

NWT FISCAL AND ECONOMIC UPDATE
THE HONOURABLE J. MICHAEL MILTENBERGER
MINISTER OF FINANCE
DECEMBER 4, 2008

Good afternoon. In September I announced a public consultation process to hear from NWT residents about how the Government of the NWT can address our fiscal challenges by increasing our revenues. Today I am releasing the report on the consultations and want to speak about how the Government will be responding to what we heard. Before I do that, I would like to say a few words about the economic situation we face in the NWT, and how it is likely to affect the choices and decisions we must make in the coming months.

Impact of Global Economic Conditions

The world is going through very unsettled times right now. Every week, in fact, every day, brings us news about national and international economic events, very little of it encouraging.

The NWT is not insulated from the changes occurring in the world economy. Over the last ten years, the NWT economy has benefitted significantly from strong demand for our oil and gas and for our diamonds. The resource sector now directly represents more than a third of our economy, and indirectly supports a further fifteen per cent. More than twenty per cent of NWT residents work in this sector or for the businesses that depend on it. However, the demand for our resources and the prices they command on world markets has fallen. The price of oil is down by more than half from its highs earlier in the year. Base metal prices are down significantly from their highs. Even gold now sells for a little less than US\$780 an ounce, down from more than US\$1000 an ounce in March.

Just as troubling, tight world credit markets mean that the firms that do business here may find it difficult to raise the capital they need to operate.

We have seen some of the impacts of that already, with some NWT firms announcing layoffs and slowdowns. Although overall employment is still strong and NWT unemployment rates have not risen, we will continue to monitor economic conditions in the NWT and take action where we can.

No plan can be set in stone in this uncertain economic environment.

Positioning the GNWT for the Future

There is good news. The Government of the NWT is in a stable fiscal position, having begun to put our fiscal plan in place last winter and spring. We will not need to make substantial changes to that plan in order to address the challenges presented by current events.

The 2008 budget passed last June began to implement the right decisions – to bring the growth in the government's spending in line with projected revenues and to focus on investments in our economy, our people and our environment.

We have recently concluded a review of the government's 2009-10 Departmental Business Plans with the Legislative Assembly's Standing Committees. These Plans describe how the government will be investing in the critical areas which will help us achieve the goals of the 16th Legislative Assembly – investments in education and training, in lowering the cost of living, in

growing and diversifying our economy, in addressing climate change, and in human resource planning and development. These Plans will guide the development of our 2009 Budget, which will be unveiled in early February.

We will be investing in critically needed infrastructure. In October the Legislative Assembly passed the government's 2009-10 Capital Budget, which will see almost \$250 million invested in the next fiscal year in the construction of roads, bridges, schools, and other needed public infrastructure, investment that will also provide an economic stimulus for our territory.

Although the cost of oil has dropped dramatically in recent months, we continue to experience the lingering effects of the record high prices we saw this summer. Furthermore, the long term forecast for energy prices indicate that we need to continue to look for ways to reduce energy costs. High costs and climate change mean that energy will be one of the most important issues this government will have to address. We intend to make significant investments in energy programs and infrastructure in the coming year – investments that will make a difference, in both the short and longer term, in the cost of energy and in reducing our territory's dependence on fossil fuels.

On the national stage, although the federal political picture is uncertain, we expect Canada to continue to look to control many areas of its spending, by conducting departmental reviews and negotiating collective agreements that reflect the current economic environment. Fortunately, we have been assured by the federal government that there are no changes planned to our Territorial Formula Financing arrangements. These arrangements provide over 70 per cent of our government's revenues and represent an important source of fiscal stability. However, important sunsetted federal funding for programs directed at health, housing and economic development may be at risk.

We also expect to see lower corporate and personal income tax revenues next year as the economy slows.

Proposed Tax Initiatives

Earlier this year, the GNWT announced plans to increase our revenues. The 2008 Budget included a plan to raise an additional \$10 million starting in 2009-10. In September we announced that our fiscal strategy included raising a further \$30 million beginning in 2010-11.

While we will be implementing measures to raise \$10 million in new revenues in 2009-10, we believe it is prudent to wait, given how fast economic circumstances are evolving before any decisions are made about introducing tax measures to raise the additional \$30 million targeted for 2010-11. I would also like to assure NWT residents that we will not be introducing a NWT sales tax or increasing the NWT fuel tax.

The primary purpose of our tax system is to raise the revenues our government needs to provide programs and services to the residents of the NWT. A fair, efficient tax system provides the foundation for delivering essential public services such as health care, education, policing services and roads and allows us to make the investments we need to improve the quality of life for the citizens of the NWT. However, increasing taxes is never easy because our decisions have consequences for those individuals, families, and businesses which pay the higher taxes.

