

Budget Papers
2022-2023
NORTHWEST TERRITORIES

Fiscal Review

February 22, 2022

FISCAL REVIEW

The 2022-23 Budget continues the fiscal plan established at the beginning of the 19th Legislative Assembly to carefully manage operating expenditures so that funds are available to take advantage of federal infrastructure transfers. Despite economic disruptions caused by the COVID-19 pandemic and flooding in our southern communities in 2021, the Government of the Northwest Territories' (GNWT) fiscal situation has improved, primarily due to generous federal supports to governments, individuals and business as the pandemic continues.

2020-21 Final Results

Total 2020-21 GNWT revenues were \$2.14 billion; an increase of \$292 million, or 15.8 per cent, from 2019-20. The substantial increase in revenues was driven by Territorial Formula Financing, other federal transfers, and taxation revenues.

Total 2020-21 operating expenditure for programs and services were \$2.07 billion. Programs and services for Health and Social Services accounted for the largest portion of 2020-21 operating expenditures at 30 per cent; followed by the Department of Education, Culture and Employment at 17 per cent. The Department of Finance and the Department of Infrastructure also had large shares of total operating expenditure of 16 per cent and 13 per cent, respectively.

The 2020-21 operating surplus was \$67.4 million. Total debt rose to \$1.3 billion for 2020-21.

2021-22 Revised Estimates

Projected 2021-22 revenues are \$2.3 billion, \$57 million higher than forecast in the 2021-22 Budget. Personal and corporate income tax growth are the largest contributors to higher revenue forecasts since the 2021-22 Budget but the GNWT also received an additional \$14.9 million in COVID-related transfers.

The Territorial Formula Financing grant increased by \$67 million from 2020-21 to 2021-22 and other transfers increased \$42 million for a total increase of \$109 million in federal transfers. The economic recovery from the initial economic disruption caused by the COVID-19 pandemic is demonstrated by improvements in fuel and carbon tax revenues.

Operating spending for 2021-22 has been revised upward \$83 million from the 2021-22 Budget to \$2.1 billion. The largest single increase in spending to date was \$36 million to help combat flooding

in Fort Simpson, Jean Marie River and to a lesser extent in other communities, and \$15 million to provide additional support for Northern airlines. Nearly one-half of the increase in expenditures came from grants, contributions and transfers to support Northern communities.

Total 2021-22 revenues are expected to exceed expenditures, creating a projected operating surplus of \$28 million. Total debt for 2021-22 is projected to be \$1.455 billion, a \$132 million improvement from the 2021-22 Budget forecast; leaving \$345 million in borrowing capacity under the federally-imposed \$1.8 billion borrowing limit.

2022-23 Main Estimates

Total 2022-23 revenues are estimated at \$2.3 billion and operating expenditures at \$2.06 billion, providing a projected operating surplus of \$131 million after adjustments for infrastructure contributions, deferred maintenance, and the supplementary reserve.

Total revenues are projected to increase by \$110 million from the 2021-22 Budget. This is supported by a \$39 million increase in the Territorial Formula Financing Grant from Canada. Own-source revenues are forecast to increase by \$68 million with over one-half of the own-source revenue growth due to a forecast \$33 million increase in corporate income tax revenue.

Total budgeted departmental expenditures are projected to increase 2 per cent from the 2021-22 Main Estimates, after taking into account \$54 million in sunsetting programs. Grants, Contributions and Transfers, which are 47 per cent of the operating budget, are expected to increase 3 per cent; Compensation and Benefits, which are 21 per cent of the budget, are expected to increase 1 per cent; and, Contract Services, which makes up 12 per cent of the budget, are projected to increase 8 per cent from the 2021-22 budget.

The 2022-23 year-end total debt projection is \$1.696 billion, \$241 million higher than currently projected for the 2021-22 fiscal year.

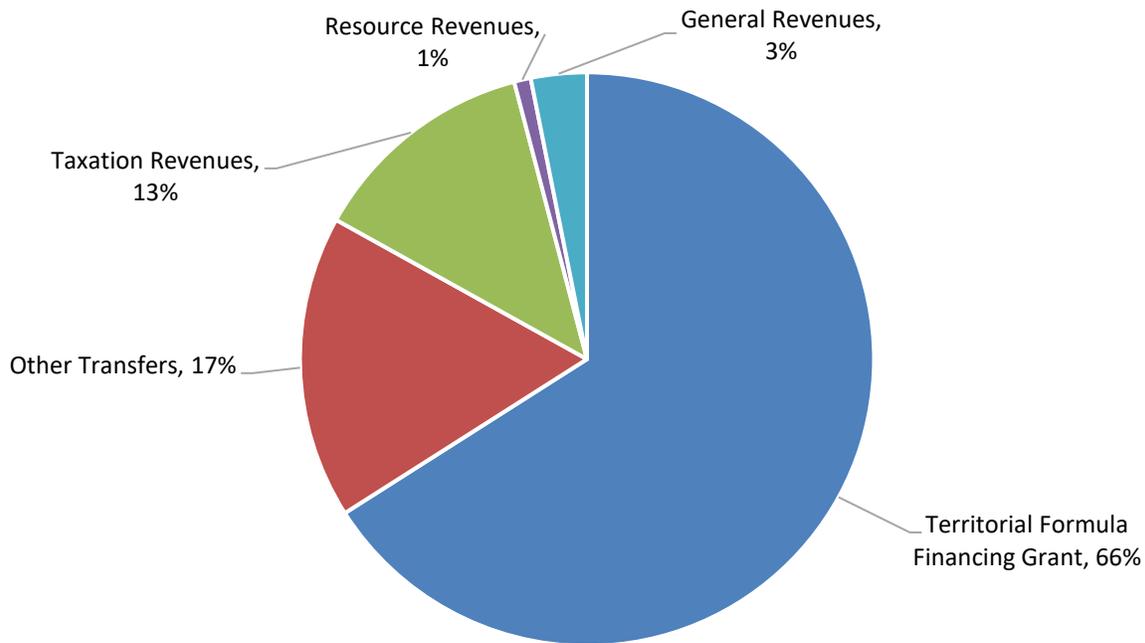
2022-23 Budget Highlights

Revenue Initiatives

Budget 2022-23 does not contain any new taxes although some tax rates will change. Property mill rates and some fees will be increased by inflation in keeping with financial management practices. The five-year fee review underway in 2021-22 may result in further fee changes.

The GNWT committed under the *Pan-Canadian Framework on Clean Growth and Climate Change* to increase the Northwest Territories (NWT) carbon tax rates annually by \$10 per carbon-equivalent tonne of greenhouse gas emissions until they reach \$50 per tonne on July 1, 2022; raising the carbon tax rate on gasoline to 11.8 cents per litre. Carbon tax revenues are recycled into the economy through government programs such as the Cost of Living Offset benefit, full rebates for carbon tax paid on heating fuel and fuel used for community electricity production, large-emitter rebates and grants, and GNWT greenhouse gas emission-reducing investments. The carbon tax exemption for aviation fuel helps reduce the effect of carbon pricing on the cost of living.

Projected 2022-23 Revenues by Source



