

## **FISCAL REVIEW**

Budget 2023-24, the final budget of the 19<sup>th</sup> Assembly, consolidates the work undertaken so far to support the Government of the Northwest Territories (GNWT) vision of a healthy, just, sustainable and prosperous society and is used to prioritize initiatives already set in motion to ensure their sustainability and successful transition into the next Assembly.

Budget 2023-24 continues to carry out the 19<sup>th</sup> Assembly's priorities and mandate in its final year, the changes to budgeting being made through the Government Renewal Initiative, improvements to the capital budgeting process and the strengthened debt management policies that have vastly improved the GNWT's financial position. Stronger finances makes collaboration easier with federal and Indigenous government partners to improve programs and service delivery to Northwest Territories residents and build on existing territorial infrastructure to deliver programs and support the economy.

### **2021-22 Final Results**

Total 2021-22 GNWT revenues were \$2.3 billion, an increase of \$120 million or 5.6 per cent from 2020-21. The main revenue increases were \$67 million in Territorial Formula Financing and \$46 million in taxation revenues. General revenues increased \$15 million. Resource revenue decreased \$24 million due to a one-time forfeited work bid of \$42 million received in 2020-21; mineral and oil and gas royalty revenue increased \$18 million in 2021-22 compared to 2020-21.

Total department expenditures for 2021-22 were \$2.1 billion. Health and Social Services made up the largest portion of departmental spending at \$636 million or 30 per cent; followed by Education, Culture and Employment at 17 per cent. The departments of Finance and Infrastructure also held large shares of departmental expenditures at 15 and 13 per cent, respectively.

The 2021-22 operating surplus was \$49 million. Total 2021-22 debt was \$1.2 billion.

### **2022-23 Revised Estimates**

Revenues for 2022-23 are projected to be \$2.4 billion and departmental expenditures are estimated to be \$2.3 billion. After including other adjustments of \$121 million, including infrastructure contributions, deferred maintenance, and a supplementary reserve, an operating surplus of \$40 million is projected. The 2022-23 debt level is expected to be \$1.4 billion.

Revenues are forecast to increase \$153 million from 2021-22. The Territorial Formula Financing grant increased \$39 million from 2021-22 to 2022-23. Personal income tax is estimated to decrease

\$12 million and corporate income tax is forecast to increase \$23 million. Other transfers are projected to increase \$102 million from 2021-22.

Operating spending for 2022-23 is projected to increased \$122 million from the 2021-22. Department of Municipal and Community Affairs spending has increased \$88 million to cope with flood recovery in Hay River and Kát'odeeche First Nation. Projected debt levels are \$186 million higher than 2021-22.

## **2023-24 Main Estimates**

Total 2023-24 revenues are estimated at \$2.5 billion and operating expenditures at \$2.2 billion, providing the GNWT a projected operating surplus of \$178 million after adjustments.

Total revenues are projected to increase \$70 million from the 2022-23 Revised Estimates because of a \$92 million increase in the Territorial Formula Financing grant, a \$16 million increase in carbon tax revenue due to a \$15 a tonne of greenhouse gas emissions increase in carbon tax rates partially offset by a \$55 million decline in other transfer payments and an \$8 million decrease in other taxes. The decline in other transfers results mainly from the reallocation of infrastructure transfers. Infrastructure transfers are recognized as revenue when they are received at specified stages of completion of a project. The change to capital planning starting with the 2023-24 Capital Estimates, has changed the timing of anticipated federal infrastructure transfers.

Total budgeted departmental expenditures are projected to increase \$150 million from the 2022-23 Main Estimates. The Department of Municipal and Community Affairs will receive a one-time \$62 million increase to cover expenditures related to flooding in 2022. Education, Culture and Employment expenses are budgeted to increase \$24 million. Infrastructure and Finance spending are estimated to increase \$16 million each. Health and Social Services expenses are expected to increase \$15 million compared to the previous Main Estimates.

The 2023-24 year-end debt projection is \$1.5 billion, \$65 million higher than projected for 2022-23. The cushion between the 2023-24 debt projection and the \$1.8-billion federally-imposed borrowing limit is \$311 million.

## **2023-24 Budget Highlights**

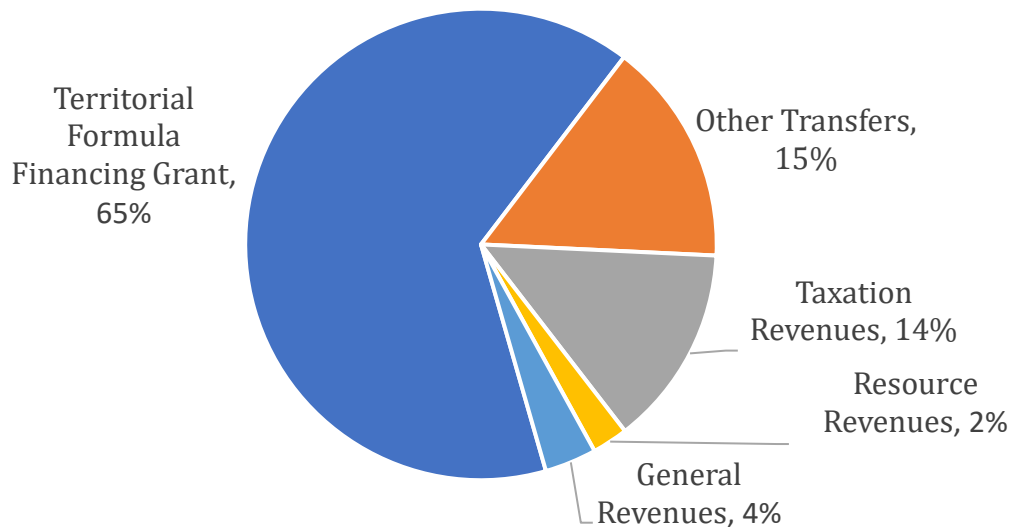
### ***Revenue Initiatives***

Budget 2023-24 does not introduce new taxes, but property and education mill rates will be increased by inflation in keeping with established financial management practices. The five-year fee review started in 2021-22 may result in fee rate changes.

Bill 60 - An Act to Amend the Petroleum Products and Carbon Tax Act was tabled on October 31, 2022 and, if passed, will increase the NWT carbon tax rate to \$65 a carbon-equivalent tonne of greenhouse gas emissions effective April 1, 2023 and then increase the carbon tax rate annually by \$15 a tonne until it reaches \$170 a tonne on April 1, 2030. Aviation fuel and diesel fuel used to generate electricity for community distribution remains exempt from the carbon tax.

