

Budget Address

2016 - 2017

NORTHWEST TERRITORIES

BUDGET PAPERS

B ♦ Fiscal Review

June 1, 2016

FISCAL REVIEW

As the first budget of the 18th Legislative Assembly, the 2016-17 Budget sets the fiscal course to deliver on the Assembly's approved mandate to achieve the vision of a Northwest Territories where people can thrive in a well-managed economy that contributes to economic well-being and quality of life and where a strong economy provides jobs and opportunities for NWT communities and funding for government programs. Advancing the priorities of the 18th Assembly requires a well-developed long-range plan to properly fund core programs and strategic initiatives in a fiscally sustainable manner while protecting the government's finances over the long term. These fiscal challenges are made difficult by a flat revenue outlook for the GNWT over the medium term and a large cash deficit created over previous Assemblies to make infrastructure investments during economic downturns.

To meet this challenge, the 2016-17 Budget presents a fiscal plan of managing expenditure growth to ensure that operating surpluses are sustained, so that the GNWT can maintain its existing infrastructure, make strategic infrastructure investments to grow the economy and deliver government programs, and avoid having to address structural deficits in the future.

Fiscal Strategy

The GNWT has two budgets: an operating budget to pay for the delivery of government programs and services, and a capital budget to fund infrastructure. Total revenues must pay for both budgets or the government must borrow and increase its debt. Borrowing is limited by the federally-imposed borrowing limit of \$1.3 billion and the GNWT's own prudent debt management guidelines described in the *Fiscal Responsibility Policy*. The *Fiscal Responsibility Policy* is the key driver of the fiscal strategy, as it dictates the maximum amount of borrowing and debt that the GNWT can undertake during the year.

The over-riding objective of the 2016-17 Budget is to start the process of restoring fiscal sustainability the life of the 18th Legislative Assembly in order to continue to provide quality core programs and services, the infrastructure needed to support these programs, and to deliver on the priorities identified in the Mandate of the Assembly.

This objective is supported by the following fiscal strategy:

- Align expenditure growth to revenue growth over the life of the 18th Legislative Assembly.

- Limit new funding growth, including Collective Bargaining increases, to the growth in Territorial Formula Financing, while achieving \$150 million in expenditure reductions and/or revenue increases over the term of the 18th Legislative Assembly.
- Adhere to the requirements of the *Fiscal Responsibility Policy*. Under the Policy, the GNWT will not borrow for operating purposes and it will fund a minimum of 50 per cent of annual infrastructure investments with cash generated from operating surpluses.

By following the fiscal strategy, the GNWT will continue to have operating surpluses to fund infrastructure, including housing. Most of the GNWT's budget is funded through federal transfers, which limits the feasibility of producing operating surpluses through increasing taxes or other own-source revenue initiatives. Therefore operating surpluses will be achieved mainly through the prudent management of operating expenditure growth.

Options to raise more revenues are being considered, with the latest discussion paper on potential revenue options tabled in the Legislative Assembly on March 1, 2016. The objective of the March 2016 revenue options review was to find new revenues through tax changes and new taxes based on the following criteria:

- revenue-raising potential: own-source revenues are less than a quarter of total revenues, and these small tax bases limit the amount that can be raised through increased taxation;
- principles of sound tax policy: to ensure that the tax system is as predictable, fair, efficient, and as simple as possible; and
- impact on the NWT economy: including the need to be competitive with other jurisdictions and the implications for the NWT's already high cost of living, which is a barrier to attracting and retaining people in the NWT.

Actions to increase revenues will be a long-term strategy focussed on growing the NWT economic base. Even if new taxes or revenue sources are introduced, operating expenditures will still need to be reduced to match revenue growth. The GNWT cannot generate enough new revenues to address the fiscal sustainability problem without action on the expenditure side. At the same time, the GNWT needs to maintain spending in key areas so as not to compromise the delivery of core public services, but expenditure growth going forward will have to be restrained because of flat revenue projections. The GNWT simply cannot afford to outspend its revenues; to do so would create structural deficits and compromise the GNWT's fiscal future. Under the *Fiscal Responsibility Policy*, operating surpluses are required to pay for half of the annual infrastructure investments. A balanced budget alone would not allow for any infrastructure, whether to sustain existing, or invest in new, infrastructure. Using the full amount of the GNWT's revenues to fund operating expenditures would lead to an ever-growing infrastructure deficit and declining long-term economic prospects for the NWT. That in turn would lead to more difficulty retaining and attracting residents, and ultimately jeopardize the viability of public service delivery in the NWT.

Fiscal Situation

Since the 2010-11 Budget, the GNWT's efforts have been focused on keeping expenditure growth below revenue growth in order to gradually increase the operating surpluses available to invest in infrastructure. The focus on careful expenditure management has become more important because

the five-year revenue outlook forecasts flat growth. Expenditure growth will have to be similarly constrained if operating surpluses are to be maintained, as required under the *Fiscal Responsibility Policy*. It is only through operating surpluses that infrastructure investments can happen in a sustainable manner.

