

Budget Dialogue 2014:

Taking Stock

Budget Dialogues 2012 and 2013

- ▶ Dialogue 2012 was about how the GNWT spends its money and resulted in 3 themes emerging:
 - ▶ Duplication: Opportunities for savings – several agencies working with the same client but never speaking to each other, and the GNWT duplicating past work in studying issues, producing strategies and other reports;
 - ▶ Redeployment of Funds within Programs: opportunities to lower costs by using existing funding within programs more effectively and efficiently;
 - ▶ Prevention: invest in prevention to save in future costs through programs including early childhood development, mental health and addictions prevention and preventative maintenance.
- ▶ Dialogue 2013 was about resource revenue management:
 - ▶ Almost all agreed that resource revenues should not be spent on day to day operations of government.
 - ▶ Opinions on how much resource revenues should be saved in the Heritage Fund ranged from 5 to 100 per cent, with the remainder for infrastructure and debt repayment.

Budget Dialogue 2014

- ▶ What are your top priorities for investment?
- ▶ What could we be doing better, especially since slower revenue growth will require more careful management of expenditure growth in the future?

GNWT's Fiscal Planning Principles

- ▶ The GNWT must maintain competitive business and responsible social environments.
- ▶ The strength of the economy will determine the level of revenues which are available for programs/services over the long term.
- ▶ The GNWT must recognize and plan for the cyclical nature of its revenues.
- ▶ The GNWT cannot afford to run operating deficits for an extended period of time.
- ▶ The *Fiscal Responsibility Policy* reflects sound fiscal planning.
- ▶ The GNWT must not incur debt to a level where debt servicing costs are unaffordable or reduce program/service budgets.
- ▶ Some debt, specifically that which supports infrastructure, may be required to promote economic growth.

The Fiscal Strategy

- ▶ Manage expenditure pressures in programs and services to ensure operating surpluses are adequate to finance infrastructure investment.
- ▶ Increase revenues over long-term through economic and population growth:
 - Slowing economic activity and declining population are affecting own-source and transfer revenues going forward.
 - Fiscal strategy responds with capital investments to grow the economy and an initiative to increase the NWT population by 2,000 people over 5 years.
- ▶ Maintain a \$100 million cushion below the federally-imposed \$800 million borrowing limit to deal with unexpected fiscal shocks.
- ▶ Borrow to fund key infrastructure investment, ensuring this is done sustainably and within the *Fiscal Responsibility Policy*:
 - Will need an increase to \$100 million cushion
 - Need money to service debt – debt servicing costs cannot exceed 5 per cent of total revenues

