

Budget Address

2020 - 2021

NORTHWEST TERRITORIES

The Honourable Caroline Wawzonek
Minister of Finance

**Second Session of the
Nineteenth Legislative Assembly**

February 25, 2020



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English

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French

Kīspin ki nitawih̄tīn ē nīh̄yawihk ōma ācimōwin, tipwāsinān.

Cree

T̄h̄ch̄q̄ yatı k'èè. Dı wegodı new̄q̄ dè, gots'ō gonede.

T̄h̄ch̄q̄

ʔerih̄t'ís Dēne S̄h̄n̄é yatı t'a huts'elk̄er xa beyáyatı theʔá ʔat'e, nuwe ts'ēn yóltı.

Chipewyan

Edı gondı dehgáh got'ıe zhatié k'ée edat'éh enahddh̄e nıde naxets'é edah̄ı.

South Slavey

K'áhshó got'ıne xədə k'é hederı ʔed̄h̄t'ıé yerııw̄e nıde dúle.

North Slavey

Jii gwandak izhii ginjik vat'atr'ıj̄ah̄ch'uu zhit yinoth̄an jı', diits'at ginohk̄h̄ı.

Gwich'in

Uvanittuaq ilitchurisukupku Inuvialuktun, ququaqluta.

Inuvialuktun

Ċ'bd̄ ɳɳ'bb̄Δ'c ʌr̄LJΔ'c Δ'ob̄ɳɳ'c'p̄Lɳɳ', ɳ'c'ɳ'c' ɳ'c'ɳ'c' ɳ'c'ɳ'c'.

Inuktitut

Hap̄kua titiqqat pijumagupkit Inuinnaqtun, uvaptinnut hivajarlutit.

Inuinnaqtun

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Introduction

Mr. Speaker, the Northwest Territories is a land of opportunity. We have a vast geography, a wealth of resources and a population strengthened by incredible diversity.

The 19th Legislative Assembly wants to see the Northwest Territories make the best possible use of all of our opportunities and resources, including the strength of our people, to achieve the 22 priorities that were set by all 19 members of this Assembly. These priorities stretch across all of our communities and are our shared vision for economic growth, environmental stewardship and a healthy and better educated population.

Achieving these priorities will be a continuing journey that will outlast the life of the 19th Assembly and this government must make decisions in a way that looks beyond four years to the next generation. We have a responsibility to put the Northwest Territories on a good path using our priorities as a guide and establishing a budget and a fiscal plan to achieve as much distance towards these priorities as possible.

It has been said that it is easier to destroy than to create. Think about an ice sculpture. Creating takes time. It requires patience. It succeeds with thoughtfulness and planning. This government wants to create a positive path forward for the future.

Budget 2020 is a first step on a path towards our priorities, one for which we build relationships within our government, with our communities, and between governments.

This Budget proposes to spend almost \$1.9 billion on programs and services in the coming year and sets out further fiscal steps that will support progress on all 22 priorities. This Budget is a foundation upon which we will create and build.

Shortly, I will review the Northwest Territories economic situation and outlook. I will describe some key drivers in our economy as well as some of our challenges. Next, I will discuss our fiscal situation and strategy, which speaks to some of the direct impacts that government can have toward positively influencing our economic situation. I will then describe our planned revenues and expenditures for the next fiscal year and conclude with a discussion about next steps for the financial health and planning of the Northwest Territories.

I want to make two comments about how this Budget was prepared.

First, this Budget was a collective effort. It stretches back to the last Assembly when departments were working on their plans for the coming year. We are always building on work from prior assemblies in a consensus government. In the relatively short time of four months since this Cabinet was formed, we have tried to chart a more inclusive approach to financial policy setting that better engages all Members. It is my intention to continue establishing opportunities throughout our processes for public dialogue and engagement with this Assembly. Evidence based decision making requires information and perspectives and potential decisions should, where possible, be vetted by those impacted.

I want to thank all Members of this Assembly for their constructive ideas and work in building our financial plan for the next fiscal year and beyond.

Second, in preparing this Budget we needed to take a realistic look at our fiscal challenges. Our immediate fiscal situation is not what was hoped in the last budget but it is manageable. We are not in a crisis. This is a time for cautious optimism. Achieving the priorities of this Assembly will require a disciplined approach and a plan to ensure that we are getting value for the money we are spending while preserving the ability to responsibly fund infrastructure needs in our communities and across the territory. Although this is next fiscal year's operating budget, the revenues projected in this Budget must also partially pay for the 2020-21 capital budget that was approved last fall. More important, we must remember that we are on a longer journey and the first step taken in today's Budget sets the direction for the financial plan over the next four years. Within our Budget we remain committed to responsible fiscal management.

Just as this Budget is meant to provide a stable starting point for the future of the 19th Assembly within a context of change, our approach to financial management is changing progressively to deliver a better product to serve the goals of this government.

Part of this change includes the use of four-year business plans, instead of an isolated annual version each year. We will regularly return to the business plan to evaluate our progress and performance so that we will know if we are getting the results and value we expect for the money we spend.

We will also be focusing resources to improve evaluation and monitoring of key performance measures across sectors and programs. Many of the programs and services that government delivers cannot be measured purely by numbers. Much of what we do provides a social return that is going to need a more nuanced measure. Our goal is to ensure not only that residents of the Northwest Territories get the best monetary value for their dollar but that they get a positive social, cultural, educational, health and economic return on our collective investment.

Economic Outlook

The financial foundation for all our priorities is a vibrant and diverse economy. The *Macroeconomic Policy Framework* is a set of measures used to assess the territory's economic performance over time. It shows the economy has not recovered to its pre-recession peak in 2007. We know that circumstances have changed since then. Political and economic uncertainty across the world can significantly impact our small resource-based economy.

In 2019, the Northwest Territories economy is expected to have shrunk 4.3 per cent, due to declines in diamond production and private-sector investment. Increases in government investment expenditures helped cushion the slowdown in private sector activity and saved the economy from a more severe decline. Government infrastructure investments are the prime driver in a 3.4 per cent increase in total private and public investment from 2019 to 2020. This year, economic growth is expected to improve, with real gross domestic product forecast to increase 3.8 per cent. However, this growth will only partially offset the real GDP decline from 2019, leaving the economy still smaller than it was two years ago. In short, the Northwest Territories economy is stable, but it is not growing.

Economic stability does not describe the longer term outlook. The diamond mining industry has been our economic engine for the last two decades. However, the industry has matured, and all existing Northwest Territories diamond mines could be closed by 2030, with the first one ceasing operations within the next five years. Possible expansions may allow one or more of the diamond mines to continue to operate, but that remains uncertain just as there is no certainty of finding new economically viable deposits. The closure of the diamond mines will result in a large drop in economic output and there are no other confirmed projects on the horizon large enough to fill this gap.

The role government can play in supporting economic growth should not be underestimated. Strategic infrastructure investments are key to supporting future economic growth and to supporting our people to be drivers of that growth. The Canadian economy is in the midst of re-structuring towards a more digital and service-centred economy and we want the Northwest Territories to be contributing members as this evolves. The GNWT has already invested in the basic infrastructure for a more digital economy with the Mackenzie Valley Fibre Link that gives better access to the global digital economy and countless new opportunities for Northerners. Government spending on programs, goods and services will provide stability to the economy by supporting Northern businesses, local wages, and household consumption. Public infrastructure investments such as roads, bridges, power corridors, and communications networks as well as schools, hospitals and community facilities will contribute to higher standards of living for Northerners, and to improved private sector business cases for future investments. Investing in physical and social infrastructure sets the Northwest Territories up for economic growth tomorrow. We will be guided by the principle that the expenditure of our public funds maximizes economic benefits to residents and local economies and supports Northern business.

Fiscal Situation and Outlook

Mr. Speaker, our fiscal situation is not dire. However, unexpected revenue declines mean that the previous fiscal strategy objectives to increase fiscal capacity and eliminate the cash deficit were not achieved.

We are expecting our operations budget from 2019-20 to show a deficit of \$70 million. Although this is quite a distance from the \$60 million operating surplus projected in last year's budget, over one-third of the revenue loss is due to a reallocation of federal transfers for infrastructure projects from the 2019-20 fiscal year to 2020-21.

In 2020-21, our operating budget is projected to show a surplus of \$203 million. Over the next four years, we are currently projecting that average annual revenue growth will be greater than operating expenditure growth which allows us to project operating surpluses for the entire Assembly. However, after this year, the operating surpluses will start to decline, dropping to \$147 million in 2021-22, \$116 million in 2022-23 and then to \$3 million in 2023-24.

An operating surplus is only one part of our total financial picture. The operating budget is mainly the funding of day-to-day programs and services provided by government. The capital budget is where we show the funding of large-scale investments in infrastructure projects. Without a surplus in our operating budget, there is no cash available to put into our capital budget to pay for infrastructure investments. The less cash available from an operating surplus, the more we would have to borrow to continue to invest in capital projects.

In the not too distant past, the Government of the Northwest Territories made large investments to help connect our communities with improved transportation networks such as highways, roads, bridges and airports. Large public investment has enhanced energy and communication infrastructure and built health facilities and schools. Despite these efforts, the Northwest Territories remains in a significant infrastructure deficit compared to much of the rest of Canada. Many communities have no road access, limited internet connectivity and rely on diesel to generate heat and power. Several of our communities have small and aging school facilities that accommodate only one or two teachers to cover classes from kindergarten to grade 12. The Northwest Territories' core housing need is among the highest in Canada. Surpluses in the operating budgets are not large enough on their own to support the kind of large-scale investments we need to catch the Northwest Territories up to a similar level of infrastructure seen elsewhere in Canada. Borrowing has been and will remain necessary to make strategic infrastructure investments.

Remaining fiscally responsible includes managing our debt. Our debt level is approaching the federally-imposed borrowing limit of \$1.3 billion and current projections show that we will be over the limit by 2021-22. The Department of Finance uses a variety of measures to assess our debt level and ensure that we continue to use debt responsibly. We have the fiscal capacity to handle higher debt levels and discussions are underway with Finance Canada to raise the limit to provide more flexibility for long term planning.

Fiscal Strategy

When it comes to developing our fiscal strategy, our focus is on the future.

What we want is the ability to enhance fiscal resources to advance the 22 priorities of this Assembly.

First, using today's current estimates, the Fiscal Strategy provides an initial allocation of \$25 million over the life of the 19th Assembly to advance towards our mandate priorities, starting with \$10 million in 2020-21. Over the next few weeks we will be working with Members to allocate this funding.

Second, we will continue to build on our relationship with the federal government to take advantage of funding opportunities to advance our priorities, such as housing investments. We will also be looking for more flexibility than the usual 75/25 approach to cost-sharing.

Third, we will seek opportunities for collaboration with other governments to advance shared priorities. This government does not want to compete for resources with other organizations within the Northwest Territories. We will work with Indigenous Governments across the Northwest Territories to advance projects that benefit all of our people.

Finally, we are looking for creative low or no cost initiatives to improve fiscal planning, including four-year business plans, to bring the longer-term horizon into view and will rely on increased program evaluation to bring more value for our dollars spent. The GNWT will undertake strategic reviews to ensure programs and services are meeting expectations and that budgeted expenditures for these programs are properly aligned with our mandate and all additional revenue options are considered.

Further, we are seeking an increase to the borrowing limit for better flexibility while maintaining a level of debt that is affordable. We have already begun to engage the federal government and remind them that the NWT is a fiscally responsible jurisdiction, with much opportunity but also long standing gaps. However, we can only succeed in increasing the limit if we demonstrate responsible and strategic spending. Investments will need to be modest and reflect our expected revenue growth over the next four years.

From a fiscal perspective, we believe that more effective and sometimes more flexible use of our existing programs and services will provide better value for the public money that we are spending. We expect to improve performance while reducing costs so that we can free up fiscal resources to help close the infrastructure gap that exists across our communities without overreliance on debt.

Tax Measures

The cost of living is high in the territory, especially within small communities where average incomes are lower. Budget 2020 introduces no new taxes. We will be reviewing

our tax regime in tandem with Standing Committee and we are developing a plan to engage the people of the Northwest Territories in a dialogue about government revenues. Together we will continue to explore ways to increase our own-source revenues without an undue burden on our residents and businesses.

The Northwest Territories is at the forefront of climate change, with the impacts of rising average global temperatures being more pronounced here than in other parts of the world, affecting permafrost, ice road seasons, and forest fires. Carbon pricing was developed as a response to the federal proposal and implemented as part of a made-in-the-North approach to encourage greenhouse gas reductions.

Effective July 1, federally mandated carbon tax rates will increase to \$30 per tonne of greenhouse gas emissions as part of our legislated commitment to carbon pricing under the Pan-Canadian Framework. This means a tax rate increase of 2.3 cents per litre on gasoline and 2.7 cents per litre on diesel fuel. In lock step with the carbon tax increase, the Cost of Living Offset will increase to \$156 per year for an individual and \$180 per year for a child on July 1. The Cost of Living Offset payments are made quarterly, except for single individuals who will receive a lump sum in July because their quarterly payments would be less than \$50.

Budget 2020 proposes almost \$11 million in spending for residents and businesses for the Cost of Living Offset, heating rebates, large emitters' rebates and grants, and rebates for electricity producers to mitigate the impact on the cost of living due to the carbon tax.

Expenditures

Mr. Speaker, we propose to spend \$1.896 billion in this Budget.

We mapped out the proposed budget starting with the blueprint of last year's budget. Departments worked hard to find \$15 million to reallocate. We also partnered with the federal government for \$29 million in new federal funding for some projects. This effort gives us the flexibility to fund \$94 million in additional spending.

We are investing \$39 million of this new spending in our public service to conclude the last collective bargaining agreements. The remainder of the additional funds are proposed to adjust department budgets to better match their spending needs, to deliver on partnership agreements with Canada and to add \$6 million in funds for initiatives started in the last Assembly.

Based on current fiscal forecasts we will set aside at least \$25 million over the term of this government to advance this Assembly's priorities. The proposed amount for 2020-21 will be submitted through a supplementary appropriation after the Main Estimates have been approved by the Assembly. We will be more collaborative and more strategic in how we approach delivering on our Mandate that comes from this Assembly's priorities.

Providing quality health care and social services that are comparable to what other Canadians receive will always be a key consideration in budget planning. The Department of Health and Social Services has a proposed budget of over half a billion dollars with \$18 million of enhancements and adjustments introduced this year. Budget 2020 includes \$10 million for supporting well-being through the recently amended Northern Wellness Agreement with the federal government. This means more health and wellness programming in our communities in collaboration with Indigenous Services Canada.

With the opening of the Stanton Territorial Hospital last year, we have created a facility that will serve us for many years and will be administered through an agreement with Boreal Health Partners. More functions are becoming operational, and Budget 2020 proposes adding \$2.6 million for a wide range of operations in ongoing funding. This funding will support 51 positions to help patients, including 15 behavioural health workers, nine positions in the medicine unit, five staff for processing medical devices, four positions in each of the emergency triage department and day procedures units, and three for rehabilitation services. Through partnership and collaboration with the federal government, we are leveraging our ability to provide health care and this Budget delivers \$2.1 million in spending over several areas of health. These include mental health and addictions, home and community care, cannabis awareness, emergency treatment, climate change and health adaptation, improving wellness and aftercare plans for cancer patients and survivors, supporting our participation in the Pan-Canadian Pharmaceutical Alliance, and enhanced seasonal flu monitoring.

There are infrastructure deficits across all of our communities. Infrastructure includes all of the physical structures needed to support our programs and services. Our hospitals and health facilities care for people to get back on their feet. Our schools provide the space for education received by our students. Our roads allow all residents and businesses the ability to grow our economy by moving goods and labour to where they are in demand, while also allowing ambulances and first responders quick access to emergencies. Transportation links us across this territory through a network of airports and runways of not only concrete but also ice on rivers and lakes. Our laboratories, warehouses, parks, fire monitoring stations and towers, and all other government buildings and assets are ultimately to support the health, safety and well-being of our people.

We have a rich, diverse and expansive terrain which creates a challenge for serving our many small communities. The territory continues to lag the rest of Canada in terms of infrastructure with the oldest average age in the country. By investing in the territory, infrastructure has the ability to lower the cost of living and develop the economy at the same time by creating multiple benefits across several sectors and departments to make the Northwest Territories a better place to live and work.

The Department of Infrastructure has a proposed budget of \$275 million, which includes \$10 million of new spending this year. As part of a larger strategy for care, 72 new long-term care beds at the old Stanton hospital will be supported with \$4 million of new funding. Proposed spending enhancements of \$2.2 million provide for operations of new buildings, including the new Stanton hospital, the Hay River fish plant, biomass heating plants in

schools in Hay River and Aklavik, and a laboratory and warehouse in Fort Simpson. Investment in the Inuvik-Tuktoyaktuk Highway has increased the use of the Dempster Highway, Kilometer 0 to 272 of Highway 8, and Budget 2020 proposes an enhancement of \$659,000 for ongoing upkeep to support people seeking adventure in our spectacular North. This Budget introduces a permafrost data management and analytical system for both highways through Transport Canada funding under the Northern Transportation Adaptation Initiative for \$390,000.

There is a proposed \$250,000 to support the Lafferty ferry over the Liard River and Ndulee ferry over the Mackenzie River. Resources from the federal government's Low Carbon Economy Leadership Fund to address climate change will allow us to allocate \$2.4 million in the Infrastructure budget, with \$300,000 put towards increased funding for the Arctic Energy Alliance and its programs which would bring its total funding to \$5.8 million. The remainder will go to approved projects that get underway this year.

Given the investment of previous assemblies, a proposed \$4.5 million is recommended for the Department of Finance for interest costs related to mainly short-term borrowing, which has advanced our ability to take advantage of cost-shared capital funding offered by the federal government to invest in the territory's infrastructure with favourable financing.

Finance, working with several other departments, is improving the way NWT residents and businesses can access government services through a better and expanded online portal that covers a range of departmental services. Budget 2020 proposes \$337,000 to complete the implementation of a single, secure online portal for existing services across various departments and to bring 40 more licences and permits to the platform.

The people of the Northwest Territories have a proud history as stewards of the land. We all share a responsibility to ensure our environment is healthy for present and future generations. Budget 2020 introduces additional funding of \$8 million for the Department of Environment and Natural Resources within a proposed budget of almost \$100 million. In an ongoing effort to establish protected areas, this Budget allocates \$175,000 of additional funding to monitor more candidate protected area sites. An additional \$2 million is proposed to support our forest fire suppression air tanker fleet to be better prepared for wildfire outbreaks. As part of the environmental assessment of the Inuvik-Tuktoyaktuk Highway, \$45,000 is proposed to fulfill commitments to support the wildlife monitoring program that will expand our understanding of the impact of roads on wildlife and can be applied to future projects.

Budget 2020 allocates Environment and Natural Resources with \$1.4 million for conservation and recovery of the Bathurst and Bluenose-East barren-ground caribou herds.

There is \$960,000 to support boreal caribou range planning in Budget 2020 under the Conservation Agreement with the federal government, with \$897,000 proposed under Environment and Natural Resources and \$63,000 under the Department of Lands. Budget 2020 also recommends \$3.5 million in funding for advancing activities under three

Challenge Nature Fund Agreements with the federal government, much of which is for the GNWT and indigenous governments to collaboratively establish, manage and monitor Thaidene Nënë and Ts'udé Niliné Tuyeta, which are new territorial protected areas and Dinàgà Wek'èhodì, which is currently a candidate protected area. These four-year agreements, with a total of \$11 million in federal funding, will also support the conservation economy and job creation in small communities.