To date, efforts to manage the growth in spending have been successful, contributing to four years of consecutive operating surpluses through 2014-15. The GNWT has maintained fiscal prudence in its operating budget with growth in program spending averaging nearly half of what it was five years ago. The resulting operating surpluses have allowed for additional infrastructure investment that would not have been possible without operating surpluses.

The GNWT's continuing fiscal prudence is recognized by Moody's Investors Service, which assigns the GNWT a credit rating of Aa1 – one of the highest ratings available. This high credit rating, which is unchanged since November 2006, qualifies the GNWT to borrow on favourable terms.

Medium-Term Outlook

The medium-term outlook reflects actions to date to link increases in expenditures to the growth in the Territorial Formula Financing Grant, which requires a target of \$150 million in savings or new revenues to establish a short-term cash surplus position by the end of the 18th Assembly. The 2016-17 Budget identifies almost \$53 million in expenditure reductions and \$15 million in new revenues over four years, almost half of the \$150 million target.

Medium-Term Outlook (\$ millions)

	2014-15 (Actual)	2015-16 (Estimate)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)	2019-20 (Forecast)
OPERATING SUMMARY						
Total Revenues	1,827	1,827	1,810	1,844	1,784	1,818
Total Expenditures ¹	(1,732)	(1,730)	(1,691)	(1,684)	(1,708)	(1,765)
Operating Surplus (deficit)	95	97	119	160	76	53
CAPITAL INVESTMENT						
	236	201	379	243	158	117
TOTAL (DEBT) AT MARCH 31						
Cash Surplus (Deficit) at year end	(235)	(258)	(312)	(290)	(216)	(152)
Long Term Debt and Guaranteed Debt ²	(434)	(445)	(471)	(540)	(664)	(651)
Total (Debt) at March 31	(669)	(703)	(783)	(830)	(880)	(803)
BORROWING LIMIT						
	800	1,300	1,300	1,300	1,300	1,300
AVAILABLE BORROWING CAPACITY						
	131	597	517	470	420	497

¹ Includes infrastructure contributions.

² Includes debt of the NWT Power Corp., NWT Energy Corp., NWT Housing Corp., Deh Cho Bridge, and debt of the Yellowknife Public Denominational District Educational Authority.

Total may not equal sum of individual figures due to rounding.

The necessity for expenditure restraint is created because over the four-year period from 2015-16 to 2019-20, total revenues are essentially flat with a forecast decline of 0.5 per cent, which is a reduction of 0.1 per cent annually; while expenditures are forecast to grow 2 per cent cumulatively, or about 0.5 per cent per year. Expenditure growth is based on assuming forced growth (increased costs for existing programs and services) will be restrained to \$20 million annually, no new initiatives unless found through re-profiling funds from existing department budgets, and modest annual capital budgets.

The GNWT will remain below the federally-imposed \$1.3 billion borrowing limit throughout the forecast period, and total debt-servicing payments will remain below the 5 per cent limit required under the *Fiscal Responsibility Policy*. However, adherence to the *Fiscal Responsibility Policy* also requires annual cash surpluses from the operating budget to fund at least half of the infrastructure investments, which means that under the current medium-term outlook the infrastructure budget is being reduced. Additional savings or revenues will be necessary to provide more infrastructure investment to protect the existing asset base and address the \$3.4 billion infrastructure deficit.

With the room that is available under the limit, strategic investments in transportation and energy infrastructure that will support a long-term increase in economic capacity and address energy costs are priorities.

Fiscal Responsibility Policy Outlook (\$ millions)

	2014-15 (Actual)	2015-16 (Estimate)	2016-17 (Forecast)	2017-18 (Forecast)	2018-19 (Forecast)	2019-20 (Forecast)
Cash Required for Infrastructure Investment Expenditures - Net of Deferred Contributions Received in the Year	236	201	379	243	158	117
Debt Serving Payments:						
Capital Leases	3	3	3	3	3	3
MVFL - Capital Payment	-	-	-	8	8	8
Stanton - Capital Payment	-	-	-	-	12	18
Deh Cho Bridge	9	9	9	10	11	12
Short-term Interest Expense	1	1	2	2	2	2
Total Debt Servicing Payment	13	13	14	23	36	43
Percentage of Revenues	0.8%	0.8%	0.8%	1.2%	2.0%	2.4%
Fiscal Responsibility Policy Impacts:						
1. Maximum Debt Servicing Payment - 5% of revenues	85	85	91	92	89	91
2. Operating Cash Surplus Requirements to:						
Fund Minimum 50% of Capital Acquisitions	118	101	190	122	79	59
Fund Debt Servicing Payment	13	13	14	23	36	43
Total Operating Cash Requirements	131	114	204	145	115	102
3. Operating Cash Available:						
Operating Surplus (Deficit) - Fiscal Planning Purposes	95	97	119	160	76	53
Add Amortization Expense and Other Non Cash Items	79	84	93	94	106	111
Total Operating Cash Available	174	181	211	254	182	163
4. Overage (Shortfall) in Cash Generated by Operations	43	68	8	109	67	62

Increasing revenues will be challenging. NWT economic activity is lower than the five-year pre-recession period to 2007, because resource production is declining and business investment has decreased. Lower levels of economic activity are the main reason for the NWT's muted population growth since 2004. Further, as highlighted in the March 2016 review of revenue options, small tax bases are a serious limitation for increasing own-source revenues. About two-thirds of GNWT revenues come from Territorial Formula Financing, which is outside the ability of the GNWT to influence. The GNWT's Territorial Formula Financing entitlement is projected to increase about 0.5 per cent annually over the next four years, due to assumptions about provincial/local government spending and NWT population growth relative to national growth, which are the main variables that determine the growth in Territorial Formula Financing. Both the provinces' expenditure restraint measures and low growth in the NWT population will slow the growth in Territorial Formula Financing, and therefore total revenues.