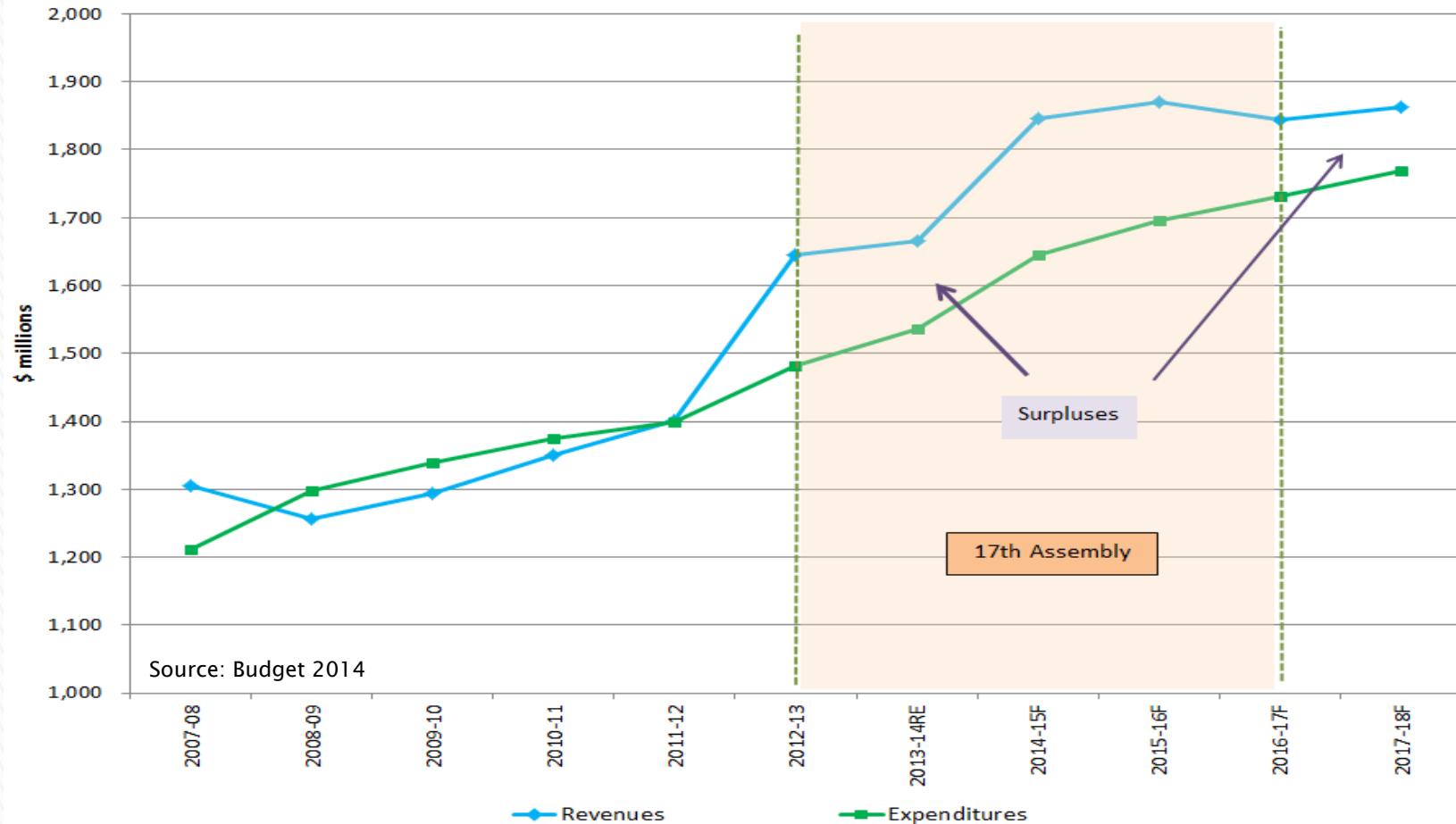
Operating and Capital Budgets

\$ millions	2011-12 Actual	17th Assembly			
		2012-13 Actual	2013-14 Actual	2014-15 Forecast	2015-16 Forecast
OPERATING SUMMARY					
Total revenues	1,401	1,645	1,632	1,846	1,870
Total expenditures	(1,400)	(1,482)	(1,537)	(1,646)	(1,671)
Operating surplus (deficit)	1	163	94	200	199
CAPITAL INVESTMENT					
	165	139	193	190	245

Source: Budget 2014, except actuals (public accounts)