These tax rate increases are a federal requirement under the *Pan-Canadian Framework on Clean Growth and Climate Change*. If the carbon tax rate increases are not approved the federal government will impose the federal carbon pricing system in the Northwest Territories. The 2023-24 Budget proposes a revised approach to recycling carbon tax revenues into the economy that will meet the new federal conditions for retaining the “made-in-the-Northwest Territories” carbon pricing regime. The Cost of Living Offset (COLO) benefit will be increased, full rebates for carbon tax paid on fuel used for community electricity production will continue, large-emitter rebates will be revised to attach to set baselines, and the large emitter grant program will be eliminated.

### Projected 2023-24 Revenues by Source



### Operating Expenditures

Budget 2023-24 projects \$2.2 billion in departmental operating expenditures, of which \$1.4 billion is dedicated to enhancing programs in education, health care, social services, housing, addressing natural disasters and access to victim services.

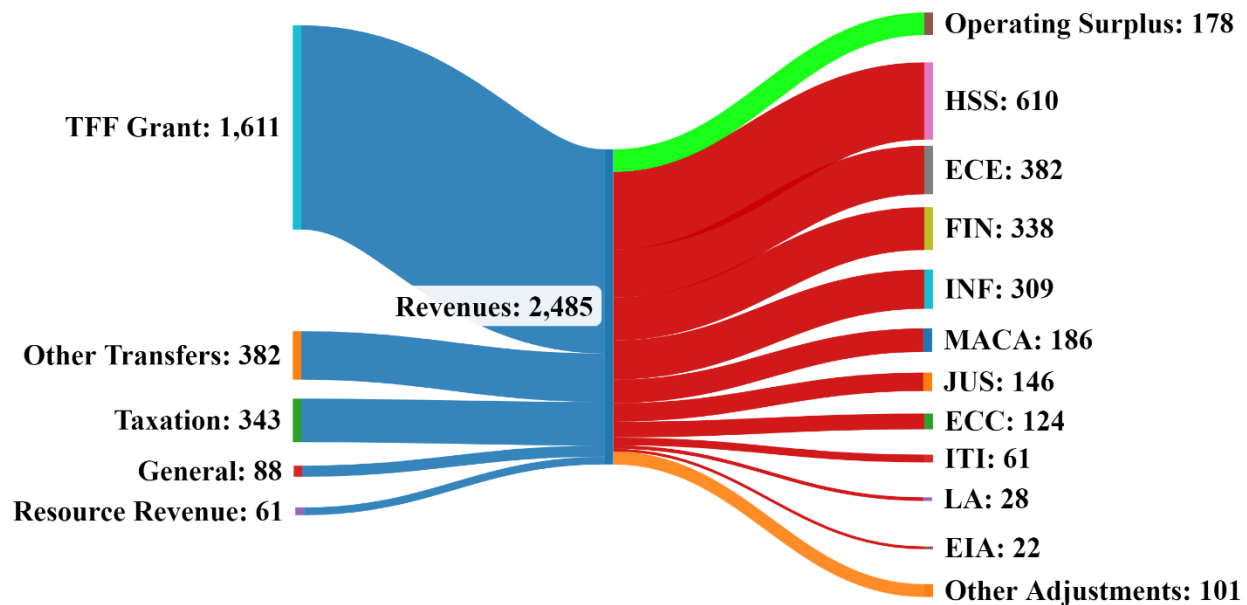
The 2023-24 operating expenditure budget is created by using the previous year’s approved department budgets as the budget base. Expenditures for programs that are ending and other reductions are removed from the base and new funding for increased costs due to inflation or increased demand for programs 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. Under the *Fiscal Responsibility Policy*, the GNWT cannot borrow for operating expenses.

Department spending, net of \$37 million in sunsetting programs and savings, is budgeted to increase \$150 million from the 2022-23 Main Estimates due to:

- \$62 million in one-time spending to cover expenses for the 2022 floods;

- \$21 million to address higher demand or higher costs for current programming that departments cannot manage in their existing budgets;
- \$82 million in new spending for initiatives and enhancements to existing programs, of which \$10 million is supported by federal transfers;
- \$19 million to reflect work done on behalf of others under an accounting change; and
- \$3 million in amortization.

### 2023-24 Fiscal Flow Chart: Revenue, Expenditures and Balance (millions of dollars)



The following provides a description of proposed new spending whether it is for new or enhanced spending on priorities or to address increased costs for existing programs and services.

### *Legislative Assembly*

Included in the Legislative Assembly's \$28 million 2023-24 budget is additional funding for:

- \$2.846 million for the following items:
  - \$1.4 million for one-time funding for the territorial election scheduled for the fall of 2023.
  - \$474,000 in transition allowance,
  - \$305,000 for Members' CPI salary increase, and
  - \$195,000 for transition and orientation budget.
- \$105,000 for communication projects, including \$75,000 for a Content Architecture website, \$20,000 for "A Day in the life of an MLA" video and \$10,000 for an advertising campaign.

- \$75,000 for Missing and Murdered Indigenous Women and Girls in Canada initiatives.
- \$55,000 for French language services to help offset the GNWT's cost of delivering communications and services in French.

### ***Education, Culture and Employment***

The Department of Education, Culture and Employment 2023-24 department budget of \$382 million includes the following additional funding:

- \$10.326 million to implement the Canada-NWT Early Learning and Child Care Agreement to increase the affordability of the territorial childcare system and support improvements to the quality of the early childhood learning programs.
- \$5.149 million to create a new Income Assistance program specifically for seniors and persons with disabilities that will adjust benefits levels to the Canadian standard for poverty in the North, adjusting existing income exemption levels and removing income assistance program barriers.
- \$2.028 million for the Canada-NWT Agreement on Minority Language Education and Second Official Language Instruction to fund teacher and support staff, materials, cultural activities and professional development. The funding also supports the implementation of the Three-Year Plan to Strengthen Institutional Capacity of College Nordique Francophone.
- \$1.870 million for Building Skills 4 Success targeting enhanced training for essential skills specific to trades and increased training in foundational, transferable and administrative skills that will improve the territorial labour market and also the opportunities for individual employment success.
- \$1.458 million to improve the Student Financial Assistance Program with a new tuition, books and supplies grant to cover 100 per cent of the average cost of these items for Indigenous students, remove the twelve semester limit for Basic Grants for Indigenous students and increase the book and supplies grant to 80 per cent of current average costs for non-Indigenous students schooled in the NWT. These adjustments to benefit levels, grants and loans to reflect current education costs and to better recognize the unique needs of Northern Indigenous residents will make it easier to use the Student Financial Assistance (SFA) program.
- \$511,000 for incremental increases negotiated under the Northwest Territories Teacher's Association Collective Agreement (2021-2023) and extended to all education authorities.
- \$500,000 in additional grants for heritage centres across the territory for operations and maintenance or capital.
- \$368,000 for the School Funding Framework to provide a minimum number of administrative and custodial positions to address declining school enrolment and provide consistent and stable administrative and school support to small schools.
- \$51,000 for inflationary increases for non-governmental organisations.