Budget 2020 includes \$23 million for the Department of Lands for ongoing work to manage, administer and plan for the sustainable use of public land, fairly and transparently, to reflect the interests of our people now and for generations to come.

The Department of Justice delivers the Integrated Case Management program. ICM breaks down silos with project collaboration between Health and Social Services, Education, Culture and Employment, Northwest Territories Health and Social Services Authority staff, the Stanton hospital, and the NWT Housing Corporation. It is an example of government re-imagining existing resources to support better outcomes for people. It empowers them with knowledge and is an innovative solution that delivers results.

Most of the people accepted in the program have gone through a life-changing crisis before admission and 70 per cent of them live with mental health challenges. Many program participants are referred to the program to address housing needs, a foundational aspect of the program. More than half of them are experiencing homelessness or precarious housing. Pathfinders are the backbone of the program. They work alongside clients, help navigate systems, and even sit in on appointments between clients and government service providers. The outcomes for participants are tangible, such as secure housing, as well as the intangible, such as the self-confidence it gives participants who gain greater independence once they understand how to effectively access the supports they need. ICM is also tasked with identifying barriers that participants have faced so that departments can collaborate to remove those barriers for all service users. Budget 2020 allocates \$827,000 towards ongoing funding to make ICM a permanent program. The participating departments will move forward together to make the best use of the knowledge and experience about accessing government programs that is being gathered through this program.

Budget 2020 also proposes \$240,000 for the Victim Services Program that directs funds entirely to community-based organizations that provide victim support services.

A strong education system for all stages of childhood development is one of the cornerstones on which to build the future of the Northwest Territories. Budget 2020 proposes \$340 million in spending for the second largest department, Education, Culture and Employment. Budget 2020 continues to implement the Specialized Territorial Support Team for schools with \$319,000 in new funding for mental health and speech and language specialists, bringing the specialist team to five members. This Budget continues to improve the Northern curricula with \$129,000 of new funding to support resource development about Northern issues and to create assessment tools for credential recognition of this curricula beyond our borders for students applying for post-secondary opportunities, and

also to provide training for our teachers to deliver this material. Budget 2020 also proposes an ongoing funding increase for education authorities of \$269,000 for student transportation to catch up with actual expenditures.

Another successful and innovative program that is expanding is Northern Distance Learning. Funding of \$604,000 is proposed to bring Northern Distance Learning to five more schools and provide access to more students, as well as enhancements and funding for the equipment needed. Northern Distance Learning harnesses technology to improve student learning opportunities across all of our communities with videoconferencing and online tools linked to high schools in regional centres. The program is helping high school students achieve academic success without having to leave their home communities.

To support the processing of information requests related to Day School Settlement Records, \$129,000 is dedicated to a Student Records Coordinator. This coordinator will help former Day School students get the compensation to which they are entitled under the March 2019 class-action suit settlement with the federal government.

The GNWT is dedicated to creating a prosperous and sustainable Northern economy and the Department of Industry, Tourism and Investment has a proposed budget of \$60 million to that end. Spending proposed in Budget 2020 includes an increase of \$758,000. To promote economic growth, Budget 2020 is proposing \$250,000 to support implementing socioeconomic agreements that will facilitate mine developments in the Dehcho and Tłı̨chǫ regions. To promote economic diversity and nurture a growing tourism sector, \$176,000 is dedicated to support increased activity in the Beaufort-Delta region from Inuvik-Tuktoyaktuk Highway traffic and \$92,000 is dedicated to improving public safety along the Ingraham Trail for aurora viewing in North Slave parks.

The responsibility of Northern governance and decision-making often spans more than one department, and that includes offshore oil and gas negotiations. Budget 2020 puts forth \$825,000 to support resource management under the Pan-Territorial Vision for Sustainable Development, with \$705,000 allocated to the Department of the Executive and Indigenous Affairs, and \$60,000 for each of Environment and Natural Resources and Industry, Tourism and Investment.

The Northwest Territories Housing Corporation is proposing a total operating budget of \$109.2 million in 2020-21 to support the Corporation's mandate, which includes \$4.2 million of additional spending to promote housing partnerships, homeownership and the preservation of the public housing program.

During the term of the 19th Assembly, the NWT HC will continue to work with thirty-three communities toward the development of Community Housing Plans that include local and community-based strategies and solutions to guide the adaptation of existing housing, and the development of future housing in each community.

Further, the NWT HC will work with people currently in Public Housing who may have the resources to become homeowners through the New Home Program and through the sale of public housing. We will also address housing affordability through the Canada Housing

Benefit, a new national portable housing benefit program designed to address housing affordability.

We recognize the need for an increased supply of affordable housing in the territory. To move forward we look to housing partnership programming such as the Community Housing Support Initiative that will support local and Indigenous governments and community partners in developing unique housing approaches. Additional opportunities can be found in the National Housing Co-Investment Fund, with a \$60 million allocation for NWT housing projects.

Recognizing the great need of people who are experiencing or at risk of homelessness, we are developing the GNWT Homelessness Strategy to ensure that GNWT investments in, and actions on, homelessness are aligned, consistent and effective.

Next Steps

Having set a foundation for government operations, I would like to say a few words about our immediate next steps.

The next task is to review and analyze how we use this \$1.9 billion budget not only to deliver good governance day-to-day but also to advance initiatives in support of the 19th Assembly's priorities. To do this, we will take a "whole of government" approach and try to avoid pitting one set of needs against another. We must find ways to advance all of our priorities, recognizing that different regions, communities, and people within those communities will have different needs. Recognizing and balancing the many needs of a diverse society is one of the roles of government. It is a challenge but also an opportunity to showcase consensus government by working with all Members of this Assembly.

We will also be working on a more consistent approach to evaluate programs and services. All departments will be involved in performance measure development and monitoring to ensure we are getting optimal returns on our investments.

We expect that a more systematic approach should help achieve more value from our expenditures and improve evaluation of our service levels.

Last, but far from least, we will change the way that the government does business.

There will always be risk in the world. Our government recognizes that there are risks around us and challenges ahead. We acknowledge that our economy has slowed, our fiscal resources are limited, and much of our physical and technological infrastructure still needs to catch up to the rest of Canada. National and international conditions are continuously changing. However, having acknowledged those risks and challenges, we believe that changing our approach to how to deliver government services will help us prepare for whatever new challenges the future may bring.

We will not be afraid to take risks because risk is where the opportunities arise. We will not be stalled in fear that decisions, proposals, solutions, or new programs may not deliver as hoped. We will have the courage to start taking measured risks with incremental evaluation of our efforts. We will remain engaged with our residents in order to be responsive and proactive. To achieve this goal may require a cultural shift to harness the ingenuity of our public service and our communities.

We will build a culture of creativity and innovation within our administration, our public service and, hopefully, across the Northwest Territories. This does not require millions of dollars of new investment, but it will take relationships built on trust, communication and respect. Fortunately, we start in a position of strength given the good work done day in and day out by our public service. This culture shift will also need to start from the top with each of us in Cabinet and in the 19th Assembly leading with integrity and courage and solving problems creatively and collaboratively.

My commitment to this Assembly was a commitment to people, building relationships, and understanding the stories of others. I have learned that the budget process is a year-long endeavour and with the shift to four-year business plans it will be important to hear from different perspectives throughout our term.

While the message in Budget 2020 is largely one of stability, that is not the message of the 19th Assembly. The message from this Assembly is found in its priorities and we will take measurable actions using a collaborative approach to achieve our Mandate. This Assembly is one that listens to each other and its constituents and will reach out to stakeholders for feedback. We may have differences of opinion, but these conversations are the true strength of our consensus government.

Through collaboration, we will achieve more creative problem solving. With more creative problem solving, we can achieve more responsive and effective results. Establishing performance measures helps evaluate the success of our work so that our resources are used effectively. Making this approach the way we do business and govern will show the world that the Northwest Territories is a premier destination to live with a positive economic future, strong educational opportunities for our children, quality health care, a respectful approach to honouring our lands, water and wildlife, and collaborative relationships with Indigenous governments based in our commitment to reconciliation.

Thank you, Mr. Speaker.

Budget Papers

2020-2021

Northwest Territories

A ◆ Economic Review

B ◆ Fiscal Review

February 25, 2020

ECONOMIC REVIEW

One of the main priorities of the 2020-21 Budget is to ensure that the expenditure of public funds maximizes economic benefits to Northerners and supports northern business. Achieving this priority requires measuring the performance of the economy over time. The *Macroeconomic Policy Framework* was established in 2007 to measure the progress towards a strong and diversified economy.

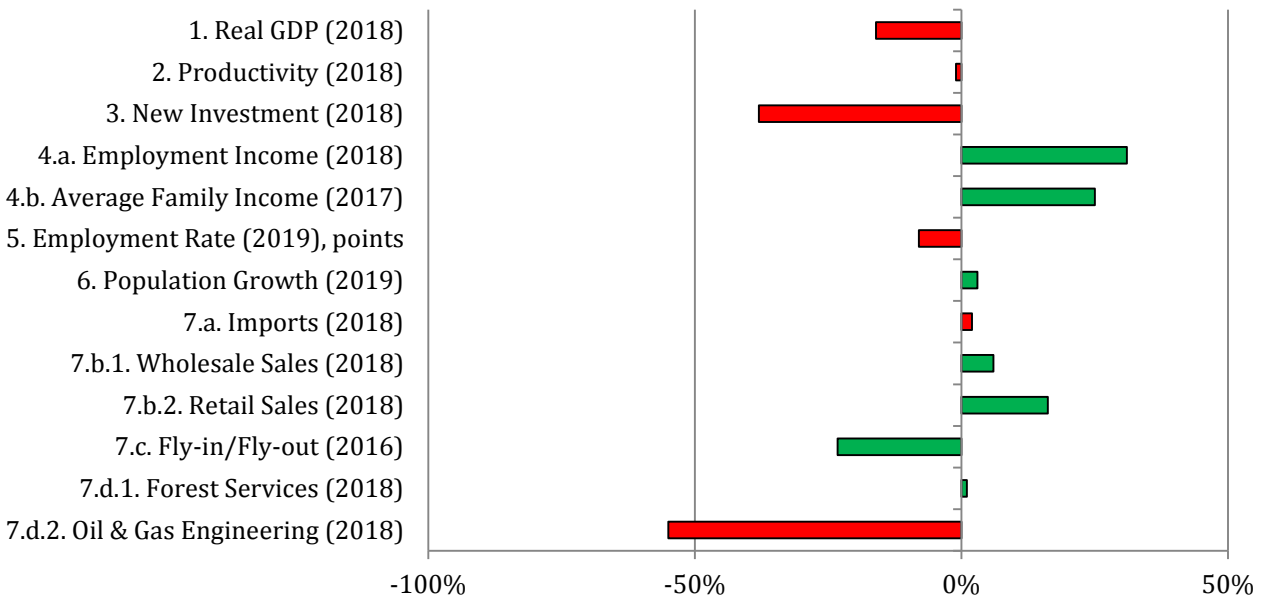
The following performance indicators show how far we have come since the heady times in 2007 when diamond mining was well underway and large capital investments in project expansions were proceeding. Circumstances have changed and the medium and longer term NWT economic outlook is concerning. Low resource prices and global financial and economic uncertainty have made it very difficult for resource companies to obtain financing. The resulting lower economic activity, and the need for new developments to replace the diamond mines that are nearing the end of their lives, have made GNWT investments in the economy even more urgent. Devolution of responsibility for management of NWT public land, water, and non-renewable resources from the federal government to the GNWT on April 1, 2014 also places more importance on co-ordinated decisions based on validated economic information.

Some circumstances remain the same. The NWT private sector economy remains a narrowly-based non-renewable resource export economy subject to global business cycles. The GNWT's tax base is limited by the small number of tax payers and the size of the economy. Formula-based federal transfers remain the majority of GNWT revenues. The high cost of goods and services in the NWT and the lack of economies of scale make government programs and services expensive to deliver and businesses expensive to compete. Finally, the need for a transparent and orderly decision-making process remains unchanged.

The *Macroeconomic Policy Framework* performance indicators measure the change in the performance of the NWT economy over time by comparing current indicators to their 2007 baseline values. These indicators were designed to capture broad measures of economic wellbeing and provide an indication of the effectiveness of the GNWT's investments to grow and diversify the economy.

Six of the 13 indicators have moved in a positive direction, but the key drivers of increased GDP, productivity and new investment, are in negative territory and continue to hold back economic growth. In the following figure, the indicators with red bars show the percentage decrease in their values and the indicators with green bars show the percentage increase in their values since the baseline year. All performance indicators reflect the most current data available.

Macroeconomic Policy Framework Performance Indicators



Source: Statistics Canada, NWT Bureau of Statistics, and NWT Finance

Two contributing factors to the low level of resiliency are the economic dependence on the extractive (mainly diamonds) resource industry, and the openness of the NWT economy, with people and capital free to move to more favourable provinces when faced with economic challenges at home. The challenge for the GNWT is to identify and advance investment opportunities that will generate sustainable benefits in the context of the global economic environment in which NWT businesses compete.

RECENT ECONOMIC PERFORMANCE

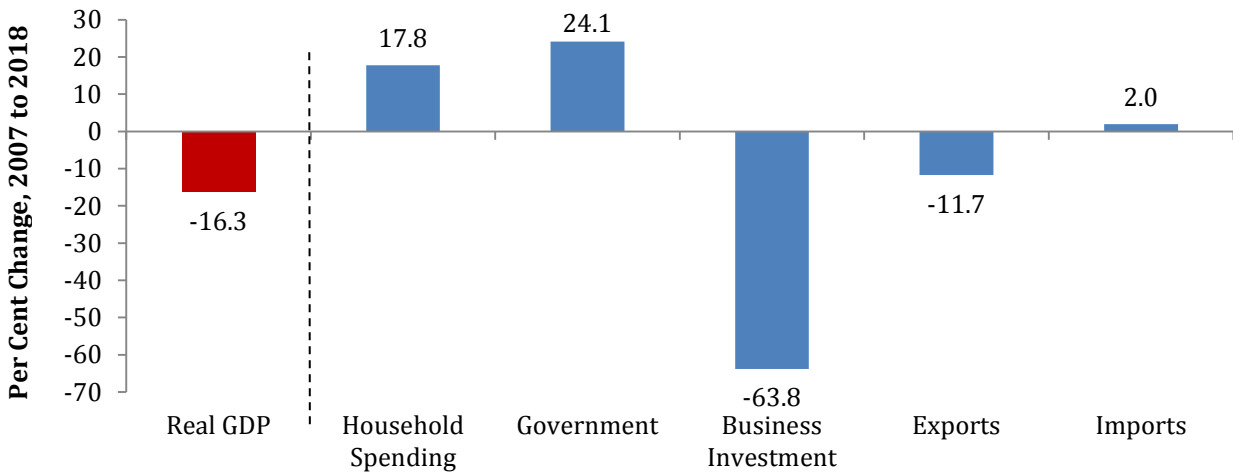
This section uses the 13 performance indicators identified in the *Macroeconomic Policy Framework* to analyze and assess both the progress and recent performance of the NWT economy.

The Size and Growth of the Total Economy – *Real GDP*

The NWT economy remains 16.3 per cent smaller than it was in 2007, before the global financial crisis occurred. This is reflected by the fact that real business investment remains nearly 64 per cent below 2007 levels, and real exports are almost 12 per cent lower. Without gains in government and household spending, the NWT economy would be even smaller.

The economy in 2007 was particularly strong in the NWT – diamond mines were producing higher quality diamonds, commodity prices for NWT exports were strong, and mine construction was underway. Returning to this level of economic activity may not be possible, although it is important to note that all other provinces and territories except the NWT have regained their losses from the Great Recession.

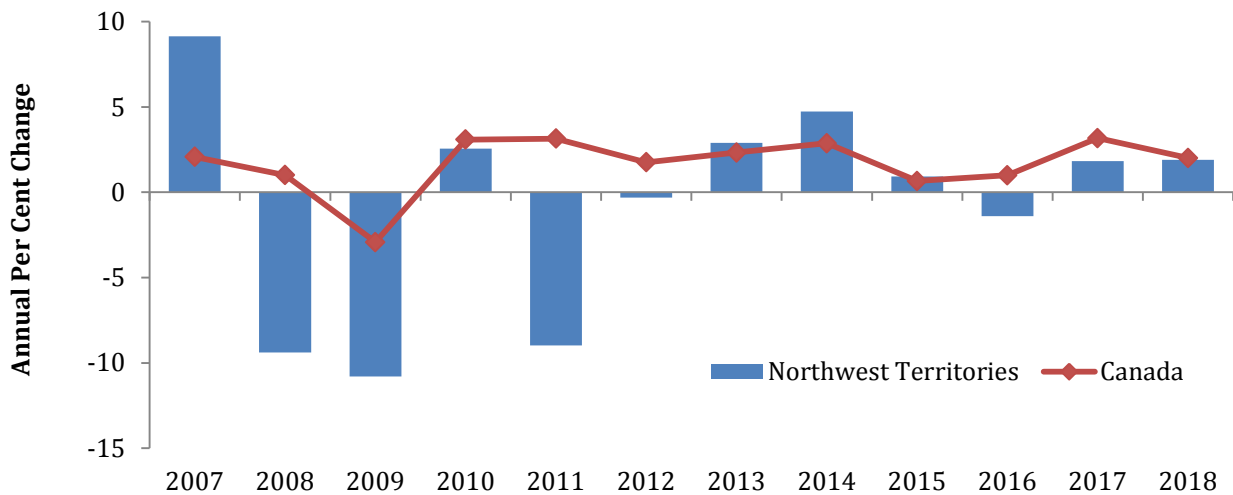
The NWT Economy Remains Smaller than it was Before the Great Recession



Note: Pre-recession peak is 2007.
 Source: NWT Bureau of Statistics and NWT Finance

Although the NWT economy is smaller than it was in 2007, the economy did grow in 2018, retaining the gains it had made in 2017. Following two consecutive years of weak growth, real GDP increased 1.8 per cent from 2016 to 2017 and 1.9 per cent from 2017 to 2018.

Real GDP Growth - NWT and Canada



Source: NWT Bureau of Statistics, Bank of Canada and NWT Finance

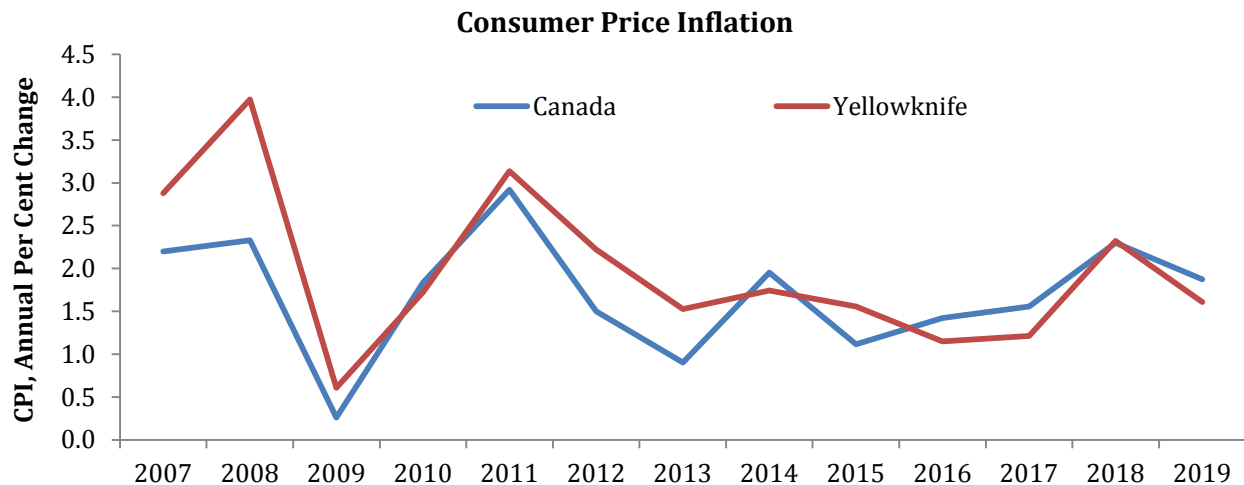
This modest growth reflects gains in real exports, driven by increased diamond production from the Gahcho Kué diamond mine, as well as improvement in household spending and government capital investments. In addition, petroleum production has resumed in the Norman Wells region following the completion of pipeline remediation in late 2018. All of these factors helped improve economic output of the territory, and unlike in previous years, economic growth in the NWT outpaced economic growth in Canada as a whole.