To address the need for economic growth, the GNWT has put in place a number of strategies to help create the environment for a more robust and vibrant economy. In addition, the GNWT will make strategic infrastructure investments, while adhering to its own *Fiscal Responsibility Policy* and the federally-imposed borrowing limit. These should help the economy to strengthen over the medium term.

Fiscal Review

2014-15 Final Results

Total revenues in 2014-15 were \$1.83 billion, up 12.0 per cent from 2013-14, primarily because of the impact of devolution of the management of lands, waters and non-renewable resources from Canada to the GNWT, effective April 1, 2014, which resulted in a higher Territorial Formula Financing entitlement and the inclusion of resource revenues for the first time; and federal transfers for the Inuvik- Tuktoyaktuk Highway project. Excluding revenues from devolution and the Inuvik- Tuktoyaktuk Highway project, total revenues would have increased about 3.8 per cent as outside these three areas, there was minimal growth or even declines in most revenue sources, with taxation revenues actually declining from \$279 million in 2013-14 to \$251 million in 2014-15, because of a sharp fall in corporate income tax.

Total expenditures in 2014-15 increased 12.6 per cent, from \$1.54 billion in 2013-14 to \$1.73 billion, due mainly to new spending related to new responsibilities under devolution. The increases in revenues and expenditures in 2014-15 nearly offset each other, such that the operating surplus in 2014-15, at \$95 million, came in very close to the year-earlier level of \$94 million.

2015-16 Revised Estimates

The 2015-16 operating surplus is projected to be \$97 million, \$50 million lower than projected in the 2015-16 Main Estimates, due mainly to \$47 million in expenditure shocks fighting forest fires and offsetting diesel electrical generation costs made necessary by the lowest water levels in 64 years on the Snare River.

The revised 2015-16 revenue forecast is \$1.83 billion, unchanged from the 2015-16 Main Estimates. Own-source revenues are projected to decrease \$37 million from the 2015-16 Budget, due mainly to decreased corporate income tax and resource royalties forecasts; however, this was offset by a \$37 million increase in federal transfers, primarily for the Inuvik- Tuktoyaktuk Highway.

Infrastructure investment expenditures for 2015-16 are expected to be \$375 million, \$97 million more than projected in the *2015-16 Capital Estimates*. Most of the increase was due to construction of the Inuvik- Tuktoyaktuk Highway, as well as capital carry-overs from 2014-15. Total debt at March 31, 2016 is forecast to be \$668 million. Taking into account other borrowing instruments for purposes of the federally-imposed \$1.3 billion borrowing limit, total GNWT borrowing at March 31, 2016 is projected to be \$703 million, leaving \$597 million in borrowing room.

2016-17 Budget

The 2016-17 Budget proposes operating expenditures of \$1.66 billion and forecasts revenues of \$1.81 billion. After taking into account infrastructure contributions and supplementary reserve requirements, an operating surplus of \$119 million is projected.

Infrastructure investments for 2016-17, approved in October 2015, are budgeted to be \$320 million, including infrastructure contributions. Short-term debt is projected to be \$312 million at March 31, 2017. Direct long-term debt is forecast to be \$179 million, while debt of public agencies such as the NWT Hydro Corporation, the NWT Housing Corporation, and the Yellowknife Catholic Schools will total \$261 million. After adding the projected \$30 million in other instruments included under the definition of borrowing for the purposes of the borrowing limit, borrowing is expected to be \$783 million at March 31, 2017, leaving \$517 million in available borrowing room under the federally-imposed \$1.3 billion borrowing limit. A short-term borrowing limit of \$377 million will be requested in the *2016-17 Appropriation Act* in order to keep a cushion beneath the estimated \$312 million in short-term debt.

Revenues

Revenue Forecast

Total revenues are forecast to decrease \$17 million to \$1.8 billion from the 2015-16 revised Estimates to the 2016-17 Main Estimates, representing a 0.9 per cent decline. The Territorial Formula Financing Grant, which continues to make up the majority of GNWT revenues, will decrease 1.0 per cent, or \$13 million, in 2016-17, because of the inclusion for the first time of the resource revenue offset following devolution. Other transfers are forecast to fall by \$35 million primarily because of a sharp decline in Inuvik- Tuktoyaktuk Highway funds, partially offset by increases in other areas, such as the Highway Capacity Improvement transfer.