### ***Environment and Climate Change***

The 2023-24 budget for the Department of Environment and Climate Change increases to \$124 million with the following additional spending:

- \$1.7 million to support the Barren-Ground Caribou Calving Survey and the costs associated with calving ground surveys that were postponed during the COVID public health restrictions.
- \$1.091 million for forest management to extend seasonal employment of firefighters and support staff; establish and increase fire crews in Dettah and Inuvik; and increase fire fighter personnel and increase compensation rates for extra fire fighters.
- \$500,000 to finalize planning for candidate protected areas to allow for final decisions for Łue Túé Sulái, Sambaa K'e, Ka'a'gee Tu and Ejié Túé Ndáde candidate protected areas.
- \$25,000 for inflationary increases for non-governmental organisations.
- \$17,000 for French language services to help offset the cost of delivering department communications and services in French.

### ***Executive and Indigenous Affairs***

The 2023-24 budget for the Department of Executive and Indigenous Affairs is \$22 million, with no increase from 2022-23.

### ***Finance***

The 2023-24 budget for the Department of Finance of \$255 million includes additional spending of:

- \$8.275 million to help offset the effects of the increased carbon tax rates on the cost of living and doing business after April 1, 2023 while still meeting the federal carbon pricing conditions.
- \$2.3 million to adjust for increased costs associated with employee medical travel benefits such as travel, meals and accommodations.
- \$2.0 million for increased debt servicing costs on long-term debt associated with the issuance of a \$140 million long-term bond in 2021.
- \$1.104 million to establish a Human Resources Health Recruitment Unit to help increase the retention of health care professionals.

## *Health and Social Services*

The 2023-24 budget for the Department of Health and Social Services is \$610 million, including additional spending of:

- \$10.997 million for the transition from the pandemic to endemic COVID-19 phase during which several unknown factors such as the effect of future variants, waning immunity and booster requirements and the availability of therapeutics may continue to create risks for the health system.
- \$8.598 million for the Stanton Legacy Facility for managing the facility services including new long-term care and additional extended care unit beds.
- \$5.962 million for the out-of-territory adult supported living program for NWT residents in southern facilities for varying reasons from long-term placements for lifelong disabilities to short-term placements for treatment or transitional programs related to mental health disorders.
- \$5.246 million for new costs negotiated under the Standard Physician Contract, physician recruitment programs and increases to locum physician service rates.
- \$3.755 million for labour market supplements:
  - \$3.327 million to support recruitment and retention of frontline health care positions across the territory.
  - \$428,000 to improve recruitment and retention of frontline positions in Hay River such as registered nurses, midwives, nurse practitioners, physiotherapists, occupational therapists, licensed practical nurses, medical laboratory technologists, combined X-ray/laboratory technologists, sonographers and medical radiology technologists.
- \$1.868 million for health authorities to offset the increased cost of chemotherapy drugs, impacts of the move to the Stanton Territorial Hospital, the addition of vehicle supplies costs and an increase in hospital occupancies.
- \$1.157 million for Personal Support Worker and Licensed Practical Nurse training programs aimed at increasing the health human resource workforce to meet the anticipated increasing demands in Home and Community Care and Long-Term Care programs.
- \$1.099 million for the Stanton Territorial Hospital intensive care unit to fund six full-time equivalent registered nurses and a relief equivalent to a 1.75 full-time equivalent in the intensive care unit to address demand for critical care services.
- \$622,000 for the Tłı̨chǫ Community Services Agency for added costs related to provisions within the Collective Agreement between the Union of Northern Workers (UNW) and the GNWT that are used to a greater degree within the health authority's operations, including overtime, standby, callback, shift premiums, rest period allowances, responsibility pay, maternity and paternal leave and relocation.

- \$446,000 to complete meat inspection regulations to increase food security through locally produced, harvested and affordable food.
- \$432,000 for inflationary increases for non-governmental organisations.
- \$406,000 for the Tłıchǫ Community Services Agency for costs associated with migrating to Technology Service Centre support.
- \$250,000 to extend to an additional community the Healthy Family Program, which provides communities with program resources, supplies and events to support and improve early childhood development.

### ***Industry, Tourism and Investment***

The 2023-24 budget for the Department of Industry, Tourism and Investment is \$61 million, including additional spending of:

- \$324,000 to support the Tourism 2025: Roadmap to Recovery strategy, including support for community tourism infrastructure, business development, mentorship for business and youth, and development of cultural experiences in communities.
- \$323,000 for the secondment program to help increase the capacity of Indigenous governments and provide opportunities for career growth and development for GNWT employees.
- \$280,000 for the Prospector Training Program, Resources and Energy Development Initiative, and the Northwest Territories Mineral Development Strategy Promotions and Marketing component.
- \$250,000 for tourism marketing initiatives in all five territorial regions to complement general tourism marketing.
- \$200,000 for the *NWT Film Strategy* to improve the competitiveness of the Northwest Territories film and media sector with other similarly sized jurisdictions and support the sector's growth.
- \$200,000 for the Mining Incentive Program to attract and support early-stage and advanced exploration projects.
- \$149,000 to complete the *Mineral Resources Act* regulations and implement the *Mineral Resources Act* for improved mineral rights governance and administration within existing co-management frameworks for land, water and resources.
- \$70,000 for an increase core funding contribution for NWT Tourism to address the rising fixed costs due to inflation and provide stability as the tourism sector re-opens.
- \$53,000 for inflationary increases for non-governmental organisations.



- \$50,000 to support the Assessing Northwest Territories Geological Materials for Cement Production geoscience research project.
- \$10,000 for French language services to help offset the cost of delivering departmental communications and services in French.