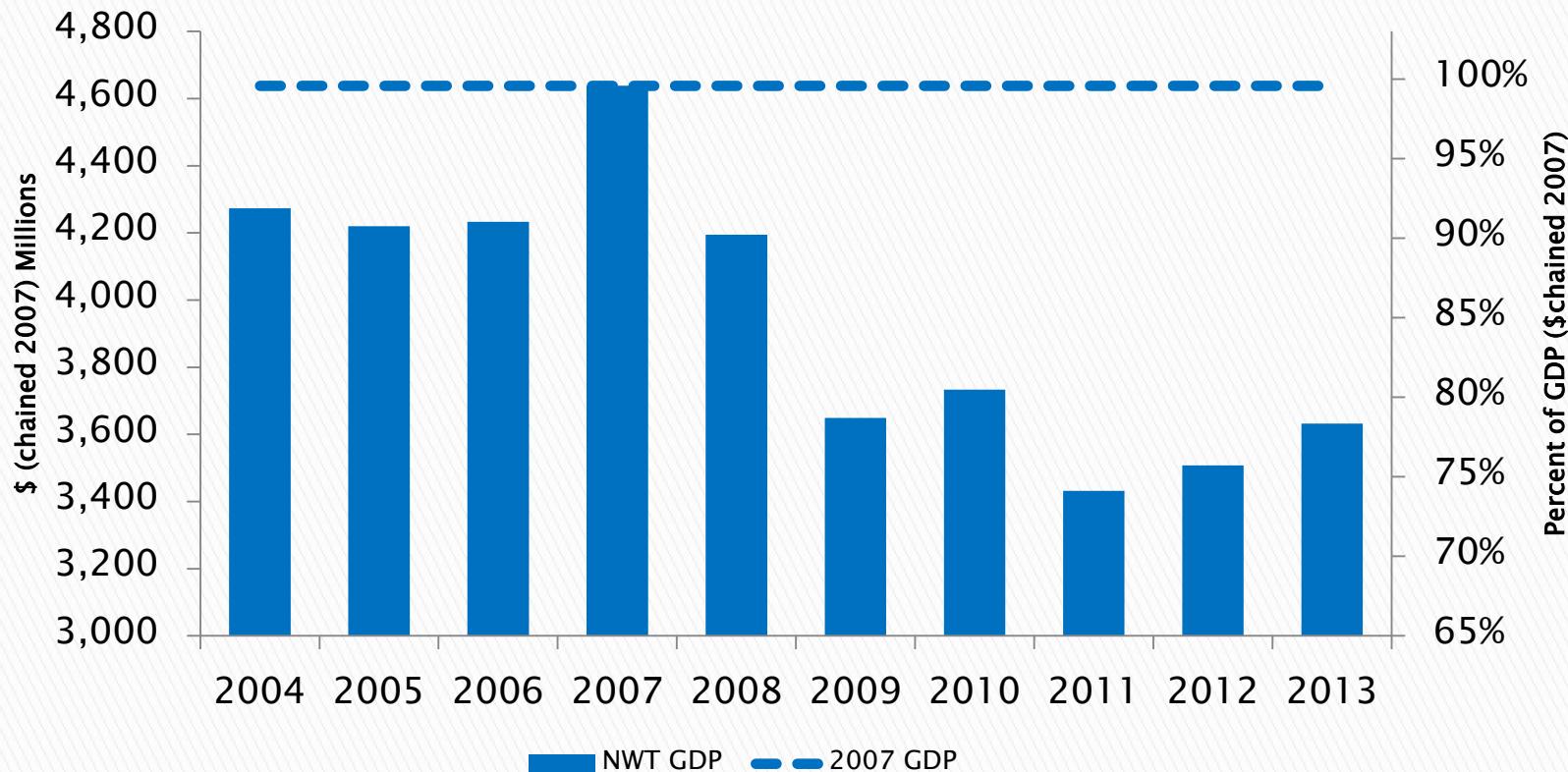
- ▶ The 17th Assembly has generated operating surpluses to pay for capital investment.

Achievement of Budget Surpluses



- ▶ The 17th Assembly is generating surpluses; however, flattening revenues mean operating surpluses will be smaller, or become deficits, in the future if expenditures are not carefully managed.