GNWT own-source revenues (including recoveries) are expected to account for 23 per cent of total revenues in 2016-17. Tax revenues are expected to increase 12 per cent due mainly to a forecasted increase in corporate income tax. The remainder of own-source revenues are expected to remain broadly stable.

Revenue Initiatives

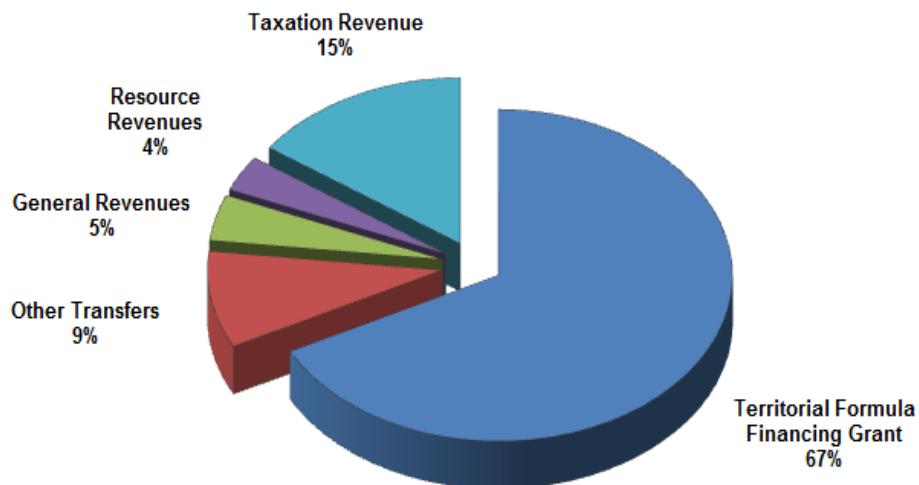
No new taxes are included in the 2016-17 Budget. Options for increasing revenues discussed in the Revenue Options paper tabled in March 2016 will be considered by the 18th Legislative Assembly for future budgets.

In keeping with the existing indexation policy, property tax mill rates and a number of fees were adjusted for inflation, effective April 1, 2016. This move is in line with the GNWT's policy of

indexing tobacco and property tax rates, liquor mark-ups, and fees, where practicable. Due to concerns that tobacco taxes and liquor mark-ups are already among the highest of all provinces and territories, and that further increases at this time could pose enforcement challenges, tobacco tax rates and liquor mark-ups were not increased.

The Budget proposes to re-structure and increase Yellowknife airport fees to match industry averages charged by comparable airports in the south and introduce a Yellowknife airport improvement fee of \$20 per passenger travelling south and \$10 for those flying north. Once fully implemented, these changes will raise an estimated \$10 million in new revenue annually.

2016-17 Revenues by Source

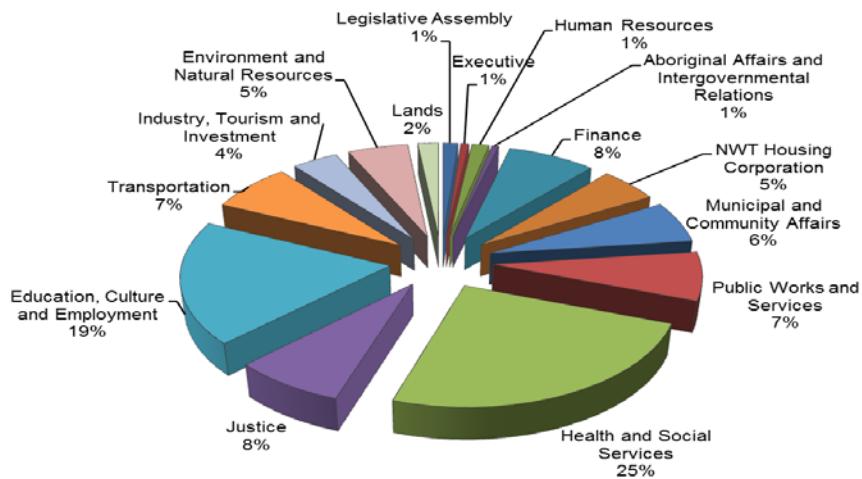


Operating Expenditures

The 2016-17 Budget proposes \$1.66 billion in operating expenditures, of which \$1 billion, or 63 per cent is budgeted for social programs such as education, health care, social services, housing, policing and corrections.

Operating expenditures are budgeted to increase \$15 million from the 2015-16 Main Estimates despite \$35 million in new initiatives. Increased costs within existing programs (forced growth) of \$29 million and \$8 million in other adjustments are offset by \$27 million in sunsetted programs and \$31 million in reductions to department budgets.

2016-17 Operations Expenditures by Department



Initiatives

Budget 2016-17 provides \$35 million in initiatives in 2016-17. This budget accommodates forced growth (increased cost for existing programs), while it re-profiles spending into initiatives. Due to the difficult fiscal environment, new initiatives are funded out of program sunsets and efficiencies, and reductions found elsewhere. This approach allows the 18th Assembly the flexibility to address its priorities.

These initiatives target the priorities and the mandate of the Assembly: governance; living costs; education and youth; community wellness and safety; and the economy, environment and climate change.