### ***Infrastructure***

The 2023-24 budget for the Department of Infrastructure is \$309 million, including additional spending of:

- \$1.830 million for the 2022-25 Energy Action Plan to help guide the development of affordable, secure and sustainable energy for transportation, heat and electricity in the NWT.
- \$589,000 for the regional highways operations dust control program that reduces the annual gravel resurfacing needs of our gravel highway system which helps ensure the safety of the travelling public and provides a range of other benefits.
- \$381,000 for additional DIIMS software licences, ongoing maintenance and support costs for these software licences. Additional licences are required to support the continuing implementation and evolution of the system.
- \$364,000 to assist with the increase in mobile equipment fuel costs associated with the operation of the Department's fleet, including light passenger fleet and heavy mobile equipment.
- \$232,000 for the construction and maintenance of the Tłı̄chʔ Winter Road from the Highway 9 junction at Whatì to Gamètì and Wekweètì as it is vital for safety and movement of essential goods and services.
- \$208,000 to cover increased contract costs directly related to operating airports in Norman Wells, Fort Simpson, Jean Marie River, Wrigley, Fort Liard and Sambaa K'e.
- \$114,000 to support development of electric vehicle charging infrastructure across the territory.

### ***Justice***

The 2023-24 budget for the Department of Justice is \$146 million, including additional spending of:

- \$5.314 million to honour the RCMP National Police Federation Collective Agreement.
- \$861,000 to improve access to justice services including legal aid, Indigenous court work services and public legal education and information. Funds were provided through the Respecting Access to Justice Service Agreement 2022-23 to 2026-27.

- \$750,000 for a framework for enhancing victim services that will provide support to communities in developing and implementing sustainable local justice programming in restorative justice, victim services, community policing and crime prevention.
- \$607,000 to support the development of a program of specialized support in the legal system for survivors of sexual assault and intimate partner violence and support the provision of free legal and Emergency Protection Order safety planning advice and options.
- \$554,000 for the Indigenous Justice Program Agreement that supports the development of a Community Justice Integrity Fund and the contributes funding to Community Justice Committees.
- \$336,000 for Behchokq RCMP detachment resources.
- \$275,000 for Fort Providence RCMP detachment that is responsible for calls within its own community as well as Kakisa and roughly 300 kilometres of highway, which includes highways 1 and 3 and the Deh Cho Bridge.
- \$273,000 to establish a permanent coroner position and 18 relief community coroner positions in the public service.
- \$201,000 under the Canadian Family Justice Fund to improve access to family justice services, including support for family members engaging with the family justice system, alternatives to court for family law resolutions and improvements to the family court process.
- \$125,000 for the increased housing costs allowable under the NWT Territorial Police Service Agreement associated with the new housing leases under the RCMP-Housing Corporation Housing Framework Agreement.
- \$114,000 for the Accommodations Program Charge under the NWT Territorial Police Service Agreement.
- \$56,000 for inflationary increases to the Community Justice program budget to adjust contributions for NWT Community Justice Committees, Victims Service Providers and Emergency Protection Order administration.
- \$25,000 to increase territorial court judges and deputy judges compensation as recommended by the Judicial Remuneration Commission.

### ***Municipal and Community Affairs***

The 2023-24 budget for the Department of Municipal and Community Affairs is \$186 million, including additional spending of:

- \$61.729 million flood recovery assistance for the Town of Hay River and the K'atlodeeche First Nation reserve. Most of this funding is expected to be recovered from Canada under the

Disaster Financial Assistance Arrangements and the Emergency Management Assistance Program.

- \$922,000 ongoing for the Community Government Operations and Maintenance Fund to continue to reduce the municipal funding gap for operations and maintenance funding, including \$833,000 for community governments and \$89,000 for the Délı̄nę Got'ı̄nę Government.
- \$453,000 to enhance the Emergency Management Organisation capacity support to community governments for emergency planning, preparedness and situational awareness, mitigation and prevention of territorial emergencies.
- \$227,000 for increased payments required under provisions of the *Senior Citizens and Disabled Persons Property Tax Relief Act*.
- \$8,000 for French language services to help offset the cost of delivering department communications and services in French.

### ***Northwest Territories Housing Corporation***

The Northwest Territories Housing Corporation is a separate agency of the GNWT and its \$82 million budget is included in the Main Estimates for information purposes. Increases to its budget include:

- \$4.0 million for core Northwest Territories Housing Corporation programs: home repairs, emergency repairs, fuel tank replacements, home purchases, mobility modifications, preventative maintenance, and seniors aging in place.
- \$121,000 for inflationary increases to support the core needs of Housing NWT, Local Housing Organisation and Unilateral Contribution Program.

### ***2023-24 Capital Estimates***

The GNWT's 2023-24 capital budget was approved in November 2022. The capital budget consists of \$292 million for the GNWT's infrastructure plans. The total planned infrastructure investment will be \$328 million with the inclusion of \$36 million for the Northwest Territories Housing Corporation.

Major highlights in the capital estimates include:

- \$75 million for highway, access road, bridge and culvert construction and maintenance.
- \$39 million for airport and runway construction and expansion.
- \$36 million for energy initiatives including transmission extensions, infrastructure repairs and introduction of liquified natural gas.
- \$34 million for health care facilities, services and equipment.
- \$29 million to provide funding to community governments for their infrastructure needs.

- \$20 million for highway environmental assessments and planning.
- \$9 million for new education facilities and renovations for existing facilities.

The 2023-24 Capital Estimates change the GNWT planning approach by placing a \$260 million annual funding cap on departmental capital spending. This limit on GNWT capital spending (does not include infrastructure contributions for community governments and funding for Northwest Territories Housing Corporation) better reflects the GNWT's ability to manage projects and the economy's capacity to supply necessary labour and material. Although past capital plans averaged \$405 million a year, the completed projects averaged \$226 million. Smaller capital projects and deferred capital maintenance budgets are not affected by the cap in the 2023-24 Capital Estimates.

The revised approach to capital budgeting better reflects the ability of the GNWT to deliver infrastructure investments in a way that maximizes the local economic benefits of project construction.

## Medium-Term Outlook

The medium-term outlook is based on a January 2023 revenue forecast. The outlook uses operating expenditures estimated using the four-year business plans and incorporates expenditures proposed in the 2023-24 Budget. Capital investments are based on 2023-24 Capital Estimates approved in November 2022 and capital planning projections.

