<u>164,000</u>	<u>99,401</u>	<u>41,245</u>	<u>301,797</u>
CAPITAL TRANSACTIONS	<u>(249,000)</u>	<u>(87,000)</u>	<u>(225,000)</u>	<u>(214,000)</u>
INVESTING TRANSACTIONS	<u>(7,000)</u>	<u>(4,000)</u>	<u>(4,000)</u>	<u>(4,000)</u>
FINANCING TRANSACTIONS	<u>64,000</u>	<u>(13,000)</u>	<u>(13,000)</u>	<u>(50,000)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(28,000)</u>	<u>(4,599)</u>	<u>(200,755)</u>	<u>33,797</u>
Cash and Cash Equivalents, Beginning of Year	<u>(455,042)</u>	<u>(509,198)</u>	<u>(483,042)</u>	<u>(683,797)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>(483,042)</u>	<u>(513,797)</u>	<u>(683,797)</u>	<u>(650,000)</u>

Summary of Debt and Estimated Borrowing Capacity

(thousands of dollars)

	2022-2023 Actuals	2023-2024 Main Estimates	2023-2024 Revised Estimates	2024- 2025 Main Estimates
SHORT TERM DEBT				
Government of the Northwest Territories	483,042	513,797	683,797	650,000
Hay River Health and Social Services Authority	-	1,000	1,000	1,000
NWT Hydro Corporation	54,472	75,000	75,000	75,000
	<u>537,514</u>	<u>589,797</u>	<u>759,797</u>	<u>726,000</u>
LONG TERM DEBT				
Government of the Northwest Territories:				
Bonds repayable, GNWT	180,022	180,000	180,000	180,000
Deh Cho Bridge, Real Return Bonds	185,056	180,197	184,960	183,478
Mackenzie Valley Fibre Optic Link, P3 debt	67,100	63,995	63,995	60,725
Stanton Territorial Hospital, P3 debt	123,690	120,150	120,150	116,985
Tłı̄ch̄o All-Season Road, P3 debt	71,382	70,900	70,888	69,388
Canada Mortgage and Housing Corporation	110	22	22	-
Public Agencies:				
NWT Hydro Corporation	189,139	260,700	262,204	258,639
Housing NWT	3,984	3,337	3,337	2,616
	<u>1,357,997</u>	<u>1,469,098</u>	<u>1,645,353</u>	<u>1,597,831</u>
TOTAL DEBT				
OBLIGATIONS UNDER CAPITAL LEASES				
NWT Hydro Corporation	15,545	15,207	15,140	14,735
LOAN GUARANTEES				
Prosper NWT	2,000	2,100	2,000	2,000
Housing NWT	3,459	2,225	2,359	1,544
TOTAL GROSS BORROWING PER BORROWING REGULATIONS	<u>1,379,001</u>	<u>1,488,630</u>	<u>1,664,852</u>	<u>1,616,110</u>
TERRITORIAL BORROWING	1,379,001	1,488,630	1,664,852	1,616,110
TERRITORIAL BORROWING LIMIT	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,800,000</u>
AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES	<u>420,999</u>	<u>311,370</u>	<u>135,148</u>	<u>183,890</u>

Provincial/Territorial Tax Rates at May 1, 2024

	Combined Top Marginal Personal Income Tax ^(a) (%)	Retail Sales Tax (%)	Fuel Tax ^(b)		Carbon Tax ^(c)		Tobacco Tax ^(d) (\$/carton)	Payroll Tax ^(e) (%)	Corporate Income Tax		Capital Tax on Financial Institutions ^(f) (%)
			Gasoline (¢/litre)	Diesel (¢/litre)	Gasoline (¢/litre)	Diesel (¢/litre)			Small (%)	Large (%)	
Northwest Territories	47.05	-	10.7	9.1	17.61	21.39	68.80	2.00	2.0	11.5	-
Nunavut	44.50	-	6.4	9.1	17.61	21.39	60.00	2.00	3.0	12.0	-
Yukon	48.00	-	6.2	7.2	17.61	21.39	70.00	-	-	12.0	-
British Columbia	53.50	7.0	14.5	15.0	17.61	20.74	65.00	1.95	2.0	12.0	-
Alberta	48.00	-	13.0	13.0	17.61	21.39	60.00	-	2.0	8.0	-
Saskatchewan	47.50	6.0	15.0	15.0	17.61	21.39	58.00	-	1.0	12.0	4.0
Manitoba	50.40	7.0	0.0	0.0	17.61	21.39	60.00	2.15	-	12.0	6.0
Ontario	53.53	8.0	9.0	9.0	17.61	21.39	36.95	1.95	3.2	11.5	1.25
Quebec	53.31	9.975	19.2	20.2	-	-	37.80	4.26	3.2	11.5	1.25
New Brunswick	52.50	10.0	10.87	15.45	17.61	21.39	51.04	-	2.5	14.0	5.0
Nova Scotia	54.00	10.0	15.5	15.4	17.61	21.39	59.04	-	2.5	14.0	4.0
Prince Edward Island	53.63	10.0	8.47	14.15	17.61	21.39	59.04	-	1.0	16.0	5.0
Newfoundland & Labrador	54.80	10.0	7.5	9.5	17.61	21.39	65.00	2.00	2.5	15.0	6.0
Weighted average ^(g)	52.52	7.4	12.5	13.0	13.71	16.57	46.61	2.08	2.7	11.4	1.41

Notes:

(a) Combined federal-provincial/territorial highest 2024 personal income tax rate and surtax.

(b) The NWT's off-highway gasoline tax rate is 6.4 cents/litre. British Columbia fuel tax rates do not include surtaxes that apply only in Victoria and the Lower Mainland. Quebec fuel tax rates also vary regionally.

(c) Carbon pricing is standardized for all Canadian jurisdictions effective July 1, 2023, except for Quebec that has cap and trade. British Columbia's diesel tax rate is based on lower carbon content fuel.

(d) British Columbia, Manitoba and Saskatchewan apply provincial sales tax to tobacco products. Harmonized Sales Tax is applied to tobacco products in Ontario, New Brunswick, Prince Edward Island, Newfoundland & Labrador, and Nova Scotia. Quebec does not apply sales tax to tobacco products.

(e) Nunavut and the NWT levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or rates that vary depending on payroll size.

(f) Ontario and Quebec levy capital taxes on life insurance corporations. Saskatchewan and Manitoba also levy capital tax on provincial crown corporations.

(g) Average weighted by provincial/territorial populations at July 1, 2023.