Productivity – *Labour Productivity*

Productivity is a key performance benchmark for government and economic health. Labour productivity, the most common measure of productivity, measures the efficiency with which labour is used to produce goods and services. In 2018, NWT labour productivity was one per cent lower than it was in 2007. This is worrying because rising productivity is related to increased profitability, sustained competitiveness, and important, lower costs.

Consumer costs, which contribute to the cost of living, are high in the NWT relative to other jurisdictions. Issues of remoteness, climate, and a sparsely populated large territory mean that NWT residents and businesses often pay more for goods and services than in neighbouring provinces. For this reason, inflation (an increase in the overall price level, resulting in reduced purchasing power) is of particular concern to NWT residents.

The Yellowknife Consumer Price Index (CPI) increased 1.6 per cent from 2018 to 2019. This was a slightly lower increase compared to the Canadian CPI which rose 1.9 per cent over the same period. In Yellowknife, the largest jumps in consumer price categories were in food, which rose 2.5 per cent, and in transportation, which rose 2.1 per cent.

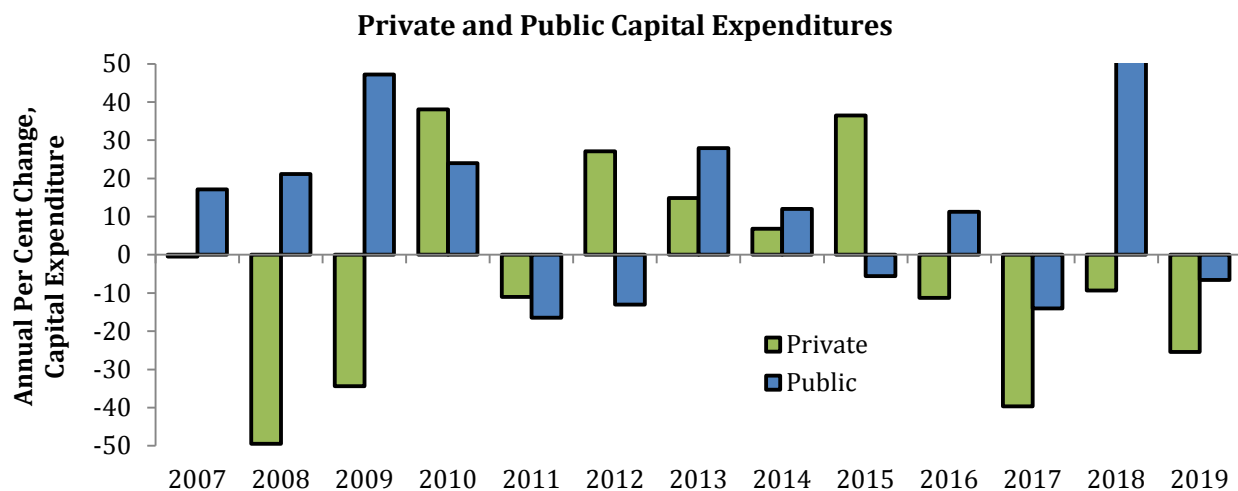


Source: Statistics Canada

New Investment – *Capital Expenditures*

New investment is a leading indicator of economic growth that measures how well the economy can be expected to perform in the future. New investment was roughly 38 per cent lower in 2018 than it was in 2007, and new business investment (the portion of investment made by the private sector) was 56 per cent lower. Continuing this trend, capital expenditures on new investments by both the public and private sectors are estimated to have declined in 2019 compared to 2018.

Total capital expenditures in 2019 are expected to be \$820 million, a 16.7 per cent decrease over 2018 capital expenditures. This represents the fourth consecutive year of decline in private capital expenditures and a slight decline in public capital spending following very strong growth in 2018. Mining capital investment peaked in 2015 with the construction of the Gahcho Kué diamond mine has gradually declined once the mine was completed and became operational.



Public sector capital expenditures are expected to fall by 6.6 per cent in 2019, declining from \$459 million in 2018 to an estimated \$429 million in 2019. The decline in public sector investment reflects completion of the Inuvik-Tuktoyaktuk Highway and Stanton Territorial Hospital, as well as the end of \$96 million in federal and GNWT spent on upgrading NWT transportation and community infrastructure in 2018.

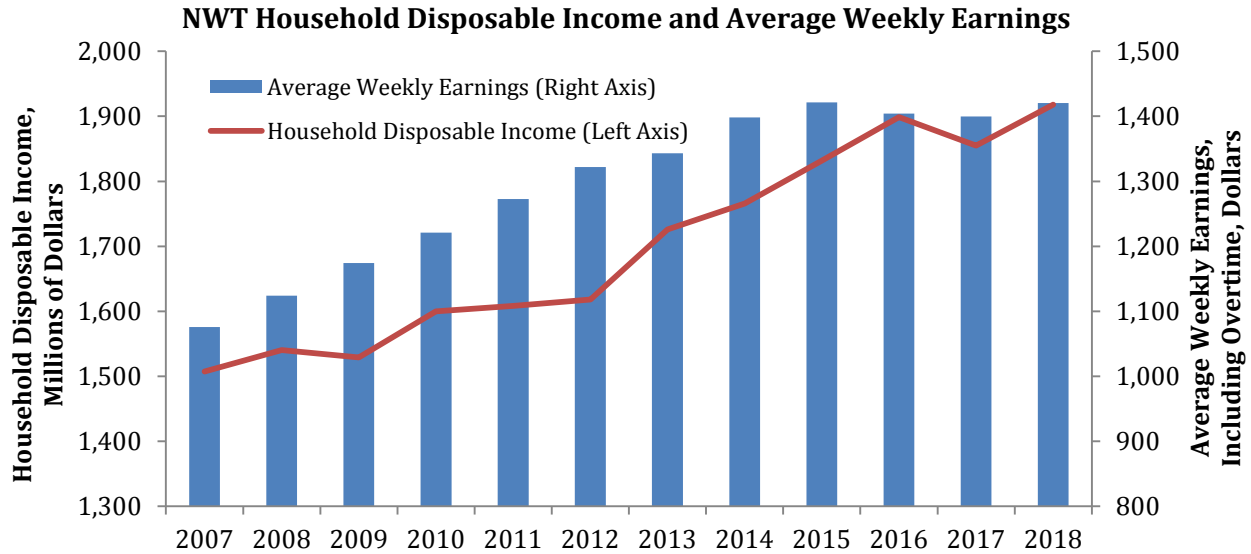
Private sector capital expenditures decreased by 25.5 per cent in 2019, falling from \$525 million in 2018 to just \$391 million in 2019. Private investment is driven largely by the resource sector. During the most recent investment cycle, total investment by the mining and oil and gas extraction industry peaked at \$937 million in 2015 when the Gahcho Kué diamond mine was being built and has fallen to \$201 million in 2019. No new private sector investment projects of similar magnitude have been announced.

Income – Employment Income

Overall employment income provides information on changes in the economy as they impact specific communities in the NWT. Employment income is the largest component of household income from all sources, and indicates how well workers and employees are benefitting from economic growth.

In 2018, overall employment income was 31 per cent higher than it was in 2007 – one of the few *Macroeconomic Policy Framework* performance indicators to have improved! Employment income rose 3.2 per cent between 2017 and 2018 to over \$2.0 billion for all resident households combined. This represented 65 per cent of total household income from all sources, and helped support consumer spending and government tax revenues.

Similar to employment income, personal disposable income is an indication of how well employees are benefitting from economic growth. Personal disposable income is the after-tax income earned by households from all income sources. It supports consumer expenditures, which account for almost a third of the territory's GDP. NWT disposable income grew 3.4 per cent from 2017 to 2018 to \$1.9 billion. This helped strengthen household consumer spending, which in turn contributed to NWT economic growth.



Source: NWT Bureau of Statistics and Statistics Canada

Average weekly earnings, including overtime, also improved in 2018, increasing 1.5 per cent from \$1,400 in 2017 to \$1,420 in 2018. Wages and salaries earned by employees in the NWT are the highest in the country and well above the national average. The Canadian average weekly earnings, including overtime, was just \$1,001 in 2018, nearly a third lower than the NWT average.

Income – Average Household Income

Average household income provides information about the quality of jobs of NWT residents and how much they are benefiting from economic growth. According to the 2019 NWT Survey of Community Statistics, annual average family income was 25 per cent higher than it was in 2007, rising 2.4 per cent from \$130,934 in 2016 to \$134,000 in 2017. In 2017 there were 11,420 families in the NWT, according to annual tax data, 23.7 per cent of which were lone-parent families. This is a slight decrease from a decade ago when 24.5 per cent of families were lone-parent.

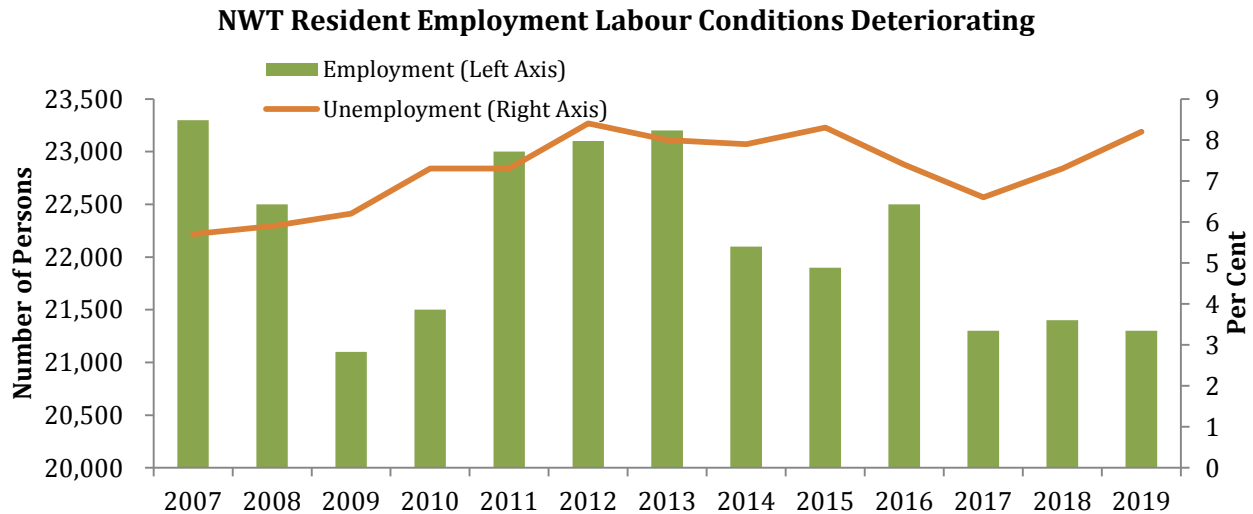
Economic Participation – Employment Rate

The ability of NWT residents to actively participate in economic growth is key to an equitable and balanced economy. The employment rate measures the share of the working age population that is employed, and provides insight into the NWT population's ability to take part in the market economy, and to benefit from the production of goods and services. The employment rate also provides some insight into the benefits for communities without mines.

In 2019, the NWT employment rate was 66.0 per cent, eight percentage points lower than it was in 2007. A lower employment rate is concerning, as it means fewer working age residents are able to find work. Despite this decline, the NWT continues to have one of the highest employment rates in the country.

In 2019, NWT resident employment was estimated at 21,300, a decrease of 100 persons from 2018 and 2,000 persons below the 2007 pre-recession high. The unemployment rate also worsened in

2019, rising from 7.3 per cent in 2018 to 8.2 per cent in 2019. The size of the NWT labour force shrunk from 23,200 persons in 2018 to 23,100 persons in 2019.

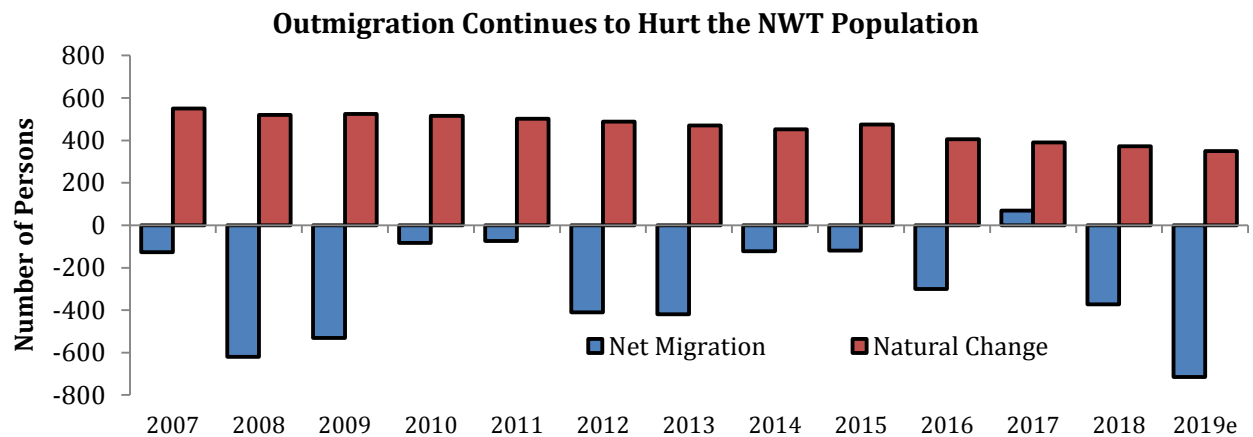


Source: NWT Bureau of Statistics and Statistics Canada

Population Growth – *Population*

People migrate to the NWT when the economy is doing well. The population grows in response to economic growth and provides a base for further growth through diversification.

Population growth is a strong indicator of economic health. By providing labour for NWT businesses, demand for local goods and services, and personal income and consumption taxes, population growth helps support economic activity and sustainable government revenues. The NWT’s population has been relatively stable over the past decade. In 2019, the NWT population was estimated to be 44,826 people, a decrease of 130 persons compared to 2018.



e: estimate

Source: NWT Bureau of Statistics

The population decrease last year was entirely due to outmigration. Between July 1, 2018 and July 1, 2019 interprovincial migration resulted in a net loss of 598 persons, as 1,701 persons moved into the NWT from the rest of Canada and 2,299 persons moved away. This net loss to the rest of Canada was only partially offset by a net natural increase of 345 persons (595 births minus 250 deaths), net international in-migration of 137 persons.

Strength of Economic Linkages – Imports

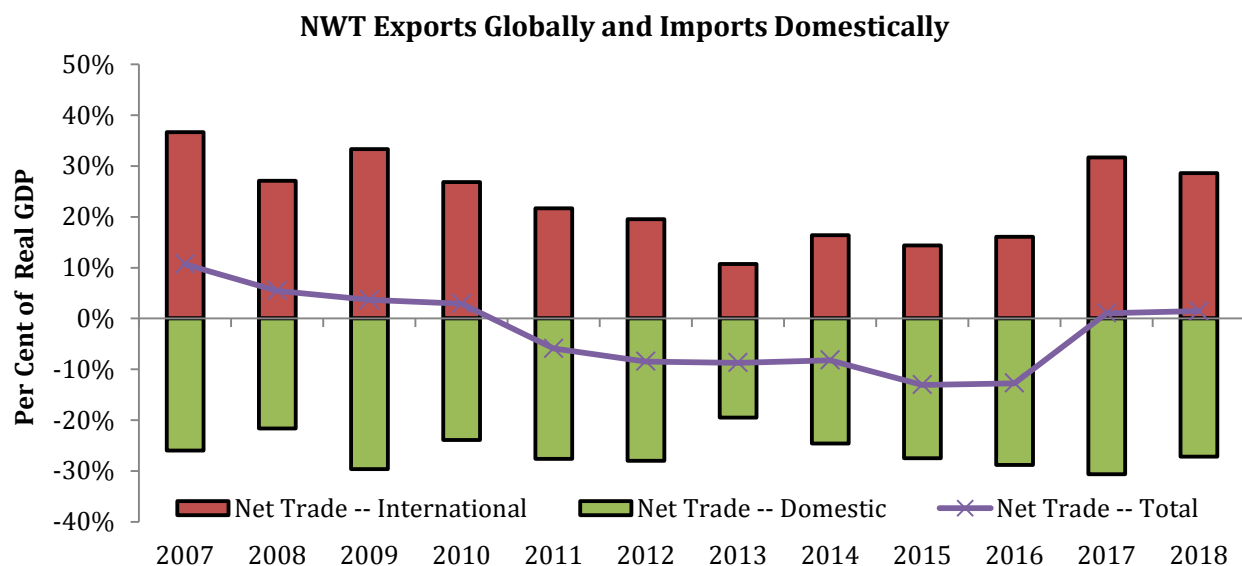
Economic linkages are the interconnections and interdependencies of industries within the NWT economy. Developing links between markets, regions, countries, and sectors is crucial to developing a diversified and balanced NWT domestic economy.

The small, open NWT economy depends on trade with other jurisdictions. The NWT exports natural resources (mainly diamonds) to global markets, and imports goods and services from southern Canada to support industry and personal consumption. As a result, the NWT has a trade surplus with other countries, but a trade deficit with the rest of Canada.

The NWT trade surplus with other countries decreased from 32 per cent of real (inflation-adjusted) GDP in 2017 to 29 per cent in 2018. This slight deterioration was attributed to a 9.0 per cent rise in the real value of imports from other countries, while the real value of exports to other countries remained flat from 2017 to 2018. Diamonds represent 98 per cent of the value of all exports flowing from the NWT to global markets.

The NWT trade deficit with the rest of Canada improved to 27 per cent of real GDP in 2018 due to a 4.6 per cent rise in the real value of exports to other provinces and a corresponding 4.5 per cent decline in the real value of imports.

Compared to 2007, the real value of imports into the territory has increased by 2.0 per cent, while the real value of NWT exports has increased just 0.8 per cent.