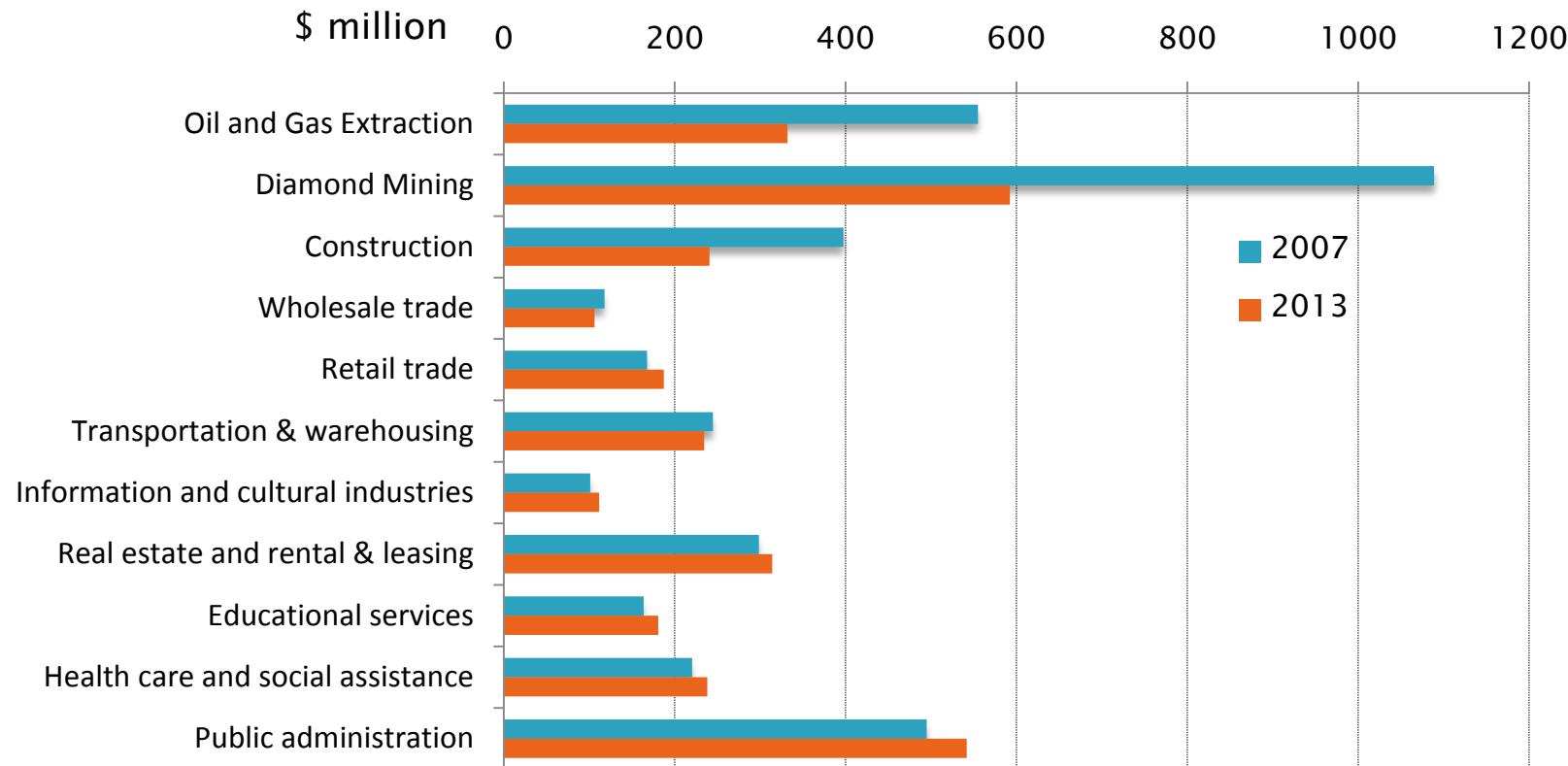
Weak Economic Performance in Last 5 Years



- ▶ The NWT's economic activity is only three-quarters of what it was 8 years ago because resource production is declining and business capital investment is significantly lower.