The 2022-23 expenditures in the medium-term outlook are higher than projected in the 2022-23 Revised Estimates because the outlook includes additional expenditures for further restoration costs resulting from the spring 2022 flooding and higher health expenditures that are yet to be approved. These additional expenses are expected to reduce the 2022-23 operating surplus as no further 2022-23 revenues are expected. Although most flooding expenditures are expected to be recovered under federal disaster relief programs in future years, the 2022-23 operating surplus is projected to be only \$3 million.

Operating surpluses are projected to increase with revenues higher than expenditures in 2023-24, though the projected surplus is projected to narrow by 2026-27. By limiting the capital budget to \$260 million starting in 2023-24, modest capital investment averaging \$200 million annually over the outlook results in a steady debt burden that does not approach the federally-imposed borrowing limit. GNWT projections comply with the *Fiscal Responsibility Policy* in all years of the outlook.

**Medium Term Outlook (January 2023 Forecast)**

(Millions of dollars unless otherwise noted)

	<b><u>2022-23</u></b> Projected	<b><u>2023-24</u></b> Main Est.	<b><u>2024-25</u></b> Forecast	<b><u>2025-26</u></b> Forecast	<b><u>2026-27</u></b> Forecast
<b>Total Revenue</b>	2,414	2,484	2,625	2,625	2,670
<b>Operating Expenditures</b>	2,411	2,306	2,397	2,470	2,546
<b>Operating surplus/(deficit)</b>	3	178	228	155	124
<b>Capital Investment</b>	254	239	202	205	207
<b>Total (Debt) at March 31</b>					
Short-Term Debt	(509)	(514)	(500)	(500)	(500)
Long-Term Debt and Guaranteed Debt	(914)	(974)	(942)	(980)	(990)
<b>Total (Debt)</b>	<b>(1,423)</b>	<b>(1,488)</b>	<b>(1,442)</b>	<b>(1,480)</b>	<b>(1,490)</b>
<b>Borrowing Limit</b>	1,800	1,800	1,800	1,800	1,800
<b>Available Borrowing Capacity</b>	377	312	358	320	310

**Fiscal Responsibility Policy Requirements****1) Infrastructure Financing**

Minimum Operating Surplus for Capital

Capital	127	120	101	102	104
Operating Surplus plus Amortization	141	320	374	304	276
<b>Compliance (minimum surplus for capital)</b>	Yes	Yes	Yes	Yes	Yes

**2) Affordable Debt**

Debt Service Payments (% of revenue)

	1.7%	1.6%	1.5%	1.5%	1.5%
<b>Compliance (maximum 5%)</b>	Yes	Yes	Yes	Yes	Yes

Notes on the *Fiscal Responsibility Policy* infrastructure requirement:

- The capital plan is adjusted for public-private partnerships (P3s).
- Amortization is added to the operating surplus used for financing capital to remove the double-counting effect.
- Adjustments are detailed in the *Fiscal Responsibility Policy* section.

**Fiscal Responsibility Policy (FRP)**

The GNWT uses the *Fiscal Responsibility Policy*, established in 2005, as a debt management guide to ensure that government borrowing is sustainable. Through the *Policy*, the GNWT is committed to never borrow for the operating budget. One restriction under the *Policy* is to limit infrastructure investments to a minimum of 50 per cent from operating cash surpluses generated from the non-consolidated reporting entity and a maximum of 50 per cent from government debt. To ensure debt remains affordable, another parameter of the guideline limits GNWT debt servicing payments (principal and interest) to five per cent of total revenues.

Despite these debt management guidelines, over past Assemblies and in the 19<sup>th</sup> Assembly the GNWT's debt level continually approached the federally-imposed borrowing limit as operating surpluses were not sufficient to cover capital spending increases and address other significant expenditure shocks that affect the GNWT's financial situation.

A review of the *Fiscal Responsibility Policy* in September 2022 provided recommendations to improve the debt management reporting and understanding. These recommendations are being considered with approved changes incorporated into the *Policy* by the end of the 2022-23 fiscal year. A debt cushion of at least \$120 million under the federal borrowing limit was recommended as another compliance measure for planning purposes. The review also revealed that the difference in budgeted operating surpluses and the cash operating surplus required for debt management purposes was not being reported in a transparent manner for budget purposes. To support decision-makers in addressing the pressures to build more infrastructure to deliver necessary programs and services and to support sustainable economic prosperity for NWT residents, cash surpluses required to comply with the *Fiscal Responsibility Policy* will be reported in budget documents.

### **Infrastructure Requirement Detail**

(Millions of dollars)	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>
Capital Investment	254	239	202	205	207
add: P3 investment	-	-	-	-	-
Adjusted Capital	254	239	202	205	207
<b>Capital for FRP (minimum surplus required)</b>	<b>127</b>	<b>120</b>	<b>101</b>	<b>102</b>	<b>104</b>
Operating Balance Outlook	3	178	228	155	124
add: Amortization	138	142	146	149	152
<b>Adjusted Balance for FRP</b>	<b>141</b>	<b>320</b>	<b>374</b>	<b>304</b>	<b>276</b>
<b>Compliance (Adjusted Balance covers Capital for FRP)</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>

### **Borrowing Plan**

The 2023-24 borrowing plan for the government reporting entity totals \$1.489 billion. This is a 4.5 per cent increase from the March 31, 2023 projection.

The forecast \$514 million in GNWT short-term debt at March 31, 2024 is a 0.9 per cent increase from the projection at March 31, 2023. The forecast \$690 million in long-term debt includes \$75 million in new debt for the NWT Hydro Corporation, which is partially offset by \$9 million decline in other long-term debt. The majority of GNWT long-term debt consists of bonds and P3 debt for the Stanton Territorial Hospital, the Tłı̄ch̄o Highway and the Mackenzie Valley Fibre Optic Link.

The Legislative Assembly is required to approve an annual *Appropriation Act* to establish limits on GNWT debt for the upcoming year. The borrowing plan projects total GNWT borrowing of \$1.204 billion at year-end and the requested borrowing amount is \$1.259 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.