Source: Statistics Canada and NWT Finance

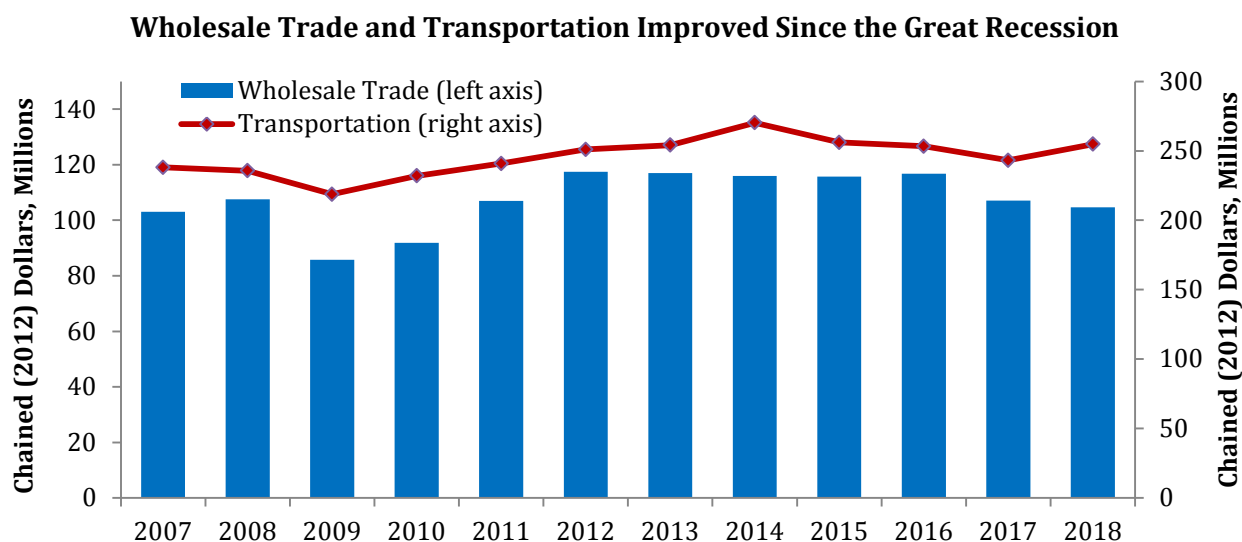
Strength of Economic Linkages – Wholesale Trade

Developing linkages between different industries in the NWT encourages economic growth. Wholesale trade sales are an indicator of linkages at the production level, where producers purchase inputs from NWT suppliers or where they purchase post-production services such as transportation and communications services from NWT companies.

Nominal wholesale trade has fluctuated around \$670 million over the past several years. In 2018, nominal wholesale trade sales were \$689 million, a six per cent increase from both 2017 and 2007. This makes wholesale trade one of the few performance indicators identified in the *Macroeconomic Policy Framework* to have improved.

In real, inflation-adjusted terms however, the value of NWT real wholesale trade fell in 2018, declining 2.2 per cent from \$107 million in 2017 to \$105 million in 2018. Machinery, equipment and supplies made up one quarter, or \$26 million, of real wholesale trade in the NWT that year.

Transportation and warehousing is also crucial for facilitating trade and linkages within the NWT is closely linked to wholesale trade; this industry quite literally ensures goods and services get to where they need to go. In 2018, transportation and warehousing made up seven per cent of the territory’s real economic output, increasing 4.8 per cent from \$243 million in 2017 to \$255 million in 2018.



Source: Statistics Canada and NWT Finance.

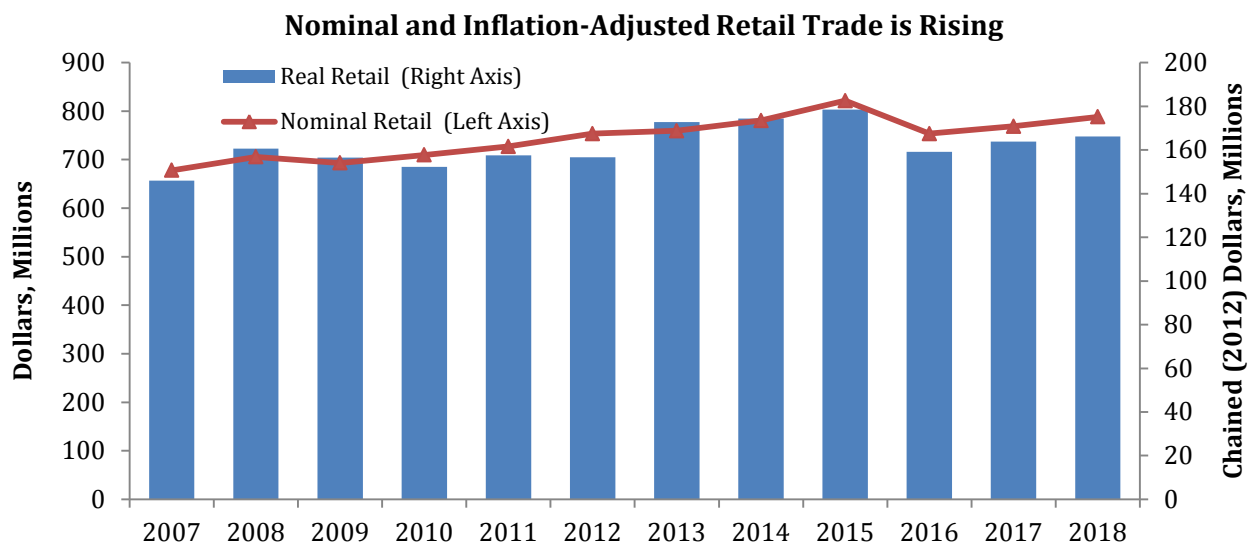
The transportation and warehousing industry in the NWT is driven by air travel. In 2018, the real value of air transportation was \$132 million, more than half the total real value of the transportation and warehousing industry; truck transportation was \$35 million, representing just 13 per cent. Warehousing plays a very minor role in the NWT. In 2018, the real value of warehousing and storage was just \$5.2 million, contributing just two per cent to the transportation and warehousing industry.

Strength of Economic Linkages – Retail Trade

Retail sales are an indicator of final demand linkages that support higher construction and transportation activity and create opportunities for increased retail business. Together with wholesale trade, retail sales contribute to domestic trade within the NWT by facilitating the exchange of goods and services. This makes retail sales, and domestic trade more broadly, key to the health of the economy.

Nominal retail trade sales have increased in ten of the last 12 years. In 2018, nominal retail sales increased rose 2.5 per cent from \$769 million in 2017 to \$788 million. This puts nominal retail trade 16.2 per cent higher than it was in 2007, one of the best performing *Macroeconomic Policy Framework* performance indicators. Increased nominal retail and wholesale trade indicate that progress is positive in developing domestic trade and key economic linkages in the NWT.

Inflation-adjusted retail trade also performed well last year. The value of NWT real retail trade increased 1.5 per cent from \$164 million in 2017 to \$166 million in 2018, close to the annual increase in nominal retail sales. Roughly half of real retail trade in the NWT is on vehicles and food. In 2018, the real value of motor vehicle and parts sales was \$44 million, while the real value of food and beverage stores sales was \$40 million.

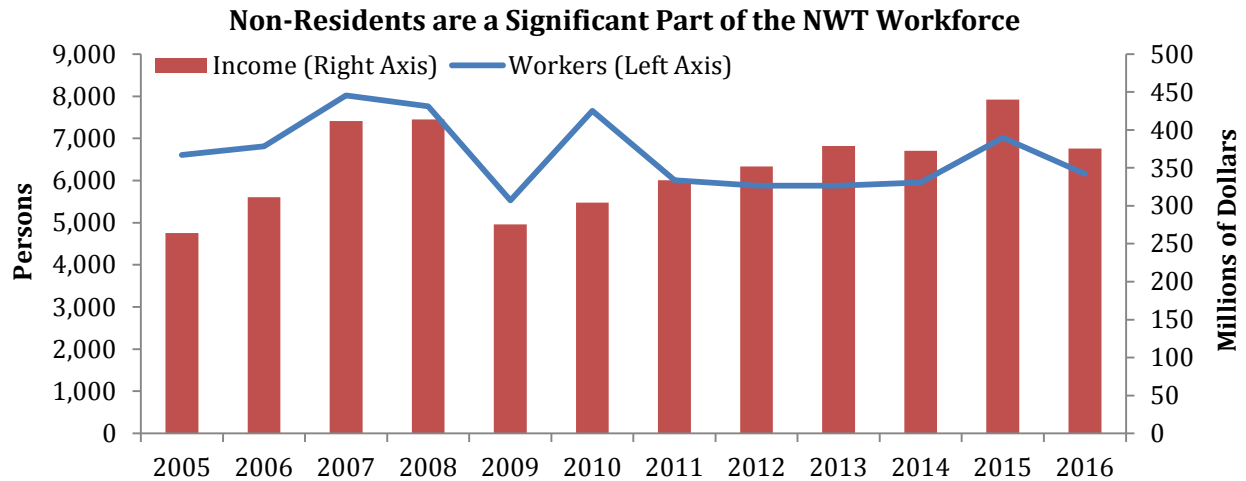


Source: Statistics Canada and NWT Bureau of Statistics.

Strength of Economic Linkages – Fly-in/Fly-out, Non-Resident Workers

The NWT is characterized by a significant non-resident work force. This is largely due to the small size of the NWT population and reflects the employment needs of the NWT economy that cannot be met by the domestic workforce, most commonly in the NWT's mining industry.

Between 2002 and 2016, non-resident workers accounted for about one-third of the NWT workforce, which represented around one-fifth cent of all employment income generated in the territory.



Source: Statistics Canada and NWT Finance

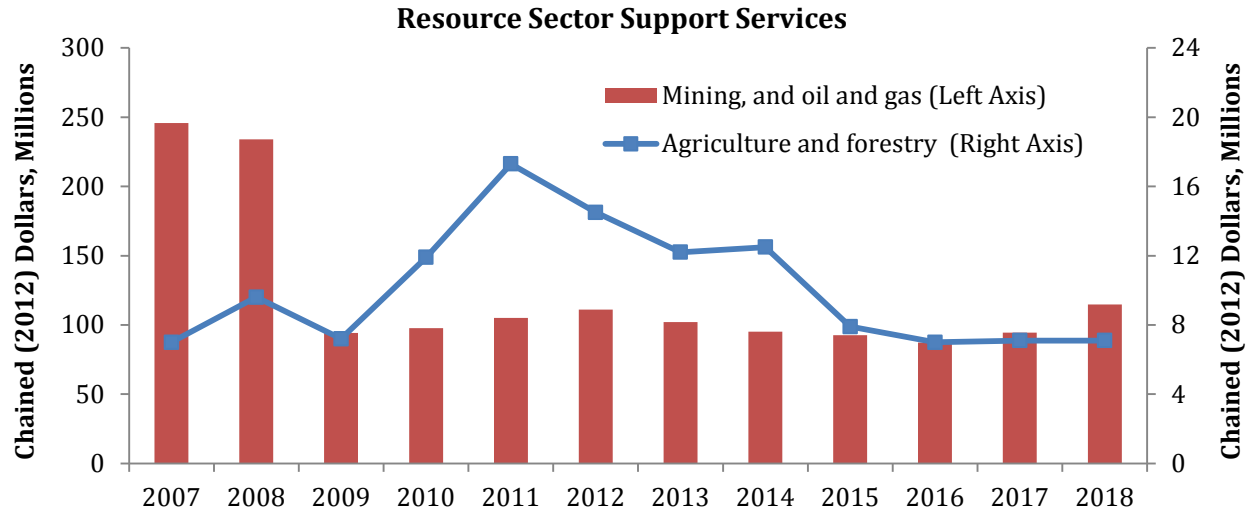
Each year 5,500 to 8,500 non-residents fill jobs in the NWT. These jobs include seasonal, rotational, temporary and special projects that fill gaps that are not met by the resident workforce. Total aggregate earnings paid to non-resident workers from these jobs ranged from \$178 million and \$439 million between 2002 and 2016. This is approximately 20 per cent of all employment income generated in the NWT and represents lost income that could have been spent in the NWT economy.

Non-resident workers provide skills needed by NWT businesses but this reliance on out-of-territory workers means lost NWT business from consumer spending and lost revenue for the GNWT.

Policies aimed at addressing population growth and the issue of fly-in/fly-out workers must consider the reasons why people move to, and leave, the NWT. The greatest contributor to strong population growth is in-migration caused by better job opportunities in the NWT compared to the rest of Canada; or, in other words, when the NWT economy is doing well and provincial economies are not. Because the NWT is competing for skilled labour, NWT population growth strategies will depend on the ability to quickly respond to changing economic conditions in other regions in order to shift recruitment opportunities to where the NWT has a comparative advantage. These strategies include GNWT recruitment and retention strategies, and Socio-Economic Agreements, which formalize commitments made by large companies with respect to employment, training and business opportunities for NWT residents. The GNWT is also committed to addressing the other underlying factors contributing to non-resident workers, in particular, the high cost of living.

Strength of Economic Linkages – Resource Sector Support Services

Industries that provide services and support to the natural resource sector are key drivers of growth and diversification in the NWT economy. They provide specialized services for both the renewable and non-renewable resource sectors of the NWT – namely forestry, mining, oil and gas. Due to the NWT’s heavy reliance on diamond mining, economic linkages with this industry are arguably more important than any other, and so support services, such as taking core samples and making geological observations at prospective sites, are indicative of the industry’s health and robustness.



Source: Statistics Canada and NWT Finance

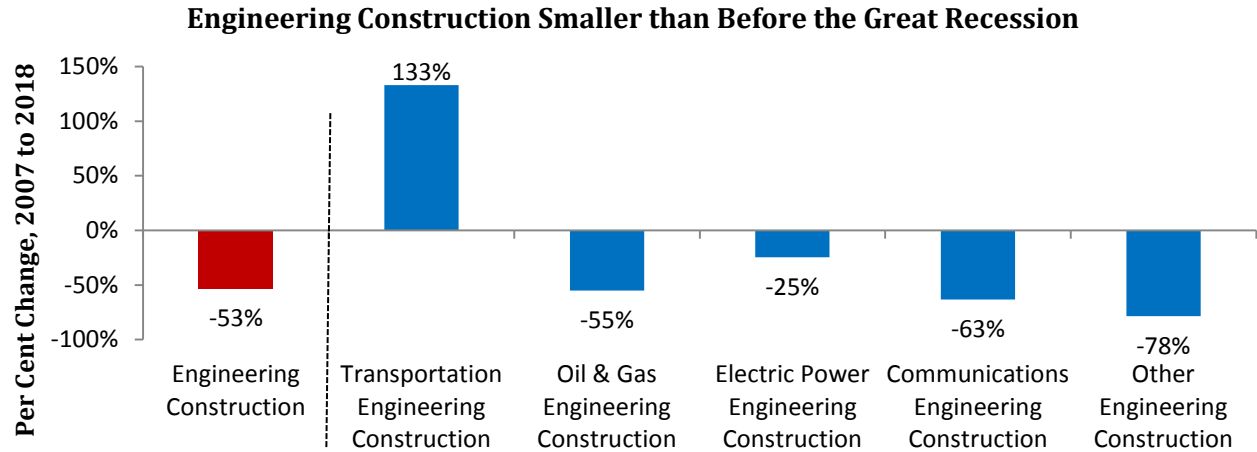
In 2018, the real value of mining sector support services was \$106 million, a 22.5 per cent increase over the previous year. By contrast, the real value of oil and gas support services was just \$4.1 million in 2018, unchanged from 2017. Taken together, the real value of support services to the non-renewable extractive resource sector (mining, oil and gas) increased 21.7 per cent from \$94.4 million in 2017 to \$114.9 million in 2018, although it remains 53 per cent below what it was in 2007.

The real value of support services for renewable resource industries rose 1.4 per cent between 2007 and 2018 to \$7.1 million. These support services include activities such as harvesting timber and growing crops. The farming and forestry sector is tiny – accounting for less than one per cent of NWT real GDP – and is promoted as a growth sector that will support food security and sustainable economic diversity.

Strength of Economic Linkages – *Engineering Construction*

Engineering construction is also crucial in completing the linkages of the natural resources sector. For example, oil and gas engineering construction -- which includes the creation, maintenance, and repair of oil and gas lines, mains, refineries, storage tanks, and structures -- is essential to oil and gas networks, and helps support the overall oil and gas sector. Although the oil and gas sector currently contributes less than one per cent of real GDP, it used to comprise nearly one fifth of the economy, and so for this reason, the *Macroeconomic Policy Framework* includes oil and gas engineering construction as an indicator of progress.

In 2018, the real value of oil and gas engineering construction more than doubled, rising from \$17 million in 2017 to \$41 million, largely due to the completion of work by Enbridge on the Norman Wells Pipeline. However, real oil and gas engineering construction remains 55 per cent below what it was in 2007, making it the worst performing indicator of progress in the *Macroeconomic Policy Framework*. This is also true for engineering construction overall. Compared to 2007, the real value of engineering construction for all industries – mining, communications, transportation, electric power, as well as oil and gas – declined 53 per cent.

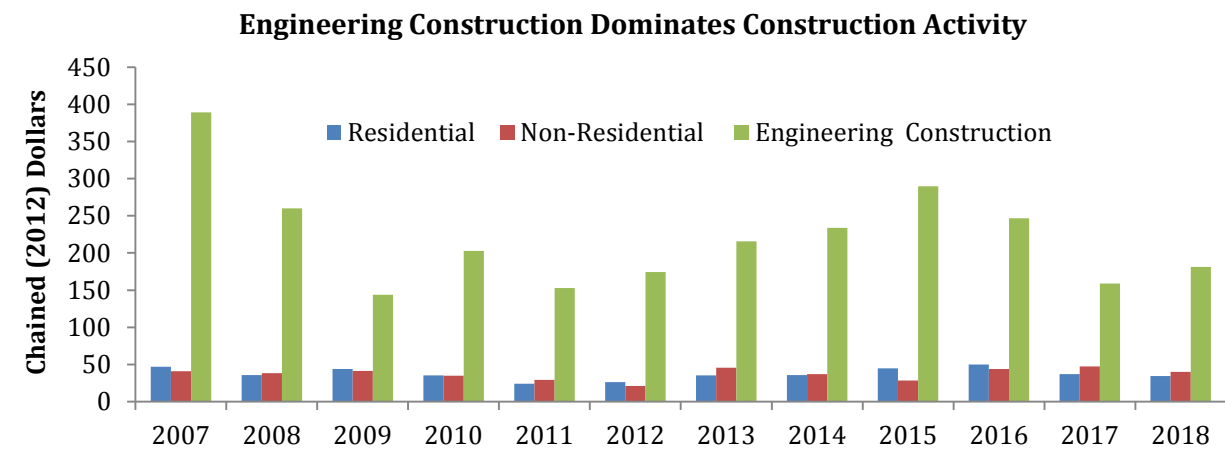


Source: Statistics Canada, NWT Finance

Due to the heavy reliance on the extractive resource sector, the NWT is unique in the size of its engineering construction industry; it accounts for half of all construction activity in the territory.

The construction sector includes residential construction, non-residential construction, and engineering services, as well as repair construction and support activities. Unlike many other jurisdictions, residential construction makes up only a small portion of the value of NWT construction activity, accounting for just 9.5 per cent of real construction expenditure in 2018. In other Canadian provinces and territories residential construction comprises, on average, over one-third of inflation-adjusted construction expenditures in 2018.

Overall construction activity declined 3.2 per cent from 2017 to 2018, and remains at cyclical low levels. Engineering construction, rose 14.1 per cent in 2018 over 2017, following a significant decline as construction on several large infrastructure projects was completed in 2017, including work on the Gahcho Kué diamond mine (cost \$1 billion), the Inuvik-Tuktoyaktuk Highway (cost \$300 million), and Mackenzie Valley Fibre Link (cost \$91 million). Completion of work on the Stanton Territorial Hospital (cost \$350 million) helped lower real non-residential construction expenditures by 16.0 per cent in from 2017 to 2018, while residential construction decreased by 6.8 per cent.