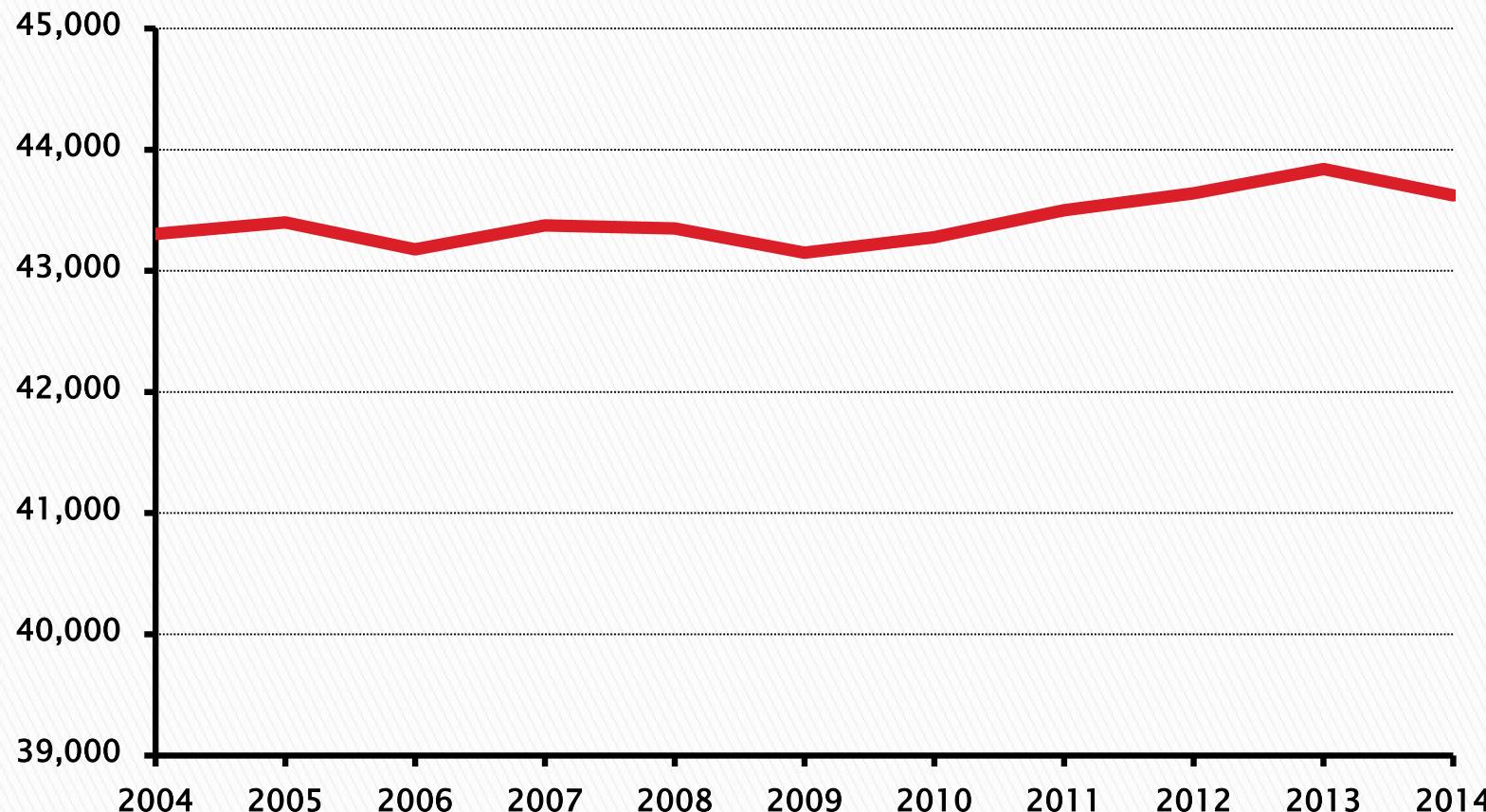
NWT GDP by Industry: 2007 & 2013

(\$chained 2007)



- While diamond mining remains the largest contributor to the NWT's GDP, its contribution has decreased significantly from its peak in 2007.