Governance: Improving Accountability, Transparency and Collaboration

Initiatives to support the 18th Legislative Assembly's priority for a more modern open government will total \$5.406 million in 2016-17. These initiatives support and improve accountability, transparency and collaboration.

- \$240,000 for two positions to support the NWT Archives program through the transfer, review and management of files from the federal government for Devolution.
- \$1.615 million to implement five trans-boundary water agreements, including support for five Bilateral Management Committees and the Mackenzie River Basin Board Technical Committee, and the addition of two Watershed Management Advisors.
- \$694,000 for parks operations to be more transparent, in reflection of accounting changes in the *Financial Administration Act*, to show expenditure separately from gross revenue.
- \$342,000 for expenses related to Devolution, including \$300,000 for fully funding employees who were previously with the federal government, and \$42,000 for a collective agreement costs for these employees.

- \$108,000 for cost-sharing with federal-provincial-territorial governments for policing service contract management under Police Service Agreements.
- \$316,000 for funding Community Justice activities in the NWT related to federal funding available under the Aboriginal Justice Strategy Fund. The funding will flow through to Community Justice Committees for restorative justice, victims' services and crime prevention programming based on community needs.
- \$1.24 million for upgrades to internal financial and human resource information management systems.
- \$851,000 to complete Phase 2 of the Communications Functional Review.

Cost of living

Cost of living initiatives in 2016-17 are budgeted to be \$10.9 million, targeting electricity prices for all rate payers and housing stock for RCMP members.

- \$7.535 million to offset costs associated with lower-than-average water levels in the Snare hydro system to avoid applying a rate rider to all ratepayers.
- \$3.458 million for the construction of 46 market rental units for leasing to RCMP members under a collaborative effort between the Northwest Territories Housing Corporation (NWTHC), the GNWT Department of Justice and the RCMP.

Education, Training and Youth Development

The budget contains \$4.3 million in initiatives targeted toward improving the ability of people from all walks of life to learn, develop and secure quality employment in the NWT. The initiatives include:

- \$272,000 to provide support for community capacity in the development of early childhood care and family literacy.
- \$2.223 million to increase support under the Student Financial Assistance program in support of the *Population Growth Strategy*.
- \$554,000 for family housing for the Aurora College campus in Inuvik, including \$85,000 to extend temporary accommodations for students with families until new student housing is constructed.
- \$1.25 million under the Labour Market Agreement for Persons with Disabilities to improve the employment outcomes of persons with disabilities.

Community Wellness and Safety

There are initiatives totalling \$4.3 million in the 2016-17 budget which will be focused on building positive health outcomes for residents of the NWT. The focus will include the mental well-being of residents as well as their physical health.

- \$677,000 increased contribution to the Hay River Health and Social Services Authority (HSSA) for costs associated with maintaining the Long-Term Care Unit in the H.H. Williams Hospital.
- \$1.95 million increased contribution to Hay River HSSA for operating costs associated with opening the new Hay River Health Centre this year.
- \$1.131 million contribution to the Tł'chǫ Community Services Agency for the expanded Jimmy Erasmus Seniors' Home in Behchokǫ.
- \$501,000 to implement the new *Mental Health Act*.
- \$48,000 for the *Biology Casework Analysis Agreement*.

Economy, Environment and Climate Change

This budget includes \$4.346 million in various initiatives that will assist in developing the economy, growing the population, improving energy efficiency and adapting to climate change.

- \$169,000 for the NWT Nominee Program and other immigration programs and services in support of the *Population Growth Strategy*.
- \$311,000 for installation and operation of new water monitoring stations under the Hydrometric Networking Program.
- \$1.364 million to support actions under the *Mineral Development Strategy* including:
 - \$149,000 to enhance business coordination,
 - \$140,000 for marketing and promotion,
 - \$400,000 for the Mining Incentive Program,
 - \$575,000 to fund geoscience activities, and
 - \$100,000 for Aboriginal Capacity Building to support engagement activities and enhance involvement with Aboriginal communities, organizations and governments in land use and resource decisions.
- \$1.075 million to support actions under the *Tourism 2020* initiative including:
 - \$400,000 to market the NWT as a tourist destination,
 - \$125,000 for research and planning efforts,
 - \$25,000 for community and industry engagement,
 - \$275,000 for efforts to enhance skills development, and
 - \$250,000 for Aboriginal Tourism and Community Tourism Infrastructure, including establishment of an Aboriginal Tourism Champions Advisory Council.

- \$486,000 to support actions under the *Economic Opportunities Strategy* including:
 - \$186,000 for marketing and the diversification of the NWT's tourism offerings,
 - \$100,000 to enhance the Film Rebate Program,
 - \$100,000 for the NWT Convention Bureau, and
 - \$100,000 for Community Infrastructure to fund projects that improve the tourism appeal of communities for band governments, municipalities and non-profit organizations.
- \$181,000 for costs related to the establishment of the Western Arctic Centre for Geomatics.
- \$760,000 as a one-time contribution to the Arctic Energy Alliance for various energy conservation and renewable energy initiatives.