**Borrowing Plan Summary (year ending March 31)**

(Millions of dollars)			Change	
	2023	2024	%	\$
<b>GNWT Debt</b>	<b>1,134</b>	<b>1,204</b>	6.2	70
Short term	509	514	0.9	5
Long term	625	690	10.5	66
Bonds	361	435	20.4	74
P3	263	255	(3.0)	(8)
Other	0.2	0.1	(65.0)	0
Contingency	..	55	..	..
Appropriation Act Limit	..	1,259	..	..
<b>Public Agencies</b>	<b>290</b>	<b>285</b>	(1.9)	(6)
Total Consolidated	1,424	1,489	4.5	65

**Risks to the Fiscal Outlook**

GNWT fiscal risks include:

- *The NWT's economic dependence on resources* – Resource sector activity can fluctuate significantly and results in the territory having the highest variability in economic growth in Canada. Resource sector activity has implications for long-term economic growth and creates significant volatility in GNWT own-source revenues. Reduced economic activity also has implications for the size of the NWT population which affects the federal transfers that the GNWT receives.
- *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 changes in corporate income tax revenues. 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 stability to the budget. Growth in Territorial Formula Financing relies heavily on NWT population growth relative to Canada and provincial/local government spending. Massive provincial spending for pandemic-related supports to businesses and individuals will increase Territorial Formula Financing over the short term; however, the territory's share of Canada's population is declining and potential provincial and local government fiscal austerity measures to address increased levels of debt will reduce long-term growth in the Territorial Formula Financing Grant. This means that revenues grow more slowly and there will be reduced funding for operating and capital budgets. An underdeveloped private sector limits the ability to raise additional revenue through tax changes.

- *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.
- *Unexpected expenditures and capital project cost overruns* – Typical operating expenditure shocks are extraordinary fire suppression needs or other natural disasters. With the undertaking of large capital projects, the risk of capital cost overruns is heightened.
- *Debt Position and Financing* - The GNWT issues debt to partially finance its capital program and to meet short-term borrowing requirements. The amount of debt has increased almost continuously since 2009-10, reflecting investments in capital projects. The GNWT has also taken advantage of cost-shared dollars with the federal government to develop the territory's infrastructure. The state of NWT infrastructure is a barrier to increased economic opportunities and the attractiveness of the NWT as a place to live and work is negatively affected by lack of good quality infrastructure to deliver programs and services. Small operating surpluses have increased short-term borrowing and large infrastructure projects have increased long-term debt. If debt increases, the following risks are heightened:
  - *Increased interest rates* – As debt increases, the risk of higher interest rates becomes a concern. However, debt risk is considered low because debt servicing costs are expected to absorb 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. If rates increase, more interest will be paid on the current stock of debt, increasing debt service payments and decreasing funds available for programs, services, and infrastructure investment.
  - *Credit Rating* - In March 2022, Moody's Investors Service provided the GNWT with a credit rating of Aa2, one of the highest ratings available. In January 2022, Fitch Ratings Inc. released its first rating for the GNWT as AA-, only two notches below Canada's AA+ rating. Both ratings serve as validation that the GNWT continues responsible financial management practices.

## Fiscal Strategy

The GNWT continues its efforts to keep operations and infrastructure spending growth in line with revenue growth to sustainably deliver public services and to that end it is improving the *Fiscal Responsibility Policy*.

The fiscal strategy was set out in the 2020-21 budget to avoid operating deficits while still making investments in priority areas. There were four key components:

- Allocate \$10 million in funding for 19<sup>th</sup> Assembly mandate priorities in 2020-21, with a total of \$25 million for the life of the Assembly. Including the proposed initiatives in the 2023-24 budget, total spending for initiatives will be \$84 million over the four years, of which \$11 million was provided by the federal government. Other adjustments and enhancements



to program spending to accommodate rising program demand or cost is projected to total \$296 million.

- Seek cost sharing and funding from the federal government to advance priorities. The GNWT has taken advantage of several cost-sharing opportunities with the federal government within the operating budget and the capital budget.
- Collaborate with Indigenous governments to advance projects that share priorities. The GNWT has worked with Indigenous governments on several issues, including caribou conservation, establishing candidate protected areas, language revitalization, health and wellness, disaster assistance for hunters and trappers, building skills in the resource sector, and building the Tłıchǫ Highway. Budget 2023 proposes measures that include continuation of work for the Missing and Murdered Indigenous Women and Girls initiatives, inspecting locally harvested meat for improved food security, and contributions to tourism marketing.
- Perform four-year business plans and increase program evaluation. Four-year business plans were introduced early in the Assembly. The ongoing Government Renewal Initiative is focussed on getting more value for the resources spent. An immediate outcome has been the merger of GNWT Environment and Natural Resources and Lands departments to save on administration costs and reducing service overlap.

A key change outside of the fiscal strategy was restricting capital investment to a level that the NWT economy can accommodate. More accurate budgeting for the capital projects that can be reasonably achieved each year has improved financial planning and sends a more accurate message to businesses that are planning to bid on GNWT projects.

The government is taking a number of actions to help create the environment for a more vibrant economy, including developing regional economic development plans, moving forward on recommendations in the GNWT procurement review, and supporting the work of the Red Tape Reduction Working Group. Through the capital needs assessment planning process, the GNWT continues to make strategic and affordable infrastructure investments. These actions should help strengthen the economy and expand the tax base, reducing the need for new revenue sources.

## Summary of Operations

(thousands of dollars)

	2021-2022 Actuals	2022-2023 Main Estimates	2022-2023 Revised Estimates	2023-2024 Main Estimates
<b>REVENUES</b>	2,262,199	2,302,537	2,414,814	2,484,891
<b>OPERATIONS EXPENSE</b>				
Compensation and Benefits	434,484	427,977	432,506	432,632
Grants, Contributions and Transfers	1,010,754	975,752	1,035,113	1,038,527
Amortization	120,739	129,368	129,368	131,899
Chargebacks	27,454	23,507	24,279	26,002
Computer Hardware and Software	9,196	6,005	7,550	8,018
Contract Services	277,320	238,953	334,734	307,071
Controllable Assets	3,330	2,989	3,024	3,062
Fees and Payments	121,657	124,495	151,763	126,296
Interest	26,557	25,263	25,263	27,263
Loss on Sale of Assets	249	-	-	-
Materials and Supplies	22,523	21,981	26,412	22,966
Purchased Services	17,201	19,930	19,763	18,168
Travel	9,809	15,854	17,018	16,783
Utilities	47,008	40,890	43,861	44,273
Valuation Allowances	3,926	3,193	3,193	3,193
<b>TOTAL OPERATIONS EXPENSE TO BE VOTED</b>	2,132,207	2,056,157	2,253,847	2,206,153
<b>OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS</b>	129,992	246,380	160,967	278,738
Infrastructure Contributions	(80,961)	(84,048)	(88,941)	(68,948)
Deferred Maintenance	(336)	(1,800)	(2,352)	(1,800)
Supplementary Reserve	-	(35,000)	(35,000)	(35,000)
Estimated Appropriation Lapses	-	5,000	5,000	5,000
<b>WORK PERFORMED ON BEHALF OF OTHERS</b>				
Recoveries	61,830	129,125	60,908	40,672
Expenditures	(61,830)	(129,125)	(60,908)	(40,672)
<b>OPERATING SURPLUS FOR THE YEAR</b>	48,695	130,532	39,674	177,990
<b>ACCUMULATED SURPLUS, BEGINNING OF YEAR</b>	1,718,360	1,686,991	1,767,055	1,806,729
<b>ACCUMULATED SURPLUS, END OF YEAR</b>	1,767,055	1,817,523	1,806,729	1,984,719