Source: Statistics Canada

Diversification – Real GDP by Industry

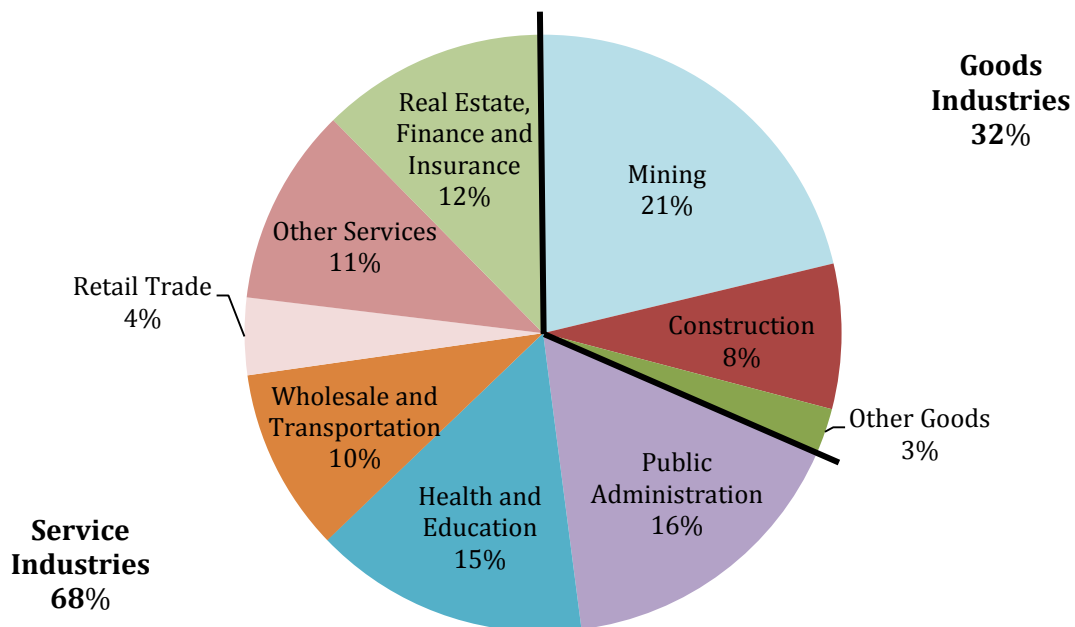
Economic diversity provides more stable and balanced growth by spreading risk more evenly across a number of sectors, making the economy more resilient to business cycles and external shocks. Diversification acts as insurance that reduces the sensitivity of the economy to the ups and downs associated with any single industry, market, or region. For example, more diversified economies experience lower unemployment during cyclical economic downturns (recessions) than do economies which are heavily concentrated in a single industry or sector.

Diversification of the economy across sectors is an important area of economic health that the *Macroeconomic Policy Framework* meant to monitor. However the development of a single performance indicator capable of capturing economic diversification for a such a small, resource-dependent economy is ongoing, and for this reason diversification does not show up in the table of NWT indicators of progress, though it may in future.

The NWT economy relies heavily on the extractive, non-renewable resource sector, especially the diamond mining industry. In 2018, the mining, oil, and gas extraction sector accounted for over a fifth of NWT GDP. While the share of the economy directly generated by the mining, oil and gas sector has declined from 40 per cent in 2007, it remains the most dominant sector in the NWT economy, demonstrating a lack of diversity in the economy.

The goods-producing sector accounted for 32 per cent of NWT GDP in 2018. Resource extraction industries dominate this sector, although the share has declined over the past several years. Construction is the second biggest industry in the goods-producing sector, accounting for 8 per cent

Mining Dominates the NWT Economy, 2018



Source: Statistics Canada and NWT Finance

of NWT GDP in 2018. The remainder of the goods-producing sector accounted for just 2 per cent of GDP and was comprised of renewable resources, utilities, and manufacturing industries.

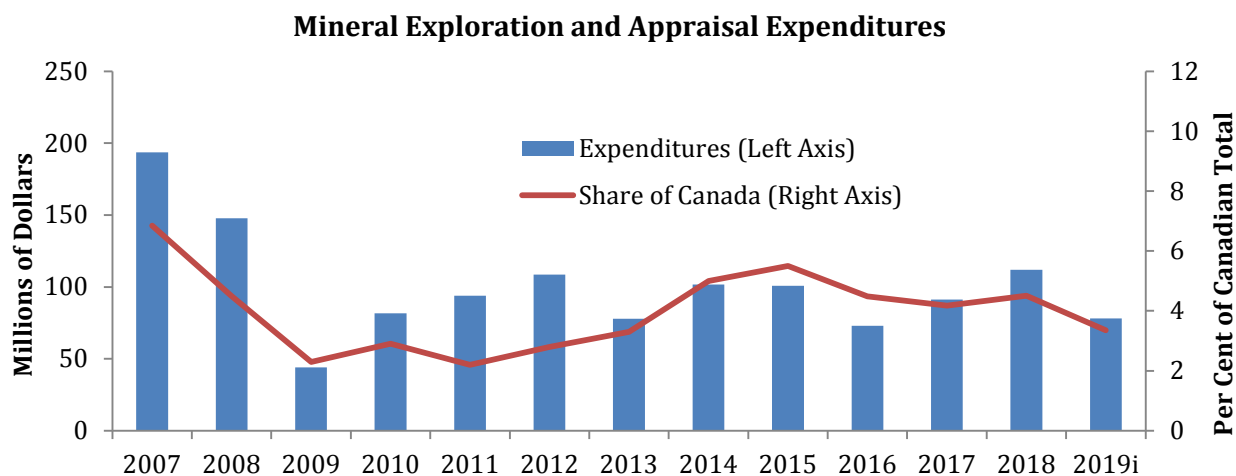
The NWT has been steadily shifting towards a services-based economy. The combined services-producing industries accounted for 68 per cent of NWT GDP in 2018, compared to just 48 per cent a decade ago. Public sector activities dominate this sector, with public administration, education, health and social services accounting for 32 per cent of NWT GDP in 2018. The remainder of the services sector is comprised of industries such as wholesalers, retailers, banks, hotels, and tour operators.

So, while the NWT economy has not diversified since 2007, the structure has changed. In 2007, the goods-producing sector accounted for 51 per cent of the NWT economy, but by 2018 that share had shrunk to 32 per cent. This re-structuring is mainly due to declines in the NWT resource sector.

Diversification – Mining, Oil and Gas

The mining, oil and gas sector directly accounts for 21 per cent of real GDP.

NWT mineral exploration and deposit appraisal expenditure intentions declined in 2019, decreasing from \$112 million in 2018 to an estimated \$78 million in 2019. Exploration and appraisal expenditures are focussed on diamonds, which account for over half of intended expenditures in 2019. The NWT exploration and appraisal expenditures share of the Canadian total is declining over time: from 5.5 per cent in 2015, 4.2 per cent in 2017 to 3.4 per cent in 2019. Low commodity prices continue to influence resource development in Canada.



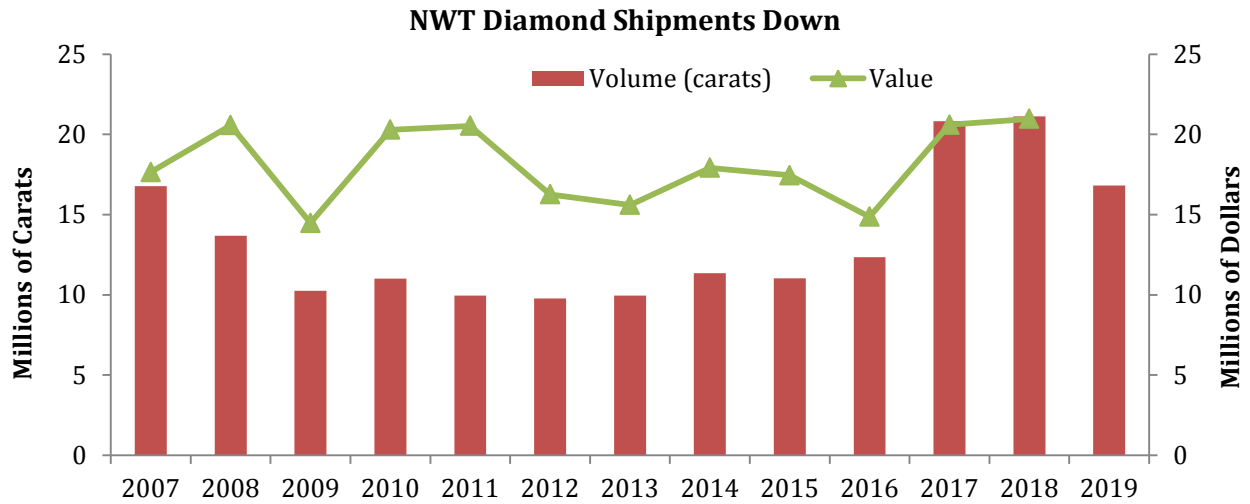
i: intentions
 Source: Natural Resources Canada

The NWT has three producing diamond mines: Ekati, Diavik and Gahcho Kué.

Carat production at NWT diamond mines rose dramatically in 2017, increasing 68.7 per cent from 12.3 million carats in 2016 to 20.8 million carats in 2017 as Gahcho Kué diamond production started. Similarly, the value of diamond shipments increased 38.6 per cent from \$14.9 billion in

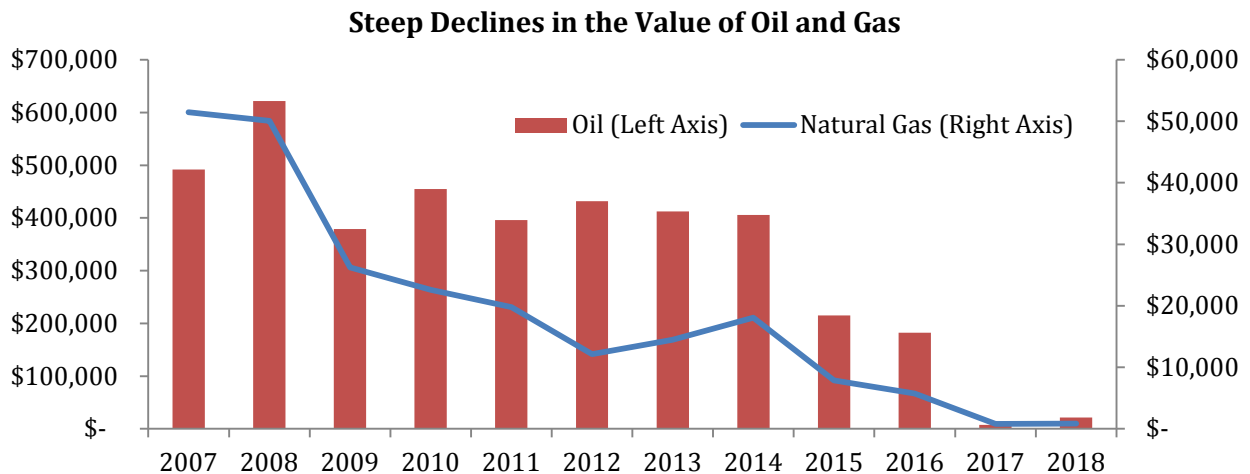
2016 to \$20.6 billion in 2017. Both shipments and the value of shipments remained at this elevated level throughout 2018.

However, diamond production declined in 2019, falling 20.4 per cent from 21.1 million carats in 2018 to just 16.8 million carats in 2019. This decline was largely due to low production at the Ekati diamond mine.



Note: Value data unavailable for 2019.
 Source: NWT Bureau of Statistics and NWT Finance

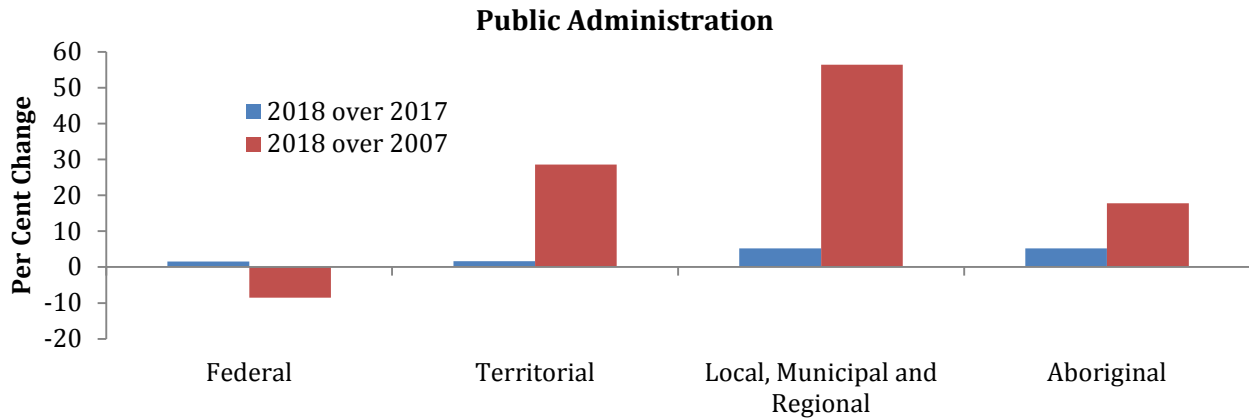
Oil production rebounded last year, rising from 98 million cubic metres in 2018 to an estimated 431 million cubic metres in 2019. The production increase was due to the restart of the pipeline service at Norman Wells in September 2018. Oil production almost stopped in early 2017 when the Norman Wells pipeline was shut down for repairs and remains well below what it once was.



Note: Value data not available for 2019.
 Source: NWT Bureau of Statistics and NWT Finance

Diversification – Public Administration

Public administration at all levels of government (federal, territorial, municipal, and Indigenous) is the second largest industry in the NWT, accounting for 16 per cent of GDP and contributing significantly to jobs and income creation. NWT public administration includes courts, policing, corrections services, firefighting services, defence, and government administrative work but excludes the health, social services and education sectors.



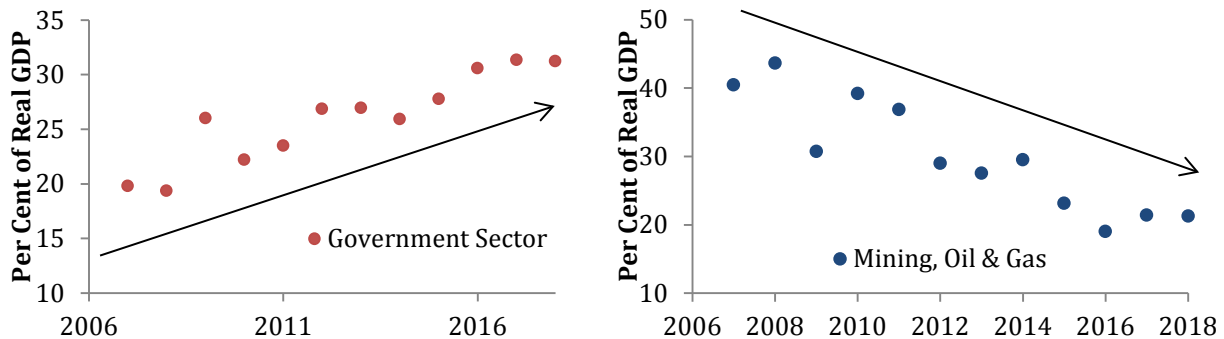
Source: Statistics Canada

Public administration expenditures rose 2.5 per cent from 2017 and 2018. Since 2007, all levels of government experienced solid increases in public administration except for the federal government which declined 8.5 per cent between 2007 and 2018, partly due to devolution of the management of lands, waters and non-renewable resources to the GNWT on April 1, 2014.

The rise in public administration expenditures corresponds with a more general sectoral shift in the structure of the NWT economy – a shift away from mining, oil and gas (the traditional backbone of the NWT economy), and towards government sector industries (public administration and education, health care and social services).

This shift has seen government industries increase over the past decade from representing just one-fifth of real GDP to comprising nearly one-third of real GDP in 2018. Over this same period, the percentage of real economic activity being generated from the mining, oil, and gas sector has shrunk from nearly 50 per cent to 20 per cent in 2018.

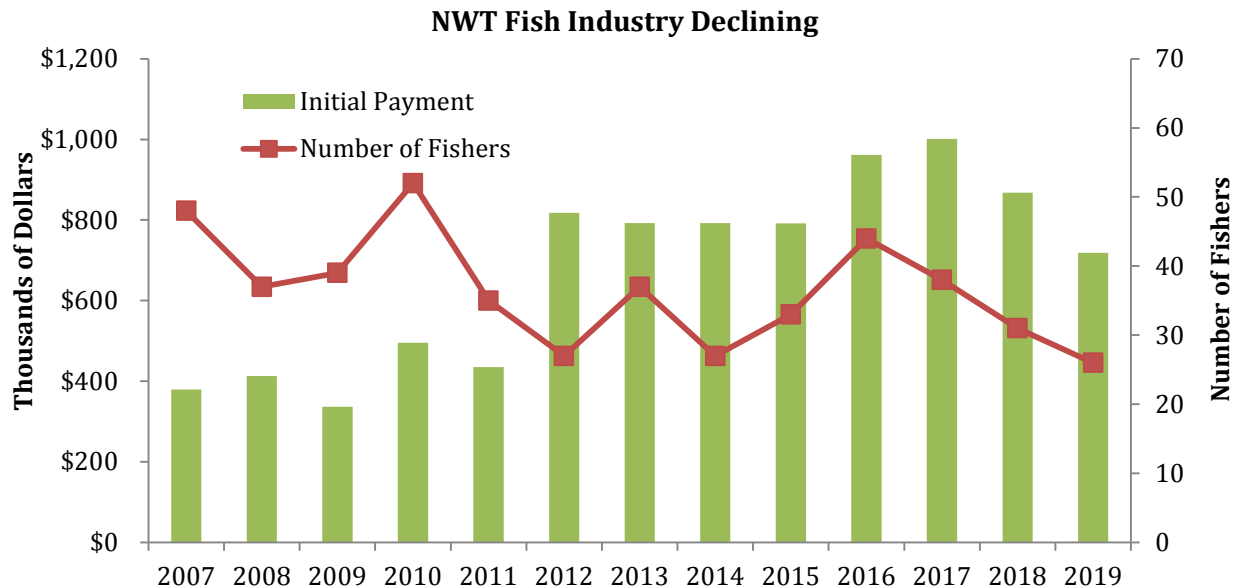
As Mining Shrinks, the NWT Economy is Increasingly Driven by Government



Source: Statistics Canada and NWT Finance

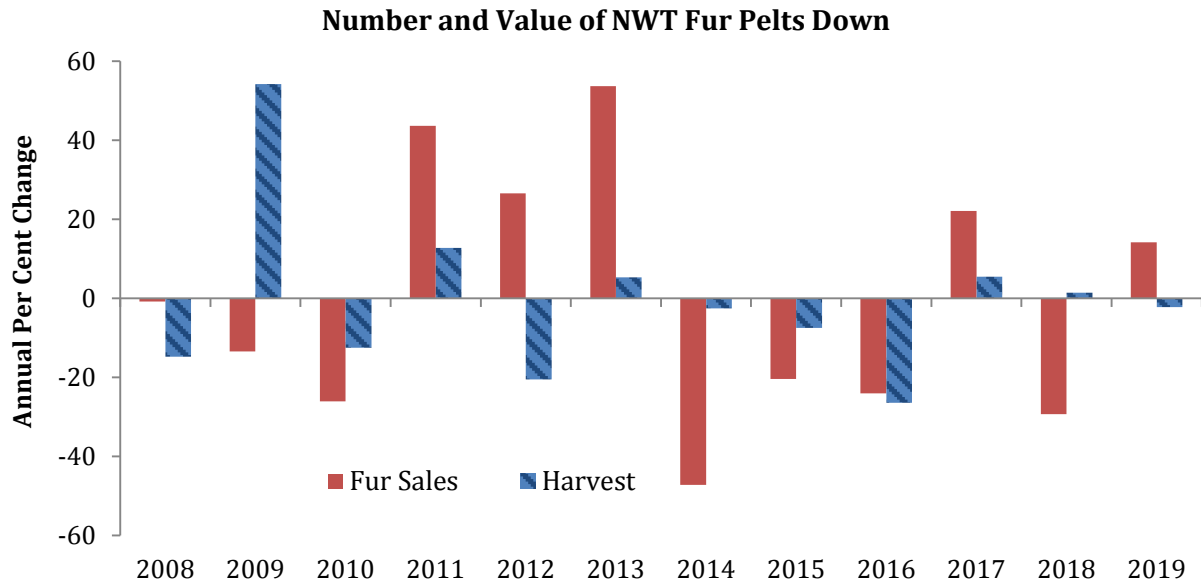
Diversification – *Other Potential Growth Sectors*

The commercial fishery in the NWT is small with room for growth. Initial payments to NWT fishers – on a delivery-point, net-of-freight basis – decreased for a third consecutive year, falling 17.2 per cent from \$868,000 in 2018 to \$719,000 in 2019, while the average initial payment increased 1.2 per cent from \$1.77 per kilogram to \$1.79 per kilogram. The delivered weight of fish received by the Freshwater Fish Marketing Corporation decreased 18.2 per cent from 490,545 kilograms in 2018 to 401,302 kilograms in 2019. Whitefish was the main fish (by weight) delivered in 2019.



