



Budget Dialogue 2016

What if you could plan the GNWT Budget?

Why are we speaking with Northerners?

The Government of the Northwest Territories (GNWT) needs to live within its means and we want your advice on the difficult choices that must be made to align expenditures with revenues.

The Northwest Territories is facing a range of economic challenges, mainly because of our resource-based economy's dependence on a global market struggling with low resource prices. The NWT economic outlook and the implications for the GNWT revenues are among the 18th Legislative Assembly's most serious challenges.

The GNWT fiscal situation projects declining revenues with rising expenditure pressures, and surpluses are projected to become deficits soon. We cannot afford to allow spending to grow faster than revenues. To do so will mean that we will start running deficits and end up with more debt, even if we choose not to spend on infrastructure.

Without action, we are facing a future that is not fiscally sustainable. How we approach this reality will have implications for what we can do in the future to address our priorities while protecting our core programs and services and, ultimately, what we can do to support a stronger NWT economy.

Your input will be shared with Members of the Legislative Assembly to help inform their review of the 2016-2017 budget this spring. Your ideas for specific actions to cut expenses and increase revenues will be considered for inclusion in the 2017-2018 budget, which will begin to be developed this summer.

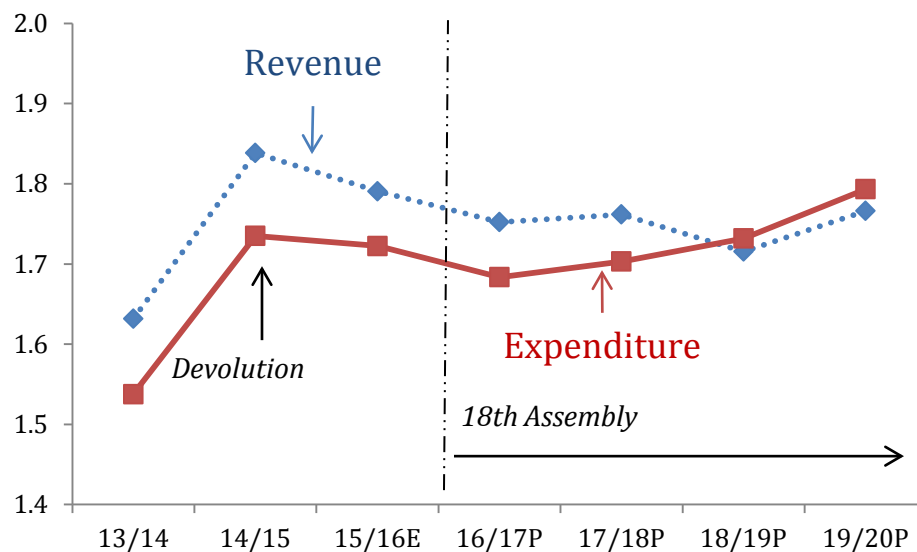
What is our current situation?

Our situation is this: the NWT economy is fragile due to exposure to the resource sector and low commodity prices and budget projections show that the money coming in will decline 1.4 per cent over the next five years while expenditures will grow 4.1 per cent.

The GNWT operating surpluses are already declining and are projected to become operating deficits by 2018-19. GNWT own-source revenues are projected to decline over the next five years.

Revenue growth has slowed in recent years; this is primarily because of slower growth in Territorial Formula Financing, which is two-thirds of total GNWT revenues. The Territorial Formula Financing Grant is determined by the growth in the NWT population relative to the Canadian population and the growth in provincial/local government expenditures. The slowdown in the Canadian economy means provinces are facing slower revenue growth while addressing debt levels, providing them with few options other than to reduce spending. Reduced provincial/local government expenditure growth and flat NWT population growth are the main reasons for the slower Territorial Formula Financing growth.

Total GNWT Revenue and Operating Expenditure (Billions of dollars)



E – Estimate; P – Projected
Source: NWT Finance

What do we want to do?