Infrastructure

The GNWT's 2016-17 capital budget was approved in November 2015. The capital budget consists of \$292 million for the GNWT's own infrastructure plans, as well as \$28 million for community infrastructure investments. It does not include funding in respect of housing investment by the NWT Housing Corporation (NWTHC), which is contained in the 2016-17 Main Estimates. Including the \$22 million in proposed housing investments to be delivered through the NWTHC, the total planned infrastructure investment in 2016-17 will be \$342 million.

Major highlights in the capital estimates include:

- \$91 million to record the Mackenzie Valley Fibre Optic Link Project on the GNWT's balance sheet;
- \$69 million for highways and winter roads across the NWT, including funding for the Inuvik-Tuktoyaktuk Highway and the first bundle of highway projects submitted under the new Building Canada Plan;
- \$60 million for health facility replacements, renovations and information system upgrades, including funding required for the Stanton Territorial Hospital project;
- \$28 million to continue to contribute to community infrastructure needs; and
- \$20 million to begin replacing the current air tanker fleet that support forest fire operations.

Looking ahead, the GNWT will face the difficult challenge of maintaining existing assets, improving housing stock and meeting legislative requirements unless steps are taken to free up fiscal resources. The limited capital budget will be used to support the NWT's essential infrastructure base so that programs and services can continue to be delivered, to make investments in strategic infrastructure that will better position the NWT to maximize economic opportunities, and to look at options to adapting to the impact of climate change.

Risks to Fiscal Outlook

Debt risk is currently considered minimal, because debt servicing costs absorb only about one per cent of total revenues due to a relatively low overall debt burden and low current interest rates.

However, a number of other fiscal risks exist for the GNWT:

- The dependence of the NWT economy on resource industries – activity in the resource sector is highly variable, and consequently the NWT has the highest variability in economic growth in Canada. The implications for GNWT revenues can vary significantly from year to year. Resource sector activity has implications for long-term economic growth and own-source revenue volatility for the GNWT.
- Revenue volatility – historically, corporate income tax has been the GNWT's most volatile own-source revenue but the Territorial Formula Financing Grant is responsive over time to changes in corporate income tax revenues. Resource revenues are volatile and their variability will not be offset through Territorial Formula Financing, because resource revenues are outside of the formula. Resource revenues are sensitive to commodity price swings, exchange rate fluctuations, and operational decisions made by the resource developers, which makes resource revenue forecasting challenging. 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.
- Slowing revenue growth – Territorial Formula Financing is two-thirds of total revenues, affording considerable year-to-year stability to the budget. However, growth in Territorial Formula Financing relies heavily on NWT population growth relative to Canada's and provincial/local government spending. Flat population growth (or declines) or further provincial and local government fiscal austerity measures would cause growth in the Territorial Formula Financing Grant to be reduced.
- On-going operating expenditure pressures – constant pressure exists to enhance current programs and to implement new initiatives while not reducing existing program and service expenditures. Although the GNWT has made steady progress in reducing the rate of growth in program spending, continued efforts will be necessary to ensure that expenditure growth matches revenue growth, or the budgetary position could deteriorate.
- Unexpected expenditures and capital project cost overruns – operating expenditure shocks are usually unexpected events such as extraordinary fire suppression needs or other natural disasters. With the undertaking of large capital projects, the risk of capital cost overruns that may have an impact on the fiscal framework is heightened.

Summary of Operations

(thousands of dollars)

	2016-2017 Main Estimates	2015-2016 Revised Estimates	2015-2016 Main Estimates	2014-2015 Estimates	2014-2015 Actuals
REVENUES	1,809,762	1,826,965	1,826,794	1,826,916	
OPERATIONS EXPENSE					
Compensation and Benefits	369,121	381,696	376,537	374,926	
Grants, Contributions and Transfers	772,360	788,084	763,443	751,981	
Amortization	89,326	80,990	80,990	79,050	
Chargebacks	18,334	18,215	18,067	20,038	
Computer Hardware and Software	7,884	6,289	5,905	7,615	
Contract Services	211,977	239,496	208,205	238,290	
Controllable Assets	3,286	4,001	4,016	4,664	
Fees and Payments	84,492	93,639	82,966	103,625	
Interest	11,202	11,604	11,604	8,933	
Materials and Supplies	20,899	23,651	19,670	30,029	
Purchased Services	13,057	15,542	13,969	14,175	
Travel	18,459	23,142	19,999	19,557	
Utilities	39,530	40,666	39,680	42,204	
Valuation Allowances	2,419	2,419	2,469	3,585	
TOTAL OPERATIONS EXPENSE TO BE VOTED	1,662,346	1,729,434	1,647,520	1,698,672	
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	147,416	97,531	179,274	128,244	
Infrastructure Contributions	(28,402)	(31,338)	(28,463)	(31,406)	
Deferred Maintenance	-	(4,149)	(4,149)	(2,274)	
Petroleum Products Stabilization Fund net profit (loss)	94	(85)	64	893	
Supplementary Reserve	(30,000)	-	(30,000)	-	
Estimated Appropriation Lapses	30,000	35,000	30,000	-	
WORK PERFORMED ON BEHALF OF OTHERS					
Recoveries	89,526	92,255	76,560	69,661	
Expenditures	(89,526)	(92,255)	(76,560)	(69,661)	
OPERATING SURPLUS FOR THE YEAR	119,108	96,959	146,726	95,457	
ACCUMULATED SURPLUS, BEGINNING OF YEAR	1,518,855	1,421,896	1,272,101	1,326,439	
ACCUMULATED SURPLUS, END OF YEAR	1,637,963	1,518,855	1,418,827	1,421,896	