Source: Freshwater Fish Marketing Corporation

Trapping is a component of the renewable resource sector, and is important to many NWT residents for food and clothing, especially in smaller communities. For the year ended June 30, 2019, roughly 18,100 NWT pelts were sold, a decrease of 2.2 per cent from the previous year, while the value of fur sales rose 14.1 per cent to \$731,200. The number of commercial trappers in the NWT was unchanged at 600. In addition to fur sales, the Prime Fur Bonus Program provided \$94,690 to NWT trappers, and the Trapper's Grubstake Program provided \$66,510. The fur market is cyclical, and though last year's sales were modest, the Genuine Mackenzie Valley Fur program continues to perform as intended by stabilizing the market for NWT trappers, thereby providing financial support.



Source: NWT Industry, Trade and Investment and NWT Finance

Tourism is not formally defined as an industry in NWT GDP data. However, the tourism industry has direct implications for measured components of GDP such as travel services, accommodations, retail trade, and other supporting industries. From 2017-18 to 2018-19, the number of visitors increased 6.8 per cent from 112,530 to 120,130. Over the same period, visitor expenditures rose by 3.4 per cent, increasing from \$203 million to \$210 million.

Leisure travel represented over half of visitor expenditures in 2018-19, with one quarter of total visitor spending associated with Aurora viewing.



Source: Department of Industry, Trade and Investment

ECONOMIC OUTLOOK

The outlook for the NWT economy is uncertain. From 2018 to 2019 the NWT economy is expected to shrink by 4.3 per cent, due to steep declines in diamond production and private-sector investment. This economic decline would have been even more severe had it not been for an increase in government expenditures which helped to stabilize the economy and cushion the fall in private sector activity. This year, NWT economic growth is forecast to improve, with real gross domestic product forecast to increase 3.8 per cent from 2019 to 2020. However, this growth will only partially offset the real GDP decline of 2019, leaving the NWT economy smaller this year than it was in 2018. The NWT economy is stable, but it is not growing.

The diamond mining industry has been the engine of the NWT private sector economy for the last two decades. However, the industry has matured, and it is possible that all existing NWT diamond mines will close by 2030. Diavik diamond mine is scheduled to close first in 2025, followed by Gahcho Kue in 2028. The Ekati diamond mine could operate until 2042 should both the Jay and Fox Deep kimberlite expansions go ahead, but the decision to invest in this expansion remains under examination. The closure of the diamond mines will leave a large drop in economic output; at this time, there are no other projects on the horizon large enough to fill this gap, though efforts continue for developing the next resource projects.

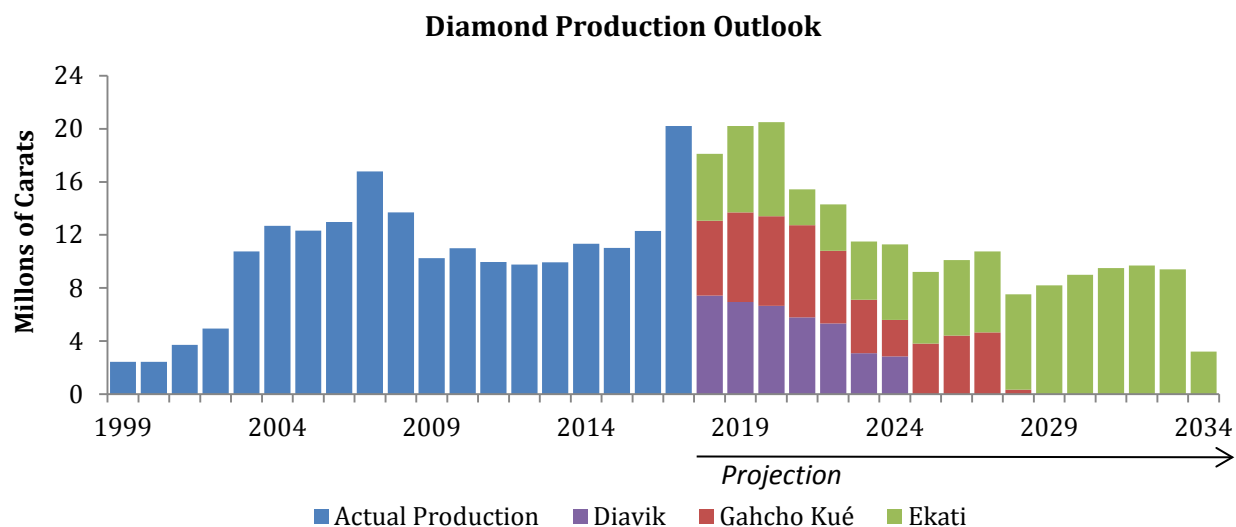
GNWT infrastructure investments are key to supporting future economic growth. Total private and public investment is forecast to increase 3.4 per cent from 2019 to 2020 and the public investment portion is the prime growth driver. The role government can play in supporting economic growth should not be underestimated. Government spending on programs, goods and services will provide stability to the economy by supporting wages, household consumption and local business sales, while public infrastructure investments on items such as roads, bridges, power corridors, and communications networks will contribute to higher standards of living for Northerners, and to improved private-sector business cases for future investments. Investing in infrastructure today sets the NWT up for economic growth tomorrow.

The GNWT's 2020-21 \$399 million capital budget continues the delivery of the government's infrastructure program to support program delivery for the well-being of residents and businesses and supports the groundwork for private sector investment and economic growth. Starting in 2020, construction of an all-season road to Whatì will provide employment today and when open to traffic in 2022 is expected to lower the cost of living for residents, boost tourism and improve business cases for resource projects in the region. Pre-construction activities are on-going for portions of the Mackenzie Valley Highway (focus is on the sections from Wrigley to Norman Wells) and if construction is approved will connect more communities to the all-weather road system. These investments will create a legacy that has the potential to spur future economic activity and growth.

The NWT economy is stable in the near term, though the risks to the outlook create uncertainty. Even with public investment in programs and infrastructure, the NWT economy competes in a competitive global market. External forces, including international financial conditions, currency movements and world economic activity, directly impact the territorial economy and contribute to uncertainty and turbulence for both businesses and Northerners.

Risks to the Outlook – *Diamond Mine Plans*

The NWT economic outlook is based on future mineral development and the opening of new mines. Diamond mining drives the NWT economy, but mine plans for currently producing mines, and those expected to be submitted for environmental review and permitting, are all set to end production by 2034. Expansion of the mining industry depends on successful exploration programs to identify potential new mine projects, as well as the deposit appraisal and environmental review process to identify which potential new mine projects can be developed.



Note: Projection numbers are subject to change based on mine plan revisions by the private mining companies.
 Source: Natural Resources Canada, mining plans and technical reports, NWT Finance

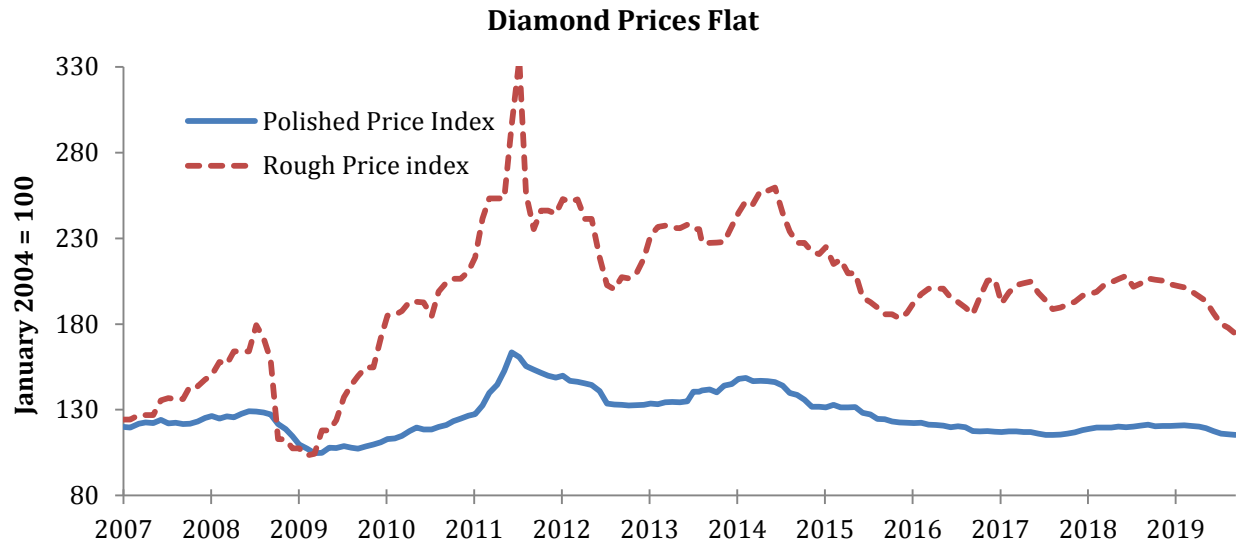
Risks to the Outlook – *Prices and Currencies*

The final decision to construct new mines depends on a range of economic and financial factors, including global capital credit conditions, currencies, and prices.

Indexed diamond prices for polished stones decreased 0.6 per cent from 2018 to 2019, while indexed prices for rough stones fell 4.7 per cent. This caused the price spread between rough and polished stones to narrow somewhat, although rough diamonds remain expensive relative to polished stones. NWT diamond mines produce rough diamonds, exporting them to manufacturers who cut, polish, and clean the stones, making the price spread a key risk to the NWT economic outlook.

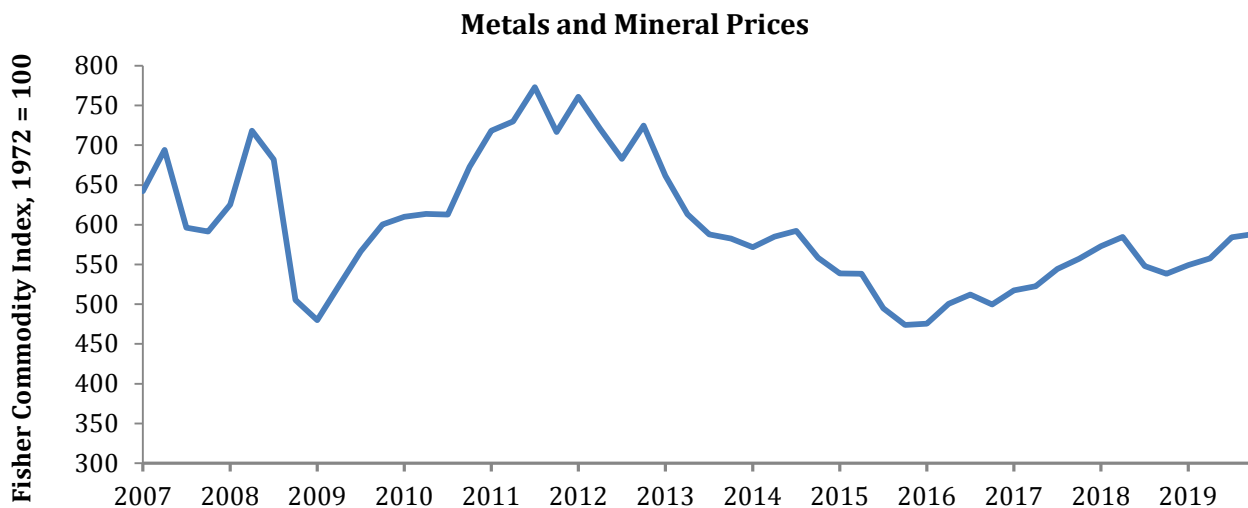
A decreasing supply of rough diamonds is projected to create a shortage within two years. Complicating the industry outlook is that end-consumer diamond demand continues to be dampened by trade disputes between China and the United States (the diamond industry’s two main markets), an economic slowdown in Europe, and ongoing protests in Hong Kong (an important retail and industry trade market). Also, synthetic diamonds are becoming increasingly competitive in the commercial small diamond market but have limited impact on prices for larger diamonds.

Commodity price changes have implications for NWT economic outlook over the long term. Exploration and development expenditures by the mining industry are driven by the expected value of future mine projects; these in turn are driven by the expected price of the mineral or metal to be mined.



Source: PolishedPrices.com and WWT Overall Rough Diamonds

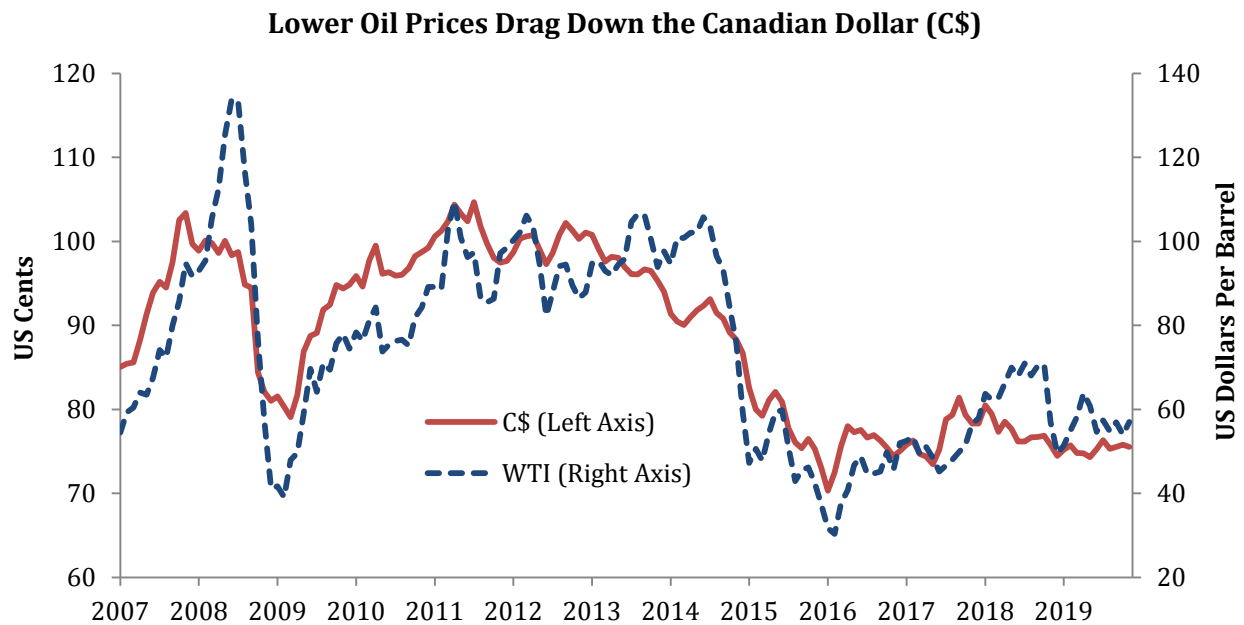
Global prices for resource commodities, including many metals and minerals found in the NWT, rose modestly in 2019, consolidating the price gains of previous years. However, these gains come in the midst of a synchronised, cyclical slowdown in global growth. This suggests price growth for metals and minerals will be muted over the near term, and will likely decrease mineral exploration in the territory.



Source: Bank of Canada

The NWT exports a small amount of oil to international markets. International oil prices therefore effect NWT trade, and have a serious impact on oil exploration activity in the Sahtu and Beaufort-Delta regions. The benchmark West Texas Intermediate (WTI) crude oil price recovered from a sharp price drop at the end of 2018, rising from a low of \$49.52US in December 2018 to \$63.86US by April 2019 before stabilizing around \$56US throughout the rest of the year. Despite the stabilization, a rebound in WTI prices to those seen five to ten years ago is not projected as increased global supply over the near term is expected to continue putting downward pressure on oil prices.

Lower oil prices have positive implications for other parts of the NWT economy by lowering the cost of energy for consumers, business and the energy-intensive mining industry.



Source: US Energy Information Administration and Bank of Canada

For the year as a whole, WTI prices decreased 12.7 per cent from 2018 to 2019. As an oil-exporting country, this drop in global oil prices lowered the Canadian dollar compared to the United States dollar. Despite modest monthly volatility the Canadian dollar averaged 75 US cents in 2019, down from 77 US cents in 2018. With oil prices expected to remain low, the Canadian dollar is also expected to remain low.

The value of the Canadian dollar against its US counterpart has a direct effect on the health of the NWT economy. This is because the majority of goods and services bought and sold internationally are paid for in US dollars. The lower Canadian dollar means that NWT businesses that export their production internationally will get paid more for their products after the payments are converted into Canadian dollars, which will help NWT companies compete globally, and boost exports. However, a lower Canadian dollar will also make machinery and equipment imported from outside the territory more expensive, putting a strain on many NWT businesses. In addition, the low Canadian dollar has boosted the cost of imported food and other goods, having a negative impact on many NWT households.

NWT Economic Outlook

Chained (2012) millions of dollars unless otherwise stated

	2016	2017	2018	2019e	2020f
Gross Domestic Product	4,712	4,798	4,889	4,679	4,859
<i>per cent change</i>	(1.4)	1.8	1.9	(4.3)	3.8
Total Investment	1,493	1,073	1,093	936	968
<i>per cent change</i>	(10.9)	(28.1)	1.9	(14.4)	3.4
Household Expenditure	1,593	1,627	1,648	1,661	1,681
<i>per cent change</i>	0.8	2.1	1.3	0.8	1.2
Government Expenditure	2,085	2,095	2,111	2,165	2,178
<i>per cent change</i>	1.2	0.5	0.8	2.6	0.6
Exports	2,970	3,553	3,581	3,309	3,516
<i>per cent change</i>	(7.5)	19.6	0.8	(7.6)	6.3
Imports	3,538	3,514	3,535	3,388	3,477
<i>per cent change</i>	(7.5)	(0.7)	0.6	(4.2)	2.6
Employment (number of residents)	22,500	21,300	21,400	21,300	21,500
<i>per cent change</i>	2.7	(5.3)	0.5	(0.5)	0.9
Average Weekly Earnings (dollars)	1,404	1,400	1,420	1,450	1,493
<i>per cent change</i>	(1.2)	(0.3)	1.5	2.1	3.0
CPI (All-Items), Yellowknife 2002=100	131.9	133.5	136.6	138.8	141.5
<i>per cent change</i>	1.2	1.2	2.3	1.6	2.0

e: estimate

f: forecast

Source: Statistics Canada and NWT Bureau of Statistics

FISCAL REVIEW

2019-20 Revised Estimates

The operating balance is revised to a \$70 million deficit in 2019-20, down from the projected surplus of \$60 million projected in Budget 2019 and higher than the deficit of \$25 million in 2018-19. The \$130 million increase in the deficit compared to Budget 2019 is due to a decrease in revenue of \$80 million, a \$39 million increase in departmental expenditures and \$11 million in other spending adjustments.