We need to live within our means. Unless we find a way to curtail our expenditures or grow our revenues over the next five years, the GNWT will continue to rely on short-term borrowing to pay for operating expenditures and finance infrastructure investment. This is not sustainable.

We need to think of the longer term. If we carry on spending everything we take in on government programs and services, there will be no operating surpluses available for making infrastructure investments that are crucial to reducing the cost of living and making the NWT economy sustainable over the long term.

We need to address our current fiscal situation because of the economic outlook. The five-year outlook for the NWT economy is mixed. Although some regions are benefitting from resource development projects, economic activity in other areas has slowed considerably.

Over the long-term, the available information suggests a protracted decline in resource production. Existing diamond mines are maturing and currently planned projects will not replace their contribution to the territorial economy. At the same time, exploration necessary for new development is also slowing down. Unless action is taken, the GNWT will not have any flexibility to fund initiatives to support the economy.

Given the outlook, policies that support growth and diversity are preferable. Capital investments now can position the NWT to cope with the closure of existing mines in the medium term. Promoting economic growth, and increasing the tax base, is important for the long-term health in own-source revenue.

[NWT Economic Outlook](#)

Why are operating surpluses important?

The operating surplus is the amount of money left over after the GNWT covers the cost of day-to-day operations of programs and services such as income assistance, health care, education, community support, policing, business support programs, wildlife management, and maintenance of buildings and roads.

A. Surpluses Pay for Infrastructure

Operating surpluses helps to pay for our capital spending. Building upgrades, roads equipment, new facilities, such as schools, seniors' homes, health clinics, and contributions to community governments for their capital needs are all paid from the GNWT's capital plans. The GNWT is guided by its *Fiscal Responsibility Policy* to prudently manage our borrowing and debt. Under this Policy the government is committed to fund at least half of infrastructure spending through cash generated from operating surpluses.

Investments in infrastructure provide the framework in which our economy operates. We depend on infrastructure to transport goods and services between communities. Improving and maintaining transportation infrastructure is critical to combat the high cost of living in all parts of our territory. Part of infrastructure investment is to protect what we already have and prevent our assets from falling into disrepair. Infrastructure investments provide the means to deliver services important to NWT residents, including health care and education, as well as economic development.

B. Deficits increase Debt

Without a surplus, the government has to borrow for day to day operations, increasing its debt. This is not allowed under the *Fiscal Responsibility Policy*. Deficit spending is not sustainable over the medium-term as it erodes the room the GNWT has under the federally-imposed borrowing limit of \$1.3 billion. A deficit leaves no money to pay for capital investment, meaning every dollar of capital spending would result in an extra dollar of debt.

C. Aa1 Credit Rating

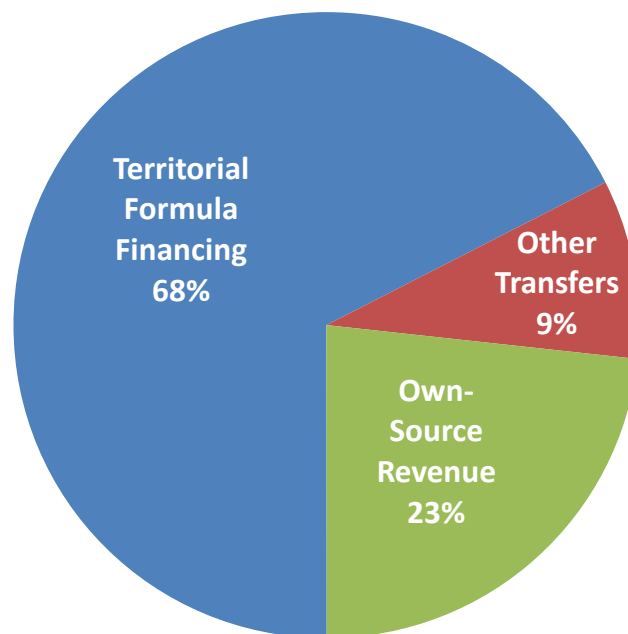
In this environment of global economic uncertainty, signalling strong financial management by maintaining a surplus and managing debt responsibly has never been more important. Maintaining the GNWT's second highest obtainable credit rating lowers the cost of borrowing, which helps the GNWT to keep more of its revenue for programs and services instead of debt repayment and interest charges. The GNWT has maintained an Aa1 rating from Moody's credit rating agency since 2006-07.