NWT Population is Stagnant since 2004

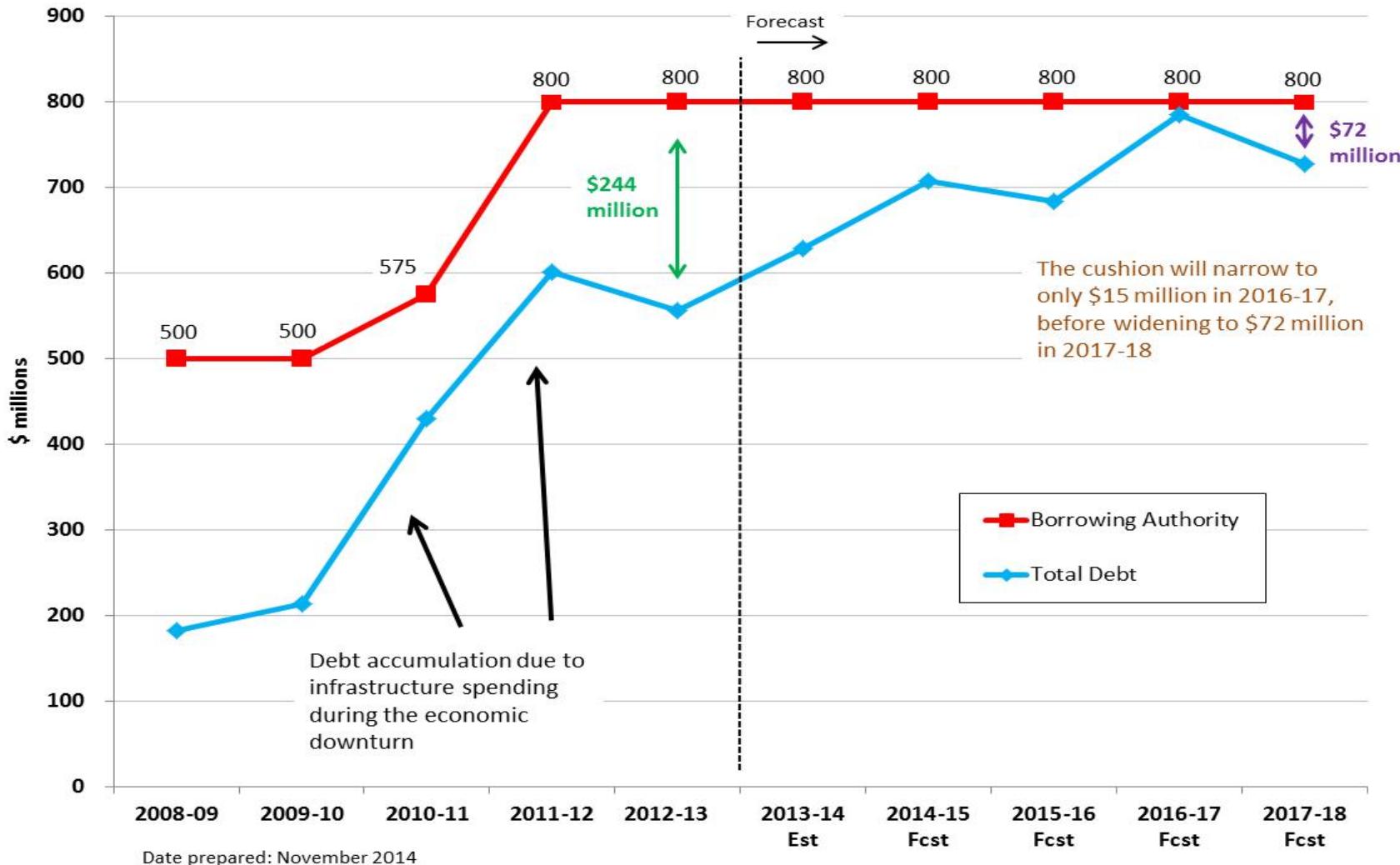


- ▶ The NWT's population has been basically flat since 2004 because of persistent annual out-migration which has offset the natural increase.

Medium-Term Economic Challenges

- ▶ Possible mine closures in next several years:
 - Diavik is slated to close by 2022 according to mine plan;
 - Ekati slated to close 2019 but new kimberlite pipe(s) may extend mine life;
 - Significant contribution to the NWT's GDP would be lost with mine closures.
- ▶ Potential new mines, including the Gahcho Kue diamond mine, are smaller than existing mines.
- ▶ Oil exploration activity is slowing.
- ▶ The scope and timing of resource projects is uncertain (lack of financing, unpredictable drilling results, operational issues, commodity prices).
- ▶ Resources prices are volatile and have fallen recently.

Medium-Term Debt Outlook



Date prepared: November 2014

Note: Some of the debt increase from 2010-11 to 2011-12 reflects the change in definition of borrowing as part of the increase in the NWT borrowing limit to \$800 million.