Total revenue is projected to be \$1.853 billion in 2019-20, down 4.2 per cent from original projections in Budget 2019. While weak performance of the territorial economy had an impact on taxation revenues, delayed cash flow of federal funding also made 2019-20 revenue appear lower, though much of that funding will be carried into 2020-21. Personal income tax is revised down \$8 million. Corporate income tax is expected to be negative, down \$35 million from 2019-20 Main Estimates. Other taxes are revised down \$4 million. Resource revenues are projected to be down \$7 million compared to Budget 2019. Major transfers of Territorial Formula Financing, Canada Health Transfer and Canada Social Transfer are largely unchanged from Budget 2019 and comprise a majority of revenue. Other transfer payments are revised down \$29 million, which include \$47 million in lower funding for the Investing in Canada Plan and the National Trade Corridors Fund, partially offset by \$12 million in new federal funding for the Tłı̨chʔ All-Season Road.

Total departmental spending is estimated to be \$1.841 billion. Departments are projected to have increased spending above original estimates by 2.2 per cent. The Department of Health and Social Services is projected to have the largest spending increase by \$9 million, a 1.8 per cent increase compared to Budget 2019. Municipal and Community Affairs is projected to have an increase of \$5 million. Environment and Natural Resources expects a \$4 million increase compared to the 2019-20 Main Estimates. Education, Culture and Employment forecasts an increase of \$5 million for 2019-20 compared to initial estimates, though this represents a 1.4 per cent increase from Budget 2019.

2020-21 Main Estimates

Budget 2020 forecasts a \$203 million surplus, with revenue at \$2.186 billion and total expenditures at \$1.983 billion, which include departmental spending, infrastructure contributions and other items. Revenue is estimated to increase \$333 million in 2020-21 compared to 2019-20 Revised Estimates, with half of the increase due to federal infrastructure funding, both new and carried forward from 2019-20. Territorial Formula Financing will increase \$103 million due to weak own-source revenue performance in recent years, including a decline in resource revenues.

Own-source revenue is projected to increase \$63 million in 2020-21, driven by corporate income tax revenue expected to increase from a negative \$12 million in 2019-20 to positive \$25 million in 2020-21. Carbon tax is estimated to increase \$17 million due to its first full year of implementation and a higher rate. Personal income tax revenue is projected to increase \$10 million in 2020-21. Resource revenue is forecast to decline \$6 million due to uncertain market conditions in the diamond industry. Net revenue of revolving funds is expected to contribute a \$2 million increase in 2020-21, with the increase evenly split between Marine Transportation Services and the Yellowknife Airport.

Total departmental spending is estimated to be \$1.896 billion in 2020-21, representing an increase of 3.0 per cent from 2019-20 Revised Estimates. Budget 2020 allocates an \$18 million increase for Health and Social Services, the largest increase among departments representing a 3.6 per cent growth rate. The largest relative change is a 7.6 per cent increase for Environment and Natural Resources, which is an increase of \$7 million. The Department of Finance spending is expected to increase \$16 million, or 6.0 per cent. The Department of Justice is estimated to have a 3.9 per cent increase, or \$5 million. The Department of Infrastructure is projected for a \$5 million increase, representing a 2.0 per cent growth from 2019-20 Revised Estimates. Education, Culture and Employment is allocated a \$4 million increase, restrained at 1.3 per cent growth. Both Lands and Municipal and Community Affairs are projected to have increases of less than one per cent. Industry, Tourism and Investment and Executive and Indigenous Affairs are estimated to have lower budgets in 2020-21 compared to the 2019-20 Revised Estimates.

Medium-Term Outlook

The medium-term outlook forecasts surpluses over the next four years, with a narrowing surplus each year. The surplus is projected to decline to \$147 million in 2021-22, \$116 million in 2022-23, and \$3 million by 2023-24. While 2020-21 revenue is high due to federal funding commitments, revenue is projected to peak in 2021-22 with 1.6 per cent growth and decline in each of the following two years.

Total expenditures are projected to increase modestly over the projection period and are forecast to grow 2.3 per cent annually over the next four years. Much of the projected growth is expected in the next two years, at 3.1 per cent and 4.6 per cent in 2020-21 and 2021-22, respectively.

Over the medium term outlook, total debt is projected to increase each year, driven by increases in short-term borrowing. The increasing debt is expected to cause the GNWT to exceed the federally-imposed borrowing limit of \$1.3 billion in 2021-22.

The outlook supports a strong capital investment program for the Northwest Territories, investing in needed infrastructure to build the territory, develop the economy, and provide necessary programs and services to NWT residents that are comparable to those available to other Canadians. Infrastructure investment includes projects with federal partnerships in our transportation and energy networks, such as pre-development for the Taltson expansion, the Mackenzie Valley Highway phases under the National Trade Corridors Fund, and the Tłı̄chǫ All-Season Road, as well as *Investing in Canada Plan* infrastructure projects such as the wind/power plant in Sachs Harbour, the wind project in Inuvik, various renewable solutions for off-grid diesel, Northwest Territories Power Corporation upgrades, transmission in Whatì and the Bluefish Hydro upgrade, the LNG project in Fort Simpson, the transmission project in Fort Providence, the Yellowknife Vulnerable

Persons Shelter, and the new fish plant in Hay River and remote collection stations around Great Slave Lake.

Risks to the Fiscal Outlook

The GNWT is subject to a number of fiscal risks, including:

- *The Northwest Territories' economic dependence on resources* – Resource sector activity can fluctuate significantly and results in the territory having the highest variability in economic growth in Canada since 1999. Resource sector activity has implications for long-term economic growth and creates significant volatility in GNWT own-source revenues. GDP is expected to have declined in 2019, and several own-source revenues fell in 2019; however, GDP and own source revenues are expected to increase in 2020.
- *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. 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.
- *Increased interest rates* – As debt increases throughout the outlook, the risk of higher interest rates becomes a concern. However, debt risk is considered to be 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 the amount of money available for programs, services, and infrastructure investment.
- *Slow revenue growth* – Territorial Formula Financing is 65 per cent of total revenues, affording considerable year-to-year stability to the budget. Growth in Territorial Formula Financing relies heavily on Northwest Territories population growth relative to Canada's and provincial/local government spending. The territory's share of Canada's population is declining and provincial and local government fiscal austerity measures would reduce growth in the Territorial Formula Financing Grant. This contributes to the decelerating revenue growth and declining operating surplus in the outlook.
- *On-going operating expenditure pressures* – Constant pressure exists to enhance current programs and to implement initiatives while not reducing existing program and service expenditures. Although the GNWT has been responsible with program spending and has partnered with the federal government for several capital programs, continued efforts will be necessary to ensure fiscal sustainability, or the budgetary position could deteriorate.
- *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.

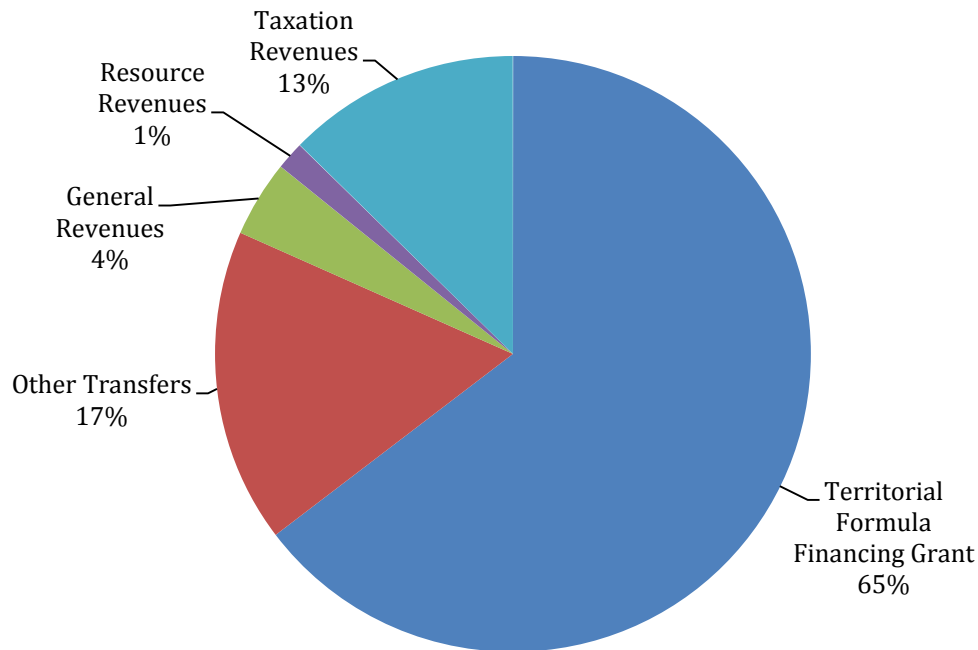
2020-21 Budget

Revenue Initiatives

Budget 2020-21 does not contain any new taxes. However, property mill rates and some fees will be increased by inflation.

In keeping with the GNWT commitments under the *Pan-Canadian Framework on Clean Growth and Climate Change*, the NWT carbon tax will increase from \$20 per carbon-equivalent tonne of greenhouse gas emissions to \$30 per tonne on July 1, 2020. The carbon tax rates are set in the *Petroleum Products and Carbon Tax Act* and will increase annually by \$10 per tonne until they reach \$50 per tonne. The carbon tax revenues generated are recycled into the economy through the Cost of Living Offset benefit, full rebates for carbon tax paid on heating fuel and fuel used for community electricity production, the exemption for aviation fuel, the large-emitter rebates and grants, and greenhouse gas-reducing investments by the GNWT.

Projected 2020-21 Revenues by Source

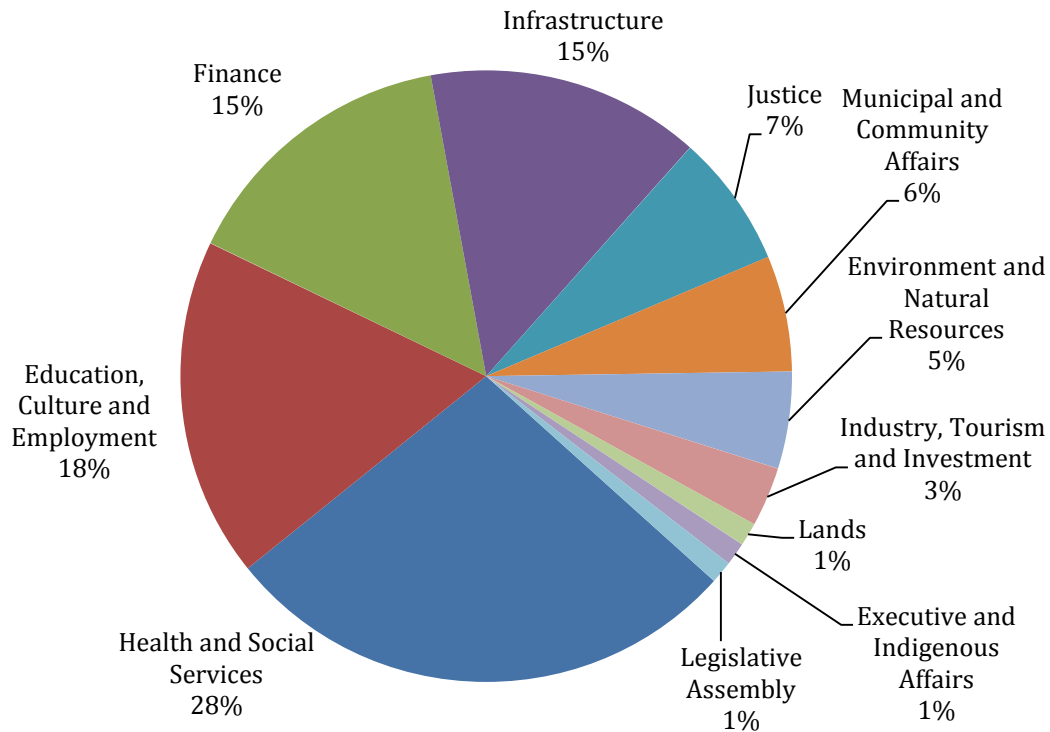


Operating Expenditures

Budget 2020-21 projects \$1.896 billion in departmental operating expenditures, of which \$1.2 billion, or over 60 per cent, is dedicated to social programs in education, health care, social services, housing, policing and corrections. Departmental spending is expected to increase \$94 million compared to Budget 2019, roughly split between social programs, up \$50 million, and all other spending, up \$44 million.

Compared to Budget 2019, the operating expenditure increases mainly result from the increased costs and demands for services, representing \$61 million of new spending, of which \$39 million is proposed for collective bargaining increases for departments and health authorities. Another \$40 million is allocated from approved adjustments from the Financial Management Board, which includes \$29 million in federal funding to support these adjustments. Initiatives constitute \$6 million and amortization contributes another \$2 million, for a total of \$109 million of new spending in Budget 2020 compared to Budget 2019. These increases are partially offset by \$15 million of savings from programs expiring for a net increase of \$94 million, or 5.2 per cent, compared to the 2019-20 Main Estimates.

2020-21 Operations Expenditures by Department



Education, Culture and Employment

- \$2.033 million to address increased Income Assistance clients and higher rents and utilities
- \$604,000 to expand the Northern Distance Learning program to five more schools, reach more students, and enhance the program
- \$319,000 to expand the Specialized Territorial Support Team for schools with specialists for mental health and speech and language
- \$269,000 to align student transportation funding with expenditures
- \$129,000 for a Student Records Coordinator to process information requests related to Day School Settlement Records
- \$129,000 to expand the Northern Studies curricula, including audio, visual and print resource development, assessment tools, and teacher training

Environment and Natural Resources

- \$3.548 million to advance activities under three Challenge Nature Fund Agreements with Environment and Climate Change Canada, part of a four-year delivery with half of the funds for the Thaidene Nëné project and the remainder for two Indigenous and protected areas, Ts'udé Niliné Tuyeta and Dinàgà Wek'èhodi
- \$1.992 million for operations and maintenance of the air tanker fleet for forest fire suppression
- \$1.365 million for conservation and recovery of the Bathurst and Bluenose-East barren-ground caribou herds
- \$960,000 (includes \$63,000 for the Department of Lands) to support boreal caribou range planning under the Conservation Agreement and implementation of the Northwest Territories-Indigenous Component Agreement with Environment and Climate Change Canada
- \$825,000 for the management and negotiations of offshore oil and gas resources under the *Pan-Territorial Vision for Sustainable Development* in collaboration with the departments of Executive and Indigenous Affairs and Industry, Tourism and Investment
- \$175,000 to increase monitoring a larger number of sites of candidate protected areas
- \$45,000 to support the wildlife monitoring program as part of the commitments of the environmental assessment of the Inuvik-Tuktoyaktuk Highway

Finance

- \$10.6 million to offset the cost of carbon tax through the Cost of Living Offset; rebates for the tax paid on heating fuel; large emitter carbon tax rebates and grants; and rebates for the tax paid on fuel to generate electricity for distribution
- \$4.545 million to meet debt servicing requirements primarily on increased short-term borrowing
- \$337,000 to improve accessibility of government services by creating a single, secure online portal for residents and businesses for existing online services and bring an additional 40 licences and permits online

Health and Social Services

- \$10.011 million to administer activities under the Northern Wellness Agreement with the federal government, including ten positions to administer contribution funding for community health and wellness programs
- \$2.580 million to the Stanton Territorial Hospital for operations, including orderlies and behavioural health workers, medical unit services, emergency department triage, P3 contract administration, day procedures, medical devices, rehabilitation services, clinical laboratory services, long-term and continued care services and other expenses
- \$2.119 million in federal health spending, including \$1.488 million from agreements for mental health and addictions, and home care and community care, and \$631,000 for public education and awareness for cannabis, emergency treatment, climate change and health adaptation capacity building, the Canadian Partnership Against Cancer Funding Agreement, the Pan-Canadian Pharmaceutical Alliance, and enhanced community-based monitoring of seasonal influenza
- \$1.102 million to health authorities for costs of insured hospital services
- \$777,000 to upgrade software and equipment for collecting and managing information to improve patient care in health and social service delivery
- \$609,000 to upgrade software for pharmacy information services for better risk management for patients at Stanton Territorial Hospital
- \$379,000 to support community health programs, support services, diagnostic and therapeutic services, social programs, ambulance services and other health programs and services
- \$179,000 to provide increased contributions to AVENS – A Community for Seniors

Industry, Tourism and Investment

- \$268,000 to promote a growing tourism industry, with \$176,000 supporting increased activity in the Beaufort Delta region from the Inuvik-Tuktoyaktuk Highway and \$92,000 for enforcement and public safety in North Slave parks along the Ingraham Trail for aurora viewing
- \$250,000 to support implementation of two socio-economic agreements
- \$150,000 to support economic diversification and development to extend the Fishing Sector Support Officer position
- \$30,000 to continue implementing the *Petroleum Resources Strategy*, with another \$225,000 to come in 2021-22
- \$25,000 to continue the rollout of the *Petroleum Resources Strategy* in the Beaufort Delta and South Slave for energy security feasibility studies for a \$175,000 investment this year, which could lead to cost-sharing further work with the federal government at 80 per cent and Indigenous governments and the GNWT at 10 per cent each

Infrastructure

- \$3.949 million to support 72 long-term care beds in Yellowknife for their net lease payments and operations and maintenance costs
- \$2.380 million from the federal Low Carbon Economy Leadership Fund, which includes \$300,000 for incremental Arctic Energy Alliance programs and services
- \$2.226 million for operations and utilities of newly acquired buildings, including the Stanton Territorial Hospital, the fish plant in Hay River, biomass heating plants and the Yellowknife Visitor Centre
- \$659,000 to provide increased maintenance on the Dempster Highway (Highway 8, km 0 to 272) to reflect its increased usage from the Inuvik-Tuktoyaktuk Highway
- \$390,000 to develop and implement the Permafrost Data Management and Analytical System for the Dempster and Inuvik-Tuktoyaktuk Highways Project under the Northern Transportation Adaptation Initiative
- \$250,000 to address increased costs for the Lafferty and Ndulee ferries, including increased regulatory costs, costs for longer trips around shallow water due to climate change, and an addition to base funding to cover inflationary effects

Justice

- \$1.613 million to support RCMP services, including increases in custody transfer costs, national service rates and number of positions, hangar operation costs, and isolated post and housing requirements

- \$827,000 in ongoing funding to turn the Integrated Case Management program into a permanent program
- \$506,000 to enforce land tenure and develop an approach to address unauthorized and rights-based occupancy
- \$465,000 to support development of the NWT Gun and Gang Strategy, funded through the federal Gun and Gang Violence Action Fund
- \$240,000 to increase base funding for victims' services
- \$163,000 to support a full-time position in Legal Aid Services for delivering the Agreement Respecting Access to Justice with the federal government, previously created and funded internally
- \$155,000 to support family justice programming through the Canadian Family Justice Fund Agreement for 2017-2022 with the federal government
- \$96,000 to increase base funding for coroner services operations
- \$95,000 to provide all Supreme Court jury trials with contract court reporters
- \$39,000 to continue implementing cannabis legalization

Municipal and Community Affairs

- \$5.186 million to increase the Grant-in-Lieu of Property Tax Program to reflect new capital assets, including Stanton Territorial Hospital, Yellowknife Day and Sobering Centre, St. Joseph modular classrooms, the Woodland Manor expansion in Hay River, Aurora College and warehouse in Fort Smith, the regional laboratory in Fort Simpson, and the Shell Lake office in Inuvik;
- \$158,000 for increased support for seniors under the *Senior Citizens and Disabled Persons Property Tax Relief Act* with a higher number of seniors and higher rates

Budgetary Process

The GNWT's budget is pressured by both sides of the ledger: revenues and expenditures. The drivers of each are unique and sometimes related, but the basic picture is a challenging one: large and modestly growing federal transfers and flat own-source revenues combined with operating and capital spending pressures. The pressures have been met in part through a reduction in the amount of the operating surplus and increased borrowing, with debt now bumping up against the federally imposed borrowing limit.