Where do GNWT revenues come from?

The majority of GNWT revenues come from federal transfers. In particular, Territorial Formula Financing makes up almost 70 per cent of the total. Own-source revenues are 23 per cent of total revenue. The 2015-16 Budget estimated total revenue of \$1.826 billion.

Territorial Formula Financing is growing slowly because of slow provincial/local government spending and flat NWT population growth.

Shares of Total Revenue, 2015-16

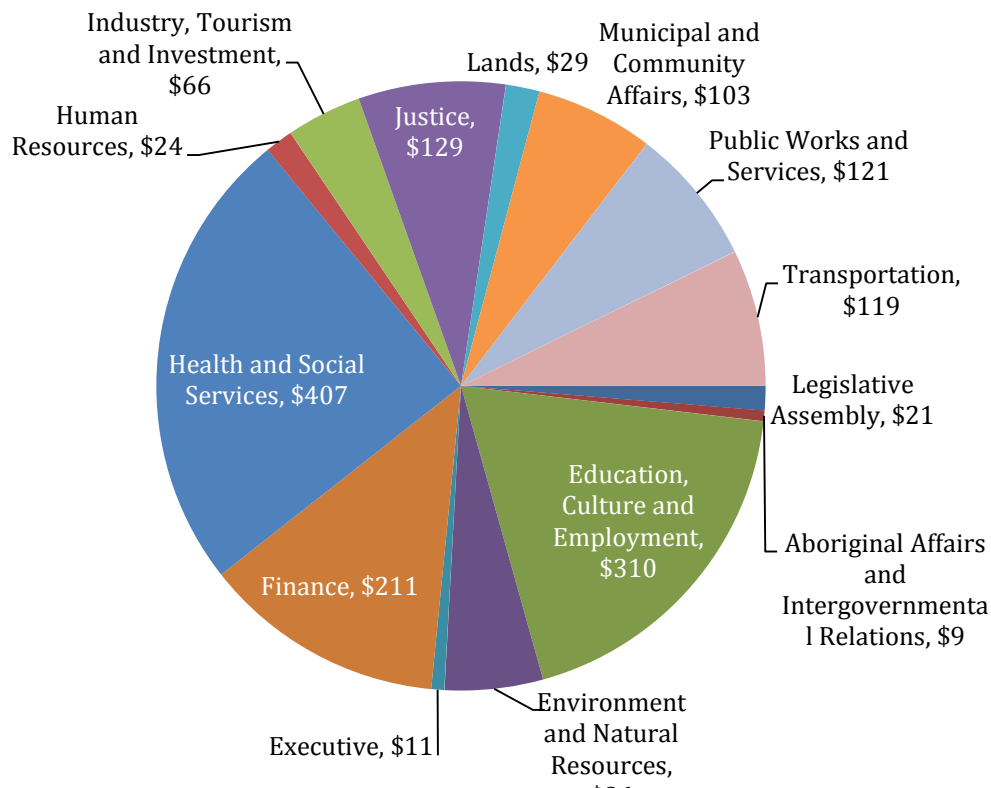


Source: NWT Finance, Budget 2015-16

Where does the money go?

The 2015-16 Budget allocated \$1.648 billion to the various departments for program delivery. Of this amount, \$930 million was budgeted for social programs such as education, health care, social services, housing, policing, and corrections.