Summary of Revenues

(thousands of dollars)

	2016-2017	2015-2016	2015-2016	2014-2015
	Main Estimates	Revised Estimates	Main Estimates	Actuals
GRANT FROM CANADA	1,219,888	1,232,755	1,232,755	1,208,840
TRANSFER PAYMENTS	170,660	206,441	168,796	210,835
TAXATION REVENUE				
Personal Income Tax	110,603	109,837	108,379	110,810
Corporate Income Tax	60,003	25,010	40,640	31,815
Tobacco Tax	15,760	15,902	15,811	16,053
Fuel Tax	18,877	18,722	18,817	19,260
Payroll Tax	41,448	41,578	42,743	40,250
Property Taxes and School Levies	23,360	28,737	28,797	28,261
Basic Insurance Premium Tax	4,500	4,600	4,600	4,383
Fire Insurance Premium Tax	350	480	480	293
	274,901	244,866	260,267	251,125
Non-renewable Resource Revenue				
Licences, Rental and Other Fees	3,122	2,410	2,283	3,281
Minerals, Oil and Gas Royalties	59,810	60,799	78,940	62,831
Quarry Fees	250	225	-	919
	63,182	63,434	81,223	67,031
GENERAL REVENUES				
Revolving Funds Net Revenue	23,281	23,574	26,936	25,303
Regulatory Revenues	26,726	21,349	21,816	19,760
Investment Income	805	1,140	1,140	3,156
Lease	5,614	5,196	5,203	9,230
Program	20,376	23,938	24,381	19,762
Grants in kind	593	593	593	1,136
Service and miscellaneous	736	679	684	2,710
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	8,028
	81,131	79,469	83,753	89,085
TOTAL REVENUES	1,809,762	1,826,965	1,826,794	1,826,916

Summary of Operations Expenditures by Department

(thousands of dollars)

Department	2016-2017	2015-2016	2015-2016	2014-2015
	Main Estimates	Revised Estimates	Main Estimates	
Legislative Assembly	19,336	21,183	21,175	19,887
Aboriginal Affairs and Intergovernmental Relations	8,754	9,390	9,340	8,969
Education, Culture and Employment	315,848	316,121	309,786	309,303
Environment and Natural Resources	90,315	111,588	85,981	133,983
Executive	11,986	12,689	11,779	13,632
Finance	213,904	233,821	211,262	243,137
Health and Social Services	414,234	424,974	406,886	401,326
Human Resources	23,644	24,330	24,324	21,617
Industry, Tourism and Investment	59,870	64,872	63,457	60,930
Justice	127,092	132,058	130,573	124,925
Lands	28,253	29,979	29,268	24,529
Municipal and Community Affairs	104,200	103,698	103,477	99,681
Public Works and Services	119,711	120,548	120,750	116,025
Transportation	125,199	124,183	119,462	120,728
	1,662,346	1,729,434	1,647,520	1,698,672

Summary of Infrastructure Investment by Department

(thousands of dollars)

	2016 - 2017	2015 - 2016	2015 - 2016	2014 - 2015
	Capital Estimates	Revised Estimates	Capital Estimates	Actuals
Tangible Capital Assets				
Legislative Assembly	200	353	150	245
Education, Culture and Employment	7,899	8,114	5,796	6,257
Environment and Natural Resources	27,939	13,983	11,343	2,376
Finance	1,325	902	210	564
Health and Social Services	20,477	72,998	43,606	54,415
Human Resources	-	476	440	305
Industry, Tourism and Investment	3,598	7,456	2,575	2,428
Justice	9,078	20,413	17,166	963
Lands	1,350	534	-	165
Municipal and Community Affairs	-	-	-	-
Public Works and Services	16,977	21,530	12,525	18,659
Transportation	71,891	151,331	111,489	139,542
	160,734	298,090	205,300	225,919
Infrastructure Contributions				
Municipal and Community Affairs	28,002	29,762	28,002	30,614
Education, Culture and Employment	400	576	461	632
	28,402	30,338	28,463	31,246
Deferred Maintenance (non-capital)				
Education, Culture and Employment	-	300	300	-
Health and Social Services	-	1,313	789	767
Justice	-	620	620	-
Public Works and Services	-	2,480	2,000	1,424
Transportation	-	440	440	-
	-	5,153	4,149	2,191
Public Private Partnerships				
Finance	91,000	-	-	-
Health and Social Services	40,000	41,747	40,000	4,153
	131,000	41,747	40,000	4,153
Total Capital Estimates	320,136	375,328	277,912	263,509

Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2016-2017	2015-2016	2015-2016	2014-2015
	Main Estimates	Revised Estimates	Main Estimates	Actuals
SHORT TERM DEBT				
Government of the Northwest Territories	312,000	258,000	272,000	234,859
Hay River Health & Social Services Authority	1,000	-	-	-
NWT Hydro Corporation	20,000	37,000	31,000	17,595
	333,000	295,000	303,000	252,454
LONG TERM DEBT				
Government of the Northwest Territories:				
Deh Cho Bridge - Real Return Bonds	178,427	177,801	180,023	178,176
Canada Mortgage and Housing Corporation	597	668	668	735
Public Agencies:				
NWT Hydro Corporation	230,272	182,999	183,735	185,098
NWT Housing Corporation	9,189	10,045	10,045	10,719
Yellowknife Catholic Schools	855	1,599	1,599	2,302
TOTAL DEBT	752,340	668,112	679,070	629,484
OBLIGATIONS UNDER CAPITAL LEASES				
Government of the Northwest Territories	1,816	2,602	1,298	3,510
NWT Hydro Corporation	17,976	18,382	19,719	18,787
NWT Housing Corporation	-	52	52	281
LOAN GUARANTEES				
Other public agencies	250	250	250	250
NWT Housing Corporation	19,149	21,234	21,881	24,142
TOTAL GROSS BORROWING PER BORROWING REGULATIONS	791,531	710,632	722,270	676,454
LESS:				
EXTERNALLY RESTRICTED SINKING FUNDS				
NWT Hydro Corporation	(8,749)	(7,988)	(8,117)	(7,194)
TERRITORIAL BORROWING	782,782	702,644	714,153	669,260
TERRITORIAL BORROWING LIMIT	1,300,000	1,300,000	800,000	800,000
AVAILABLE BORROWING AUTHORITY FOR PLANNING PURPOSES FISCAL	517,218	597,356	85,847	130,740

PROVINCIAL/ TERRITORIAL TAX RATES AT MAY 27, 2016

	Combined Top Marginal Personal Income Tax ^(a) (%)	Retail Sales Tax (%)	Fuel Tax ^(b)		Tobacco Tax ^(c) (\$/carton)	Payroll Tax ^(d) (%)	Corporate Income Tax		Capital Tax on Financial Institutions ^(e) (%)
			Gasoline (¢/litre)	Diesel (¢/litre)			Small (%)	Large (%)	
Northwest Territories	47.05	-	10.7	9.1	57.20	2.00	4.0	11.5	-
Nunavut	44.50	-	6.4	9.1	50.00	2.00	4.0	12.0	-
Yukon	48.00	-	6.2	7.2	42.00	-	3.0	15.0	-
British Columbia	47.70	7.0	21.2	22.7	47.80	-	2.5	11.0	-
Alberta	48.00	-	13.0	13.0	50.00	-	3.0	12.0	-
Saskatchewan	48.00	5.0	15.0	15.0	50.00	-	2.0	12.0	3.25
Manitoba	50.40	8.0	14.0	14.0	59.00	2.15	0.0	12.0	6.00
Ontario	53.53	8.0	14.7	14.3	30.95	1.95	4.5	11.5	1.25 ^(e)
Quebec	53.31	10.0	19.2	20.2	29.80	4.26	8.0	11.9	1.25 ^(e)
New Brunswick ^(f)	53.30	8.0	15.5	21.5	44.52	-	3.5	14.0	5.0
Nova Scotia	54.00	10.0	15.5	15.4	55.04	-	3.0	16.0	4.0
Prince Edward Island ^(g)	51.37	9.0	13.1	20.2	50.00	-	4.5	16.0	5.0
Newfoundland & Labrador ^(h)	49.80	8.0	16.5	16.5	49.00	2.00	3.0	15.0	6.0
Weighted average ⁽ⁱ⁾	51.70	7.3	16.4	16.8	38.06	1.84	4.5	11.9	1.41

Notes:

- (a) Combined federal-provincial/ territorial highest 2016 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 include carbon tax, and are applicable in regions outside Victoria and the Lower Mainland. In British Columbia, carbon tax rates are uniform across the province; however, there are different fuel tax rates for different regions. Quebec fuel tax rates also vary regionally.
- (c) British Columbia, Manitoba, New Brunswick, Newfoundland, Nova Scotia, Ontario and Saskatchewan apply sales tax to sales of tobacco.
- (d) NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or rates vary depending on payroll size.
- (e) Ontario and Quebec levy capital tax on life insurance institutions.
- (f) New Brunswick's portion of the HST will increase to 10 per cent on July 1, 2016.
- (g) PEI's portion of the HST will increase to 10 per cent on October 1, 2016.
- (h) Newfoundland's gasoline and diesel tax rates will increase 16.5 cents/litre and 5 cents/litre, respectively, on June 2, 2016. The provincial portion of the HST will increase to 10 per cent on July 1, 2016. Individuals will pay a temporary deficit reduction levy of up to \$900 starting July 1, 2016.
- (i) Average weighted by provincial/ territorial populations at July 1, 2015.