Revenue

The GNWT is heavily reliant on federal financial support and as a result possesses limited ability to significantly increase total revenues. In 2020-21, federal transfers will amount to \$1.785 billion, out of total revenues of \$2.186 billion, or slightly more than 80 per cent; these are beyond the control of the GNWT.

About 20 per cent of revenues are from a variety of own-source revenues and are broadly under the ability of the GNWT to control or at least influence. The disproportionate ratio between the figures means that, in effect, aggregate taxes would have to increase five per cent just to increase the GNWT's total revenue by one per cent. If the increase were to be concentrated in only one area rather than be applied across the board to all taxes, the increase would have to be much larger. For instance, the largest source of own-source revenue, personal income tax, is about one-quarter of all own-source revenues, or five per cent of total revenues. Personal income tax revenue would have to increase by 20 per cent to allow the GNWT to increase its total revenues by one per cent.

Weakness in the economy and a slow growing population contribute to low growth in own-source revenues. The economy has been affected by the collapse in oil prices since 2014 and challenges in the diamond mining sector – historically, important drivers of jobs and tax revenue. While corporate income tax receipts have been affected, the stagnation applies to most own-source revenues, including personal income tax. The combination of public administration, health and social assistance and educational services is the largest economic sector and personal income tax revenue from employees in this sector contributes to a level of stability within own-source revenues.

The NWT's economy employs numerous fly-in/fly-out workers who do not live in the territory. The cost of living is one reason why these workers choose to live outside the NWT. A tax advantage would provide an incentive to move to the territory, in addition to retaining population; increases in taxes or the cost of living would dissuade these workers from residing in the territory. While the NWT attracts migrants, it also has a high out-migration rate to other parts of Canada. This dynamic has kept the NWT's population growth below most provinces and Canada as a whole. As a result, revenue growth is further limited.

The GNWT considers the impact that tax measures could have on its competitiveness as a place to live and do business. The cost of living in the NWT would be pressured by tax increases. Small tax increases would not raise a material amount of revenue but could still affect perceptions of the attractiveness of the NWT as a destination to live and work.

Raising revenue will face a number of challenges:

- Volatility and weakness in corporate income tax and resource revenues
- Stagnant own-source revenues
- Underdeveloped private sector and narrow economic base
- Dependence on federal transfers

Expenditure Challenges

The GNWT is responsible for a considerable amount of money each year, budgeted at \$1.896 billion in 2020-21 for total departmental spending. This \$42,000 per person is significantly higher than provincial per capita spending and reflects the harsh climate, dispersed population, and lack of economies of scale in the NWT. Operating spending has grown over time through a combination of initiatives, adjustments and forced growth (i.e. increases based on higher costs and demand for services).

Operating spending runs the day-to-day business of government, but capital investments build the infrastructure to support operations. The territory's infrastructure lags the national average with the oldest average age among provinces and territories. The state of infrastructure is a drag on economic growth since opportunities to do business are hampered by sub-optimal capital. The attractiveness of the NWT as a place to live can be negatively affected, leading to out-migration and weak economic growth.

The result is a squeeze on the overall budget. In particular, the GNWT has:

- *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 is heightened.

Given the serious constraints on revenues, budget equilibrium will likely have to be achieved largely through ongoing, long-term expenditure management. Strategic investments in transportation and energy infrastructure remain priorities because they will support the economy over time and lower the territory's high energy costs.

The GNWT has put in place a number of strategies to help create the environment for a more vibrant economy. In addition, the GNWT will make strategic and affordable infrastructure investments. These strategies should help the economy strengthen and diversify.

A key objective will be to achieve increased value for money, so as to achieve a more efficient allocation of funds that will provide better outcomes for NWT residents. It will also allow the GNWT to achieve a better balance between operating and capital spending and between revenue and expenditure growth. This would alleviate the need to increase taxes or borrow more.

Debt Position and Financing

The GNWT issues debt to partially finance its capital program and to meet short-term borrowing requirements. The amount of the debt has increased almost continuously since 2009-10, reflecting investments in capital programs with additional infrastructure built or improved throughout the territory. The GNWT has also taken advantage of cost-shared dollars with the federal government

to develop the territory's infrastructure network. At all times, the GNWT endeavours to keep its debt affordable, and a variety of tools are used to monitor debt to ensure its sustainability, the principle ones being:

- *Fiscal Responsibility Policy*,
- Borrowing Limit, and
- Credit Rating.

Fiscal Responsibility Policy

The GNWT feels strongly that its underlying ability to manage debt is higher than the current federal borrowing limit would suggest. To that end, the GNWT has relied on the *Fiscal Responsibility Policy* to guide its debt management policies. The *Policy* is based on the premise that:

- The GNWT will fund at least 50 per cent of infrastructure investment from cash operating surpluses; and
- Debt servicing payments will be held below five per cent of total revenues.

In keeping with the *Policy*, the GNWT's budget continues to fund capital projects at a sustainable level, in part because of efforts that were undertaken in recent years to lower the growth rate of operating expenditures.

Borrowing Limit

The federally-imposed borrowing limit is \$1.3 billion.

The GNWT's total debt at the end of 2020-21 is forecast to be \$1.200 billion, up from \$1.182 billion at the end of 2019-20. Of the 2020-21 amount, \$706 million is long-term and guaranteed debt, and \$494 million is short-term borrowing. The available borrowing capacity is forecast to be \$100 million by the end of 2020-21. However, debt will continue to escalate over the medium-term (to 2023-24) and will be over the limit beginning in 2021-22.

Credit Rating

The *Fiscal Responsibility Policy* is a major component in the GNWT's Aa1 rating from Moody's Investors Service. In July 2019, one of the major international credit rating agencies, Moody's Investors Service, confirmed the GNWT's Aa1 (Stable) credit rating, for the twelfth consecutive year. This rating is one of the highest available and serves as validation that the financial management of the GNWT is sound and prudent.

Business Plan Development and Review

The annual business plans link strategic planning with resource allocation. The business planning process includes setting goals, developing strategies to achieve the goals, and establishing targets

and outcome measures. The departmental business plans are developed to support the overall Government's goals and objectives. As part of the process, departments identify the challenges and pressures confronting them, and map out how to meet those challenges within available resources. Business plans identify key strategies that each department will implement to achieve its goals, and also identify outcome measures and targets to be achieved. Business plans focus not only on operating budgets, but capital as well.

To help achieve greater effectiveness and efficiency in its spending, the GNWT will be moving toward a four-year planning horizon for business plans, beginning 2020-21. Greater value for money will be targeted through this approach, allowing each dollar to be stretched further.

This exercise will improve planning and is consistent with execution toward long-term results. The goal is to examine the overall financial process in a holistic, comprehensive and systematic manner that will be conducive to achieving optimal long-term results throughout the government.

Summary of Operations

	(thousands of dollars)			
	2020-2021	2019-2020	2019-2020	2018-2019
	Main	Revised	Main	Actuals
	Estimates	Estimates	Estimates	Actuals
REVENUES	2,186,168	1,852,933	1,933,297	1,770,904
OPERATIONS EXPENSE				
Compensation and Benefits	399,767	387,213	372,312	366,388
Grants, Contributions and Transfers	892,244	863,060	844,048	816,834
Amortization	125,054	123,014	123,014	110,029
Chargebacks	22,502	22,469	22,469	22,347
Computer Hardware and Software	5,736	5,742	5,733	11,328
Contract Services	223,661	220,574	216,893	187,770
Controllable Assets	3,343	3,253	3,253	9,197
Fees and Payments	107,523	106,483	106,383	115,394
Foreign Currency Exchange Loss	-	-	-	-
Interest	20,591	16,546	16,546	20,977
Loss on Sale of Assets	-	-	-	71
Materials and Supplies	19,983	20,211	19,593	23,490
Purchased Services	15,449	13,935	13,873	14,303
Travel	19,345	19,721	18,973	15,412
Utilities	38,248	36,294	36,294	40,482
Valuation Allowances	2,419	2,419	2,419	3,102
TOTAL OPERATIONS EXPENSE TO BE VOTED	1,895,865	1,840,934	1,801,803	1,757,124
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	290,303	11,999	131,494	13,780
Infrastructure Contributions	(75,317)	(79,575)	(74,275)	(33,067)
Deferred Maintenance	(2,000)	(2,775)	(2,000)	(4,652)
Petroleum Products Stabilization Fund net profit (loss)	(200)	50	(200)	(1,145)
Supplementary Reserve	(30,000)	(20,000)	(20,000)	-
Estimated Appropriation Lapses	20,000	20,000	25,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	87,362	143,654	99,256	111,996
Expenditures	(87,362)	(143,654)	(99,256)	(111,996)
OPERATING SURPLUS FOR THE YEAR	202,786	(70,301)	60,019	(25,084)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	1,718,828	1,789,129	1,852,597	1,814,213
ACCUMULATED SURPLUS, END OF YEAR	1,921,614	1,718,828	1,912,616	1,789,129

Summary of Revenues

	(thousands of dollars)			
	2020-2021 Main Estimates	2019-2020 Revised Estimates	2019-2020 Main Estimates	2018-2019 Actuals
GRANT FROM CANADA	1,412,734	1,309,278	1,309,300	1,256,289
TRANSFER PAYMENTS	372,237	205,293	233,595	172,317
TAXATION REVENUE				
Personal Income Tax	106,129	95,948	104,369	110,609
Corporate Income Tax	25,262	(12,020)	23,331	(4,752)
Cannabis Excise Tax	331	317	747	111
Carbon Tax	28,739	12,219	16,190	-
Tobacco Tax	15,002	15,294	15,100	15,822
Fuel Tax	21,614	21,546	21,062	22,863
Payroll Tax	44,670	44,053	44,355	43,445
Property Taxes and School Levies	29,858	29,305	29,750	26,550
Insurance Premium Taxes	5,400	5,100	5,100	5,814
Land Transfer Tax	-	-	-	-
	277,005	211,762	260,004	220,462
Non-renewable Resource Revenue				
Licences, Rental and Other Fees	2,507	2,532	2,532	4,246
Minerals, Oil and Gas Royalties	30,681	36,494	43,822	18,930
Quarry Fees	100	180	180	82
	33,288	39,206	46,534	23,258
GENERAL REVENUES				
Revolving Funds Net Revenue	37,978	35,890	32,482	25,844
Regulatory Revenues	24,921	25,520	25,398	24,359
Interest	680	680	680	781
Investment Income	-	-	-	1,907
Lease	4,009	3,580	3,580	3,898
Program	18,001	16,628	16,628	21,545
Grants	-	-	-	39
Grants in kind	140	140	140	266
Service and miscellaneous	2,175	1,956	1,956	5,754
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	14,185
	90,904	87,394	83,864	98,578
TOTAL REVENUES	2,186,168	1,852,933	1,933,297	1,770,904

Summary of Operations Expenditures

	(thousands of dollars)			
	2020-2021	2019-2020	2019-2020	2018-2019
	Main	Revised	Main	2018-2019
	Estimates	Estimates	Estimates	Actuals
Department				
Legislative Assembly	22,720	22,621	22,443	19,634
Education, Culture and Employment	340,268	335,944	331,410	332,068
Environment and Natural Resources	97,085	90,230	86,425	87,613
Executive and Indigenous Affairs	22,886	23,322	22,103	19,975
Finance	283,107	266,962	261,847	243,087
Health and Social Services	522,011	504,062	495,323	485,960
Industry, Tourism and Investment	59,585	61,091	59,902	56,049
Infrastructure	275,029	269,714	263,387	256,963
Justice	133,617	128,542	126,260	126,972
Lands	23,364	23,264	22,584	20,322
Municipal and Community Affairs	116,193	115,182	110,119	108,481
	1,895,865	1,840,934	1,801,803	1,757,124
Expenditure Category				
Compensation and Benefits	399,767	387,213	372,312	366,388
Grants, Contributions and Transfers	892,244	863,060	844,048	816,834
Amortization	125,054	123,014	123,014	110,029
Chargebacks	22,502	22,469	22,469	22,347
Computer Hardware and Software	5,736	5,742	5,733	11,328
Contract Services	223,661	220,574	216,893	187,770
Controllable Assets	3,343	3,253	3,253	9,197
Fees and Payments	107,523	106,483	106,383	115,394
Foreign Currency Exchange Loss	-	-	-	-
Interest	20,591	16,546	16,546	20,977
Loss on Sale of Assets	-	-	-	71
Materials and Supplies	19,983	20,211	19,593	23,490
Purchased Services	15,449	13,935	13,873	14,303
Travel	19,345	19,721	18,973	15,412
Utilities	38,248	36,294	36,294	40,482
Valuation Allowances	2,419	2,419	2,419	3,102
	1,895,865	1,840,934	1,801,803	1,757,124

Summary of Infrastructure Investment

	(thousands of dollars)			
	2020-2021 Capital Estimates	2019-2020 Revised Estimates	2019-2020 Capital Estimates	2018-2019 Actuals
Tangible Capital Assets				
Legislative Assembly	3,000	127	-	263
Education, Culture and Employment	25,713	18,638	14,059	18,777
Environment and Natural Resources	2,159	5,511	2,159	4,190
Finance	4,277	14,643	5,191	2,247
Health and Social Services	52,356	56,572	59,624	9,867
Industry, Tourism and Investment	3,786	17,549	11,530	4,314
Infrastructure	143,833	144,589	101,806	75,430
Justice	1,541	15,990	4,341	11,509
Lands	234	234	234	65
Municipal and Community Affairs	-	-	-	124
	236,899	273,853	198,944	126,786
Infrastructure Contributions				
Education, Culture and Employment	8,085	5,000	3,000	1,057
Finance	-	-	-	255
Infrastructure	38,232	45,575	42,275	7,401
Municipal and Community Affairs	29,000	29,000	29,000	27,257
	75,317	79,575	74,275	35,970
Deferred Maintenance (non-capital)				
Education, Culture and Employment	-	-	-	-
Health and Social Services	-	-	-	-
Infrastructure	2,000	2,775	2,000	2,062
	2,000	2,775	2,000	2,062
Public Private Partnerships				
Health and Social Services	-	18,366	2,954	79,289
Infrastructure	84,390	33,045	46,800	24,917
	84,390	51,411	49,754	104,206
Total Capital Estimates	398,606	407,614	324,973	269,024

Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2020-2021 Main Estimates	2019-2020 Revised Estimates	2019-2020 Main Estimates	2018-2019 Actuals
SHORT TERM DEBT				
Government of the Northwest Territories	465,000	488,000	325,000	324,478
Hay River Health and Social Services Authority	1,000	1,000	1,000	-
NWT Hydro Corporation	28,286	43,663	135,911	9,041
	494,286	532,663	461,911	333,519
LONG TERM DEBT				
Government of the Northwest Territories:				
New Long Term Debt - term and rate to be determined	40,000	-	-	-
Deh Cho Bridge - Real Return Bonds	175,452	175,850	175,850	176,439
Mackenzie Valley Fibre Optic Link, P3 debt	72,651	75,190	75,300	77,700
Stanton Territorial Hospital, P3 debt	130,431	133,597	135,700	136,654
Tłı̄chǔ All-Season Road, P3 debt	128,993	48,911	19,560	21,367
Canada Mortgage and Housing Corporation	284	366	366	445
Public Agencies:				
NWT Hydro Corporation	204,564	209,168	209,168	212,303
NWT Housing Corporation	5,354	5,946	5,946	6,455
TOTAL DEBT	1,252,015	1,181,691	1,083,801	964,882
OBLIGATIONS UNDER CAPITAL LEASES				
Government of the Northwest Territories	-	-	-	337
NWT Hydro Corporation	16,389	16,802	16,802	17,221
NWT Housing Corporation	-	-	-	-
LOAN GUARANTEES				
GNWT	-	-	-	-
Other public agencies	-	-	-	-
NWT Business Development and Investment Corp.	-	2,100	2,100	2,100
NWT Housing Corporation	8,443	10,519	10,522	12,944
TOTAL GROSS BORROWING PER BORROWING REGULATIONS	1,276,847	1,211,112	1,113,225	997,484
LESS: EXTERNALLY RESTRICTED SINKING FUNDS				
NWT Hydro Corporation	-	-	-	-
Government of the Northwest Territories	(77,340)	(29,340)	-	-
TERRITORIAL BORROWING	1,199,507	1,181,772	1,113,225	997,484
TERRITORIAL BORROWING LIMIT	1,300,000	1,300,000	1,300,000	1,300,000
AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES	100,493	118,228	186,775	302,516

Provincial/Territorial Tax Rates at February 20, 2020

	Combined Top Marginal Personal Income Tax ^(a) (%)	Retail Sales Tax (%)	Fuel Tax ^(b)		Carbon Tax ^(c)		Tobacco Tax ^(d) (\$/carton)	Payroll Tax ^(e) (%)	Corporate Income Tax		Capital Tax on Financial Institutions ^(f) (%)
			Gasoline (¢/litre)	Diesel (¢/litre)	Gasoline (¢/litre)	Diesel (¢/litre)			Small	Large	
Northwest Territories	47.05	-	10.7	9.1	4.70	5.50	60.80	2.00	4.0	11.5	-
Nunavut	44.50	-	6.4	9.1	4.42	5.37	60.00	2.00	3.0	12.0	-
Yukon	48.00	-	6.2	7.2	4.42	5.37	60.00	-	2.0	12.0	-
British Columbia	53.50	7.0	14.5	15.0	8.89	10.23	59.00	1.95	2.0	12.0	-
Alberta	48.00	-	13.0	13.0	4.42	5.37	55.00	-	2.0	10.0	-
Saskatchewan	47.50	6.0	15.0	15.0	4.42	5.37	54.00	-	2.0	12.0	4.0
Manitoba	50.40	7.0	14.0	14.0	4.42	5.37	60.00	2.15	0.0	12.0	6.0
Ontario	53.53	8.0	14.7	14.3	4.42	5.37	36.95	1.95	3.2	11.5	1.25
Quebec	53.31	9.975	19.2	20.2	-	-	29.80	4.26	5.0	11.5	1.25
New Brunswick	53.30	10.0	15.5	21.5	4.42	5.37	51.04	-	2.5	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	51.37	10.0	8.47	14.15	4.42	5.37	50.00	-	3.0	16.0	5.0
Newfoundland & Labrador	51.30	10.0	16.5	16.5	4.42	5.37	49.00	2.00	3.0	15.0	6.0
Weighted average ^(g)	52.47	7.4	15.5	15.8	3.91	4.67	42.84	2.09	3.1	11.7	1.42

Notes:

(a) Combined federal-provincial/territorial highest 2020 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 and July 1, 2019 in Nunavut and Yukon. Northwest Territories, British Columbia, Newfoundland & Labrador, and Prince Edward Island have provincially administered carbon taxes. Quebec and Nova Scotia have cap and trade systems. Alberta's carbon tax was repealed as of May 30, 2019 with the exception of the levy on large industrial emitters. The federal backstop became effective in Alberta on January 1, 2020. The NWT carbon tax came into effect September 1, 2019.

(d) Manitoba and Saskatchewan apply provincial sales tax to tobacco product sales. Harmonized Sales Tax is applied to tobacco product sales in Ontario, New Brunswick, Prince Edward Island, Newfoundland & Labrador, and Nova Scotia. British Columbia and Quebec do 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, 2019.