## Summary of Revenues

(thousands of dollars)

	2021-2022 Actuals	2022-2023 Main Estimates	2022-2023 Revised Estimates	2023-2024 Main Estimates
<b>GRANT FROM CANADA</b>	1,480,118	1,519,233	1,519,233	<b>1,610,836</b>
<b>TRANSFER PAYMENTS</b>	335,382	393,515	437,170	<b>382,010</b>
<b>TAXATION REVENUE</b>				
Personal Income Tax	133,583	111,153	121,843	<b>117,887</b>
Corporate Income Tax	24,729	24,572	47,989	<b>39,611</b>
Cannabis Excise Tax	909	598	990	<b>1,040</b>
Carbon Tax	12,797	46,438	47,022	<b>62,723</b>
Tobacco Tax	14,278	15,071	15,876	<b>16,354</b>
Fuel Tax	20,061	19,281	20,072	<b>20,083</b>
Payroll Tax	45,820	43,856	48,081	<b>50,131</b>
Property Taxes and School Levies	26,512	29,273	27,439	<b>29,247</b>
Insurance Premium Taxes	6,106	5,500	5,500	<b>5,500</b>
	<b>284,795</b>	<b>295,742</b>	<b>334,812</b>	<b>342,576</b>
<b>Non-renewable Resource Revenue</b>				
Licences, Rental and Other Fees	5,187	2,724	2,724	<b>4,016</b>
Minerals, Oil and Gas Royalties	37,012	18,686	38,045	<b>56,868</b>
Quarry Fees	311	205	205	<b>205</b>
	<b>42,510</b>	<b>21,615</b>	<b>40,974</b>	<b>61,089</b>
<b>GENERAL REVENUES</b>				
Revolving Funds Net Revenue	31,047	21,292	19,176	<b>26,770</b>
Regulatory Revenues	27,208	22,930	24,903	<b>25,303</b>
Interest	1,211	340	340	<b>1,319</b>
Investment Income	5,930	400	400	<b>400</b>
Lease	4,346	3,981	4,127	<b>4,622</b>
Program	19,630	18,219	19,176	<b>18,838</b>
Grants in kind	164	-	-	-
Service and miscellaneous	12,524	2,270	11,503	<b>8,128</b>
Recovery of Prior Years' Expenditures	17,334	3,000	3,000	<b>3,000</b>
	<b>119,394</b>	<b>72,432</b>	<b>82,625</b>	<b>88,380</b>
<b>TOTAL REVENUES</b>	<b>2,262,199</b>	<b>2,302,537</b>	<b>2,414,814</b>	<b>2,484,891</b>

## Summary of Operations Expenditures

(thousands of dollars)

	2021-2022 Actuals	2022-2023 Main Estimates	2022-2023 Revised Estimates	2023-2024 Main Estimates
<b>Department</b>				
Legislative Assembly	24,636	25,435	25,490	27,655
Education, Culture and Employment	356,765	358,308	383,974	382,280
Environment and Climate Change	126,240	121,638	133,270	124,309
Executive and Indigenous Affairs	20,144	22,114	22,375	21,994
Finance	327,482	321,249	328,904	337,534
Health and Social Services	636,420	594,777	604,371	610,276
Industry, Tourism and Investment	65,542	59,567	61,694	61,476
Infrastructure	284,789	292,911	310,604	309,335
Justice	141,143	137,054	146,128	145,613
Municipal and Community Affairs	149,046	123,104	237,037	185,681
	<b>2,132,207</b>	<b>2,056,157</b>	<b>2,253,847</b>	<b>2,206,153</b>
<b>Expenditure Category</b>				
Compensation and Benefits	434,484	427,977	432,506	432,632
Grants, Contributions and Transfers	1,010,754	975,752	1,035,113	1,038,527
Amortization	120,739	129,368	129,368	131,899
Chargebacks	27,454	23,507	24,279	26,002
Computer Hardware and Software	9,196	6,005	7,550	8,018
Contract Services	277,320	238,953	334,734	307,071
Controllable Assets	3,330	2,989	3,024	3,062
Fees and Payments	121,657	124,495	151,763	126,296
Interest	26,557	25,263	25,263	27,263
Loss on Sale of Assets	249	-	-	-
Materials and Supplies	22,523	21,981	26,412	22,966
Purchased Services	17,201	19,930	19,763	18,168
Travel	9,809	15,854	17,018	16,783
Utilities	47,008	40,890	43,861	44,273
Valuation Allowances	3,926	3,193	3,193	3,193
	<b>2,132,207</b>	<b>2,056,157</b>	<b>2,253,847</b>	<b>2,206,153</b>

## Summary of Infrastructure Investment

(thousands of dollars)

	2021-2022 Actuals	2022-2023 Capital Estimates	2022-2023 Revised Estimates	2023-2024 Capital Estimates
<b>Tangible Capital Assets</b>				
Legislative Assembly	617	400	575	200
Education, Culture and Employment	14,667	15,919	22,543	5,623
Environment and Natural Resources	1,545	2,110	5,242	2,072
Finance	1,635	79,849	84,238	16,118
Health and Social Services	38,428	47,058	35,904	35,904
Industry, Tourism and Investment	8,578	4,437	19,095	3,078
Infrastructure	66,356	250,121	276,818	156,814
Justice	636	1,480	2,733	1,480
Lands	8	225	535	225
Municipal and Community Affairs	-	150	150	160
	132,470	401,749	447,833	221,674
<b>Infrastructure Contributions</b>				
Education, Culture and Employment	12,363	9,453	14,346	3,500
Health and Social Services	-	2,555	2,555	-
Infrastructure	37,098	43,040	43,040	36,448
Municipal and Community Affairs	31,500	29,000	29,000	29,000
	80,961	84,048	88,941	68,948
<b>Deferred Maintenance (non-capital)</b>				
Infrastructure	336	1,800	2,352	1,800
	336	1,800	2,352	1,800
<b>Public Private Partnerships</b>				
Infrastructure	41,167	4,420	5,808	-
	41,167	4,420	5,808	-
<b>Total Infrastructure Investment</b>	254,934	492,017	544,934	292,422

## Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2021- 2022 Actuals	2022-2023 Main Estimates	2022-2023 Revised Estimates	2023-2024 Main Estimates
<b>SHORT TERM DEBT</b>				
Government of the Northwest Territories	388,131	790,000	509,198	513,797
Hay River Health and Social Services Authority	-	1,000	1,000	1,000
NWT Hydro Corporation	-	-	75,000	75,000
	<b>388,131</b>	<b>791,000</b>	<b>585,198</b>	<b>589,797</b>
<b>LONG TERM DEBT</b>				
Government of the Northwest Territories:				
Bonds repayable, GNWT	180,022	180,000	180,000	180,000
New debt, NTPC bonds	-	75,000	-	75,000
Deh Cho Bridge, Real Return Bonds	180,180	173,517	181,481	180,197
Mackenzie Valley Fibre Optic Link, P3 debt	69,900	67,065	67,065	63,995
Stanton Territorial Hospital, P3 debt	127,128	123,690	123,690	120,150
Tłıchǵ All-Season Road, P3 debt	73,482	72,300	72,300	70,900
Canada Mortgage and Housing Corporation	197	109	110	22
Public Agencies:				
NWT Hydro Corporation	191,403	188,531	189,139	185,700
NWT Housing Corporation	4,645	4,045	4,045	3,337
	<b>1,215,088</b>	<b>1,675,257</b>	<b>1,403,028</b>	<b>1,469,098</b>
<b>TOTAL DEBT</b>				
	<b>1,215,088</b>	<b>1,675,257</b>	<b>1,403,028</b>	<b>1,469,098</b>
<b>OBLIGATIONS UNDER CAPITAL LEASES</b>				
NWT Hydro Corporation	15,950	15,579	15,628	15,207
<b>LOAN GUARANTEES</b>				
NWT Business Development and Investment Corp.	2,296	2,000	2,000	2,100
NWT Housing Corporation	5,043	3,232	3,392	2,225
<b>TOTAL GROSS BORROWING PER BORROWING REGULATIONS</b>	<b>1,238,377</b>	<b>1,696,068</b>	<b>1,424,048</b>	<b>1,488,630</b>
<b>LESS: EXTERNALLY RESTRICTED SINKING FUNDS</b>				
Government of the Northwest Territories	(500)	-	-	-
<b>TERRITORIAL BORROWING</b>	<b>1,237,877</b>	<b>1,696,068</b>	<b>1,424,048</b>	<b>1,488,630</b>
<b>TERRITORIAL BORROWING LIMIT</b>	<b>1,800,000</b>	<b>1,800,000</b>	<b>1,800,000</b>	<b>1,800,000</b>
<b>AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES</b>	<b>562,123</b>	<b>103,932</b>	<b>375,952</b>	<b>311,370</b>

### Provincial/Territorial Tax Rates at January 16, 2023

	Combined	Retail Sales Tax (%)	Fuel Tax <sup>(b)</sup>		Carbon Tax <sup>(c)</sup>		Tobacco Tax <sup>(d)</sup> (\$/carton)	Payroll Tax <sup>(e)</sup> (%)	Corporate Income Tax		Capital Tax on Financial Institutions <sup>(f)</sup> (%)
	Top Marginal		Gasoline (¢/litre)	Diesel (¢/litre)	Gasoline (¢/litre)	Diesel (¢/litre)			Small (%)	Large (%)	
	Personal Income Tax <sup>(a)</sup> (%)										
Northwest Territories	47.05	-	10.7	9.1	11.70	13.70	68.80	2.00	2.0	11.5	-
Nunavut	44.50	-	6.4	9.1	11.05	13.41	60.00	2.00	3.0	12.0	-
Yukon	48.00	-	6.2	7.2	11.05	13.41	64.00	-	-	12.0	-
British Columbia	53.50	7.0	14.5	15.0	11.05	13.01	65.00	1.95	2.0	12.0	-
Alberta	48.00	-	0.0	0.0	11.05	13.41	55.00	-	2.0	8.0	-
Saskatchewan	47.50	6.0	15.0	15.0	11.05	13.41	58.00	-	-	12.0	4.0
Manitoba	50.40	7.0	14.0	14.0	11.05	13.41	60.00	2.15	-	12.0	6.0
Ontario	53.53	8.0	9.0	9.0	11.05	13.41	36.95	1.95	3.2	11.5	1.25
Quebec	53.31	9.975	19.2	20.2	-	-	29.80	4.26	3.2	11.5	1.25
New Brunswick	53.30	10.0	10.87	15.45	11.05	13.41	51.04	-	2.5	14.0	5.0
Nova Scotia	54.00	10.0	15.5	15.4	-	-	59.04	-	2.5	14.0	4.0
Prince Edward Island	51.37	10.0	8.47	14.15	11.05	13.41	59.04	-	1.0	16.0	5.0
Newfoundland & Labrador	54.80	10.0	7.5	9.5	11.05	13.41	65.00	2.00	3.0	15.0	6.0
Weighted average <sup>(g)</sup>	52.52	7.4	11.5	12.0	8.29	10.01	44.21	2.08	2.6	11.4	1.42

## Notes:

(a) Combined federal-provincial/territorial highest 2022 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) The federal backstop became effective April 1, 2019 in Manitoba, Ontario, Saskatchewan, and New Brunswick, July 1, 2019 in Nunavut and Yukon, and January 1, 2020 in Alberta. New Brunswick established its own carbon tax effective April 1, 2020. The Northwest Territories, British Columbia, Newfoundland & Labrador, and Prince Edward Island have provincially administered carbon taxes. Quebec and Nova Scotia have cap and trade systems. The NWT carbon tax came into effect September 1, 2019.

(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, 2022.