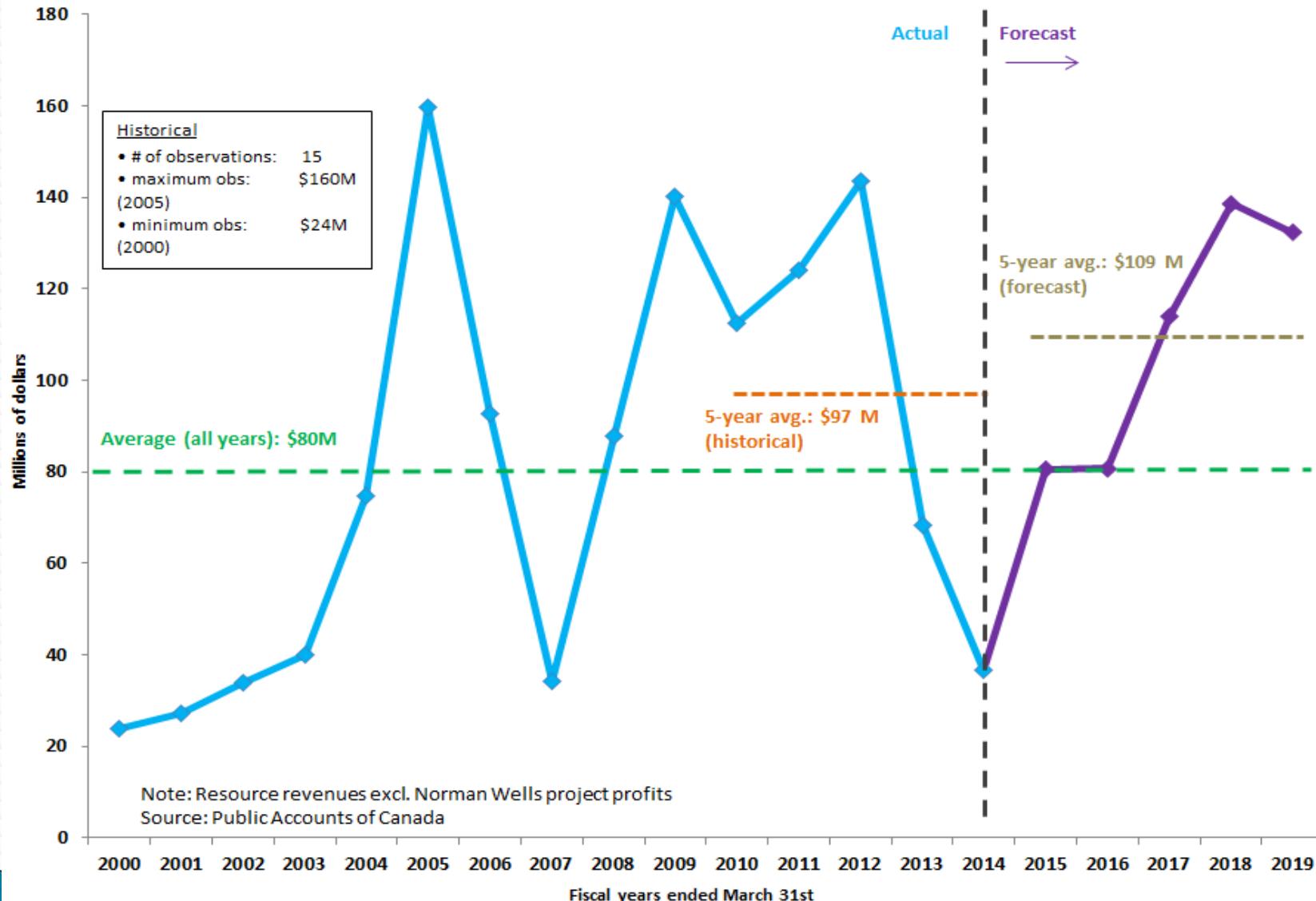
Revenue Outlook

- Growth in transfers revenue (74% of all revenues) is decreasing because of declining population growth and restraint in provincial government spending.
- Territorial Formula Financing forecast shows 2% growth for next 5 years compared to previous 5 year average of 5.7%.
- Own-source revenue showing indication of downward trend due to declining population and slower economic activity. Lower than forecast tax revenues since 2013-14, and reduced tax forecasts going forward.
- Corporate income tax and resource revenues are volatile.

Resource Revenues

- ▶ Under Resource Revenue Sharing agreement the GNWT collects and retains all resource revenues. However, Territorial Formula Financing offsets mean that the net fiscal benefit (NFB) is 50% of gross revenues with a cap of about \$75 million.
- ▶ 25% of the NFB will be shared with NWT Aboriginal governments under legislation.
- ▶ GNWT's portion of the NFB will not be used for operating expenditures but instead for:
 - ▶ Capital investment;
 - ▶ Debt repayment; and
 - ▶ NWT Heritage Fund (25%)

Resource Revenues in the NWT



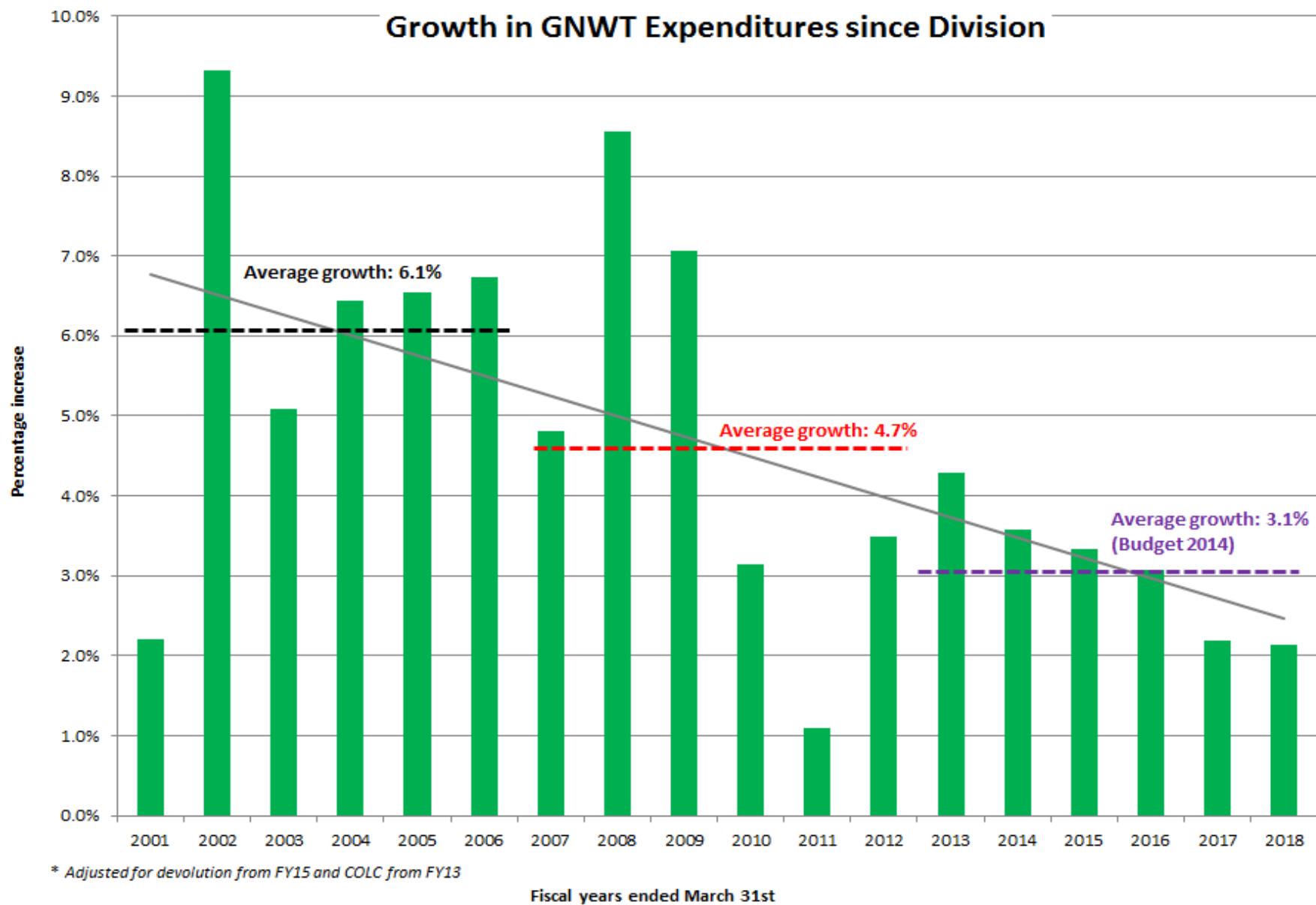
Unexpected 2014-15 Expenditures

- ▶ Severe forest fire season in 2014 forest fire season resulted in \$55 million in expenditures or about 3% of revenues and increased short-term borrowing requirements.
- ▶ The GNWT will be providing \$20 million one-time transfer to NTPC to subsidize diesel use resulting from low water levels at the Snare and Bluefish hydro dams.

Expenditure Outlook

- ▶ Given the outlook for revenues, expenditure growth will have to be moderated to maintain fiscal sustainability.
- ▶ Expenditure pressures: price changes, increasing senior population, deferred maintenance, climate change.
- ▶ The GNWT is responding to slower revenue growth through:
 - Measures to tackle the cost of living;
 - Capital investments to grow the economy; and
 - Initiative to increase the NWT's population by 2,000 people over the next 5 years.
- ▶ However, the resources available for these initiatives are limited because of the fiscal pressures and borrowing constraints.

Growth in GNWT Expenditures since Division



Conclusion

- ▶ Even with a conservative expenditure growth target, the GNWT's operating budget is not sustainable over the long term without an increase in revenues.
- ▶ In the absence of revenue growth, the GNWT will require a realignment/reduction of current operating/infrastructure budgets.