The GNWT must balance its need for additional revenues to fund quality programs and services with the need to maintain a strong economy and a growing population. The government needs

to take an approach that is well thought out in terms of its impact on residents, on the cost of living, on the economy, on investment, and on the attractiveness of the NWT as a place to live. Consulting with Northerners was an important step in ensuring we took the right approach.

Affording our Activities

The feedback we received told us that there is some support for increasing taxes, or introducing specific new tax measures. However, the overwhelming reaction was that the government should not be looking to increase taxes that raise the cost of living and doing business in the NWT without first making sure we are getting the best value of the dollars we are already spending.

I want to assure NWT residents that we are doing this. The GNWT's *Refocusing Government* strategic initiative is targeting areas where the government can be achieving better results, improving service delivery, organizing itself more effectively, or operating more efficiently and economically. We have established a Program Review Office which has begun reviewing GNWT programs to they are achieving their intended results in an effective and efficient manner. We have also made substantial efforts to improve the way we plan for, acquire and build GNWT infrastructure.

We have reduced government spending growth from over 7 per cent in 2007-08 to 6.3 per cent in 2008-09 and intend to constrain growth even further in 2009-10.

Now, more than ever, we need to look for other ways to raise the revenues we need to deliver programs and services to NWT residents. We will implement initiatives designed to grow our economy and increase our population, and therefore our revenue base. Last week's signing of a Memorandum of Understanding between the GNWT and the NWT's three diamond mines is an important example of the actions we intend to pursue. The diamond mines and the GNWT will work cooperatively to develop the necessary skills, training, and travel initiatives to allow more NWT residents to be employed in the mines; and identify strategies to attract skilled workers and their families to become residents of the Northwest Territories.

The work that has been done on revenues over the last few months clearly shows that we need to also be taking a closer look at how we raise revenues in the NWT, to see if there are changes to the structure of our tax system that might make sense, without increasing the total amount of taxes we collect. We intend to continue this work in 2009. In addition, I have committed to reconvene another roundtable next year, a forum similar to that used in our revenue consultation, to provide advice and input into the budget process.

Taking a Balanced Approach

If we don't raise the \$30 million in new tax revenues, it is all the more important that we achieve our goal of controlling our expenditure growth. The revised fiscal plan we outlined in September included implementation of the \$33 million in reductions in the current fiscal year, and a further \$31 million to be implemented in 2009-10. Achieving our targets for 2009-10 will involve additional reductions of up to 65 positions. Every effort will be made to redeploy these employees. In fact, of the 140 positions eliminated as a result of the 2008 budget, fewer than 20 employees accepted one of the layoff options available to them. We are equally confident that we will be able to redeploy many of the staff affected by the 2009 measures.

Some may ask why we would reduce expenditures and staff if our economy may shrink. The answer is that we need to take a balanced approach to our fiscal planning – by making investments in key areas, controlling overall spending growth, and keeping tax increases to a minimum. The GNWT has chosen not to pursue our original objective of eliminating \$135 million in spending over two years. We anticipate that this could result in the GNWT incurring some debt to finance a portion of our infrastructure investments in the next few years. However, we intend to remain within the GNWT's Fiscal Responsibility Policy.

The GNWT will spend over \$1.2 billion in 2008 and a similar amount in 2009, not including our investment in capital. We need to be sure this money is being spent to best effect: invested in quality programs and services, in building our economy and in protecting our environment. We need to ensure there is balance in the approach we take. We need to recognize and respond to the challenges being faced by the private sector as we head into these very uncertain economic times.

Before I conclude, let me say a few words about resource revenues. Although devolution is still in the future, we should start to look now at what we will do with the net fiscal benefit we receive from those revenues, once we get them. We want to ensure that the fiscal benefit from the development of these non-renewable resources is invested for the long-term benefit of NWT residents and not spent on current programs and services. This may include establishing some type of Heritage Fund which could be a source of income to finance badly needed infrastructure.

Conclusion

In conclusion, let me repeat the important messages that NWT residents need to know. The NWT economy is likely to see some effects from the global economic turmoil and this will impact residents whose livelihoods depend on our resource industry. On the positive side, the GNWT is in a stable fiscal position, which will allow us to make critical investments in our territory, but we need to proceed with caution. We will monitor changing economic conditions, and make will make adjustments if necessary, but our fiscal strategy is sound.

Thank you.