Total Departmental Operating Expenditures, 2015-16 (Millions of dollars)

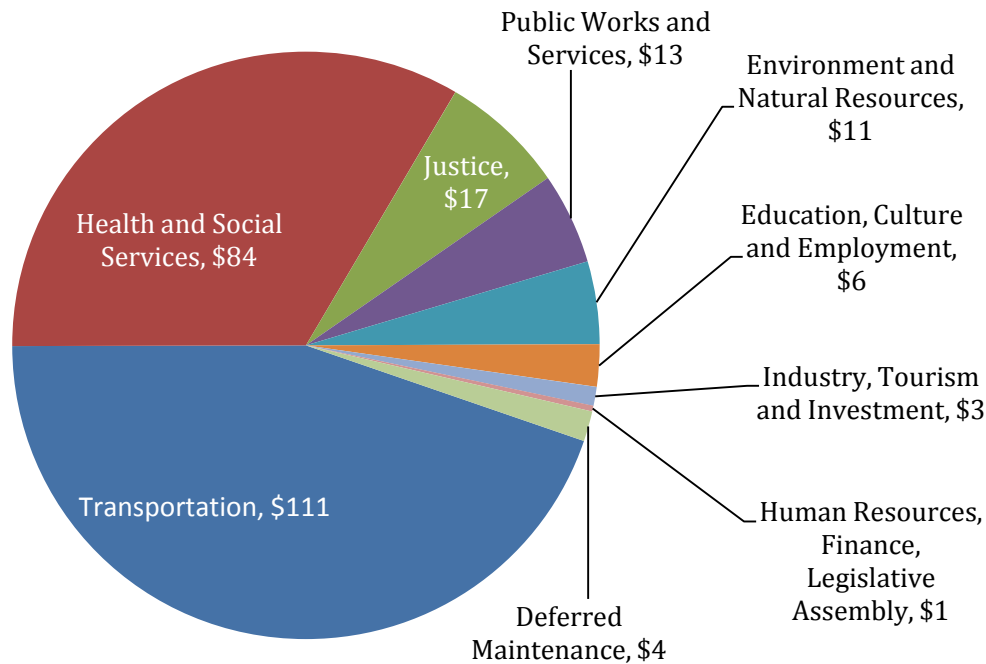


Source: NWT Finance, Budget 2015-16

The 2015-16 capital budget was approved in November 2014 and provides for investments of approximately \$249 million in infrastructure, \$28 million in infrastructure contributions to communities, and \$36 million in housing investments (to be delivered through the NWT Housing Corporation).

Including the proposed housing investment through NWT Housing Corporation, the total planned infrastructure investment in 2015-16 will be \$314 million.

Capital Spending by Department, 2015-16 (Millions of dollars)



Source: NWT Finance, Budget 2015-16

What is the fiscal strategy?

Our strategy is simple: we have to live within our means. This means that expenditure growth has to be less than revenue growth so that we can generate enough cash from operating surpluses to pay for a minimum of half of our capital expenditures.

We can do this by:

- Increasing revenues - see [Revenue Options Paper](#) and [Revenue Options Q&As](#)
- Decreasing expenditures.

There will have to be expenditure reductions to maintain fiscal sustainability. Increasing revenues by themselves is not enough to cover the projected deficits. Borrowing to pay for operating expenditures is not an option because it is not sustainable. Curbing expenditure growth is not going to be enough to return to surplus position. This leaves expenditure reductions as the main lever for taking control of the fiscal outlook.

Questions to think about:

- Are all GNWT programs and services still needed, are there any that can be cut or scaled back?
- If we want new programs but have limited resources, what do we stop doing or what taxes do we increase?
- If the program is necessary, can it be delivered more efficiently?
- What is the right balance of investment in infrastructure versus spending on supporting residents and businesses through programs and services?

WE'RE LOOKING FOR YOUR IDEAS AND FEEDBACK BY MAY 20, 2016!

1. Send an email to: budgetdialogue@gov.nt.ca

2. Send a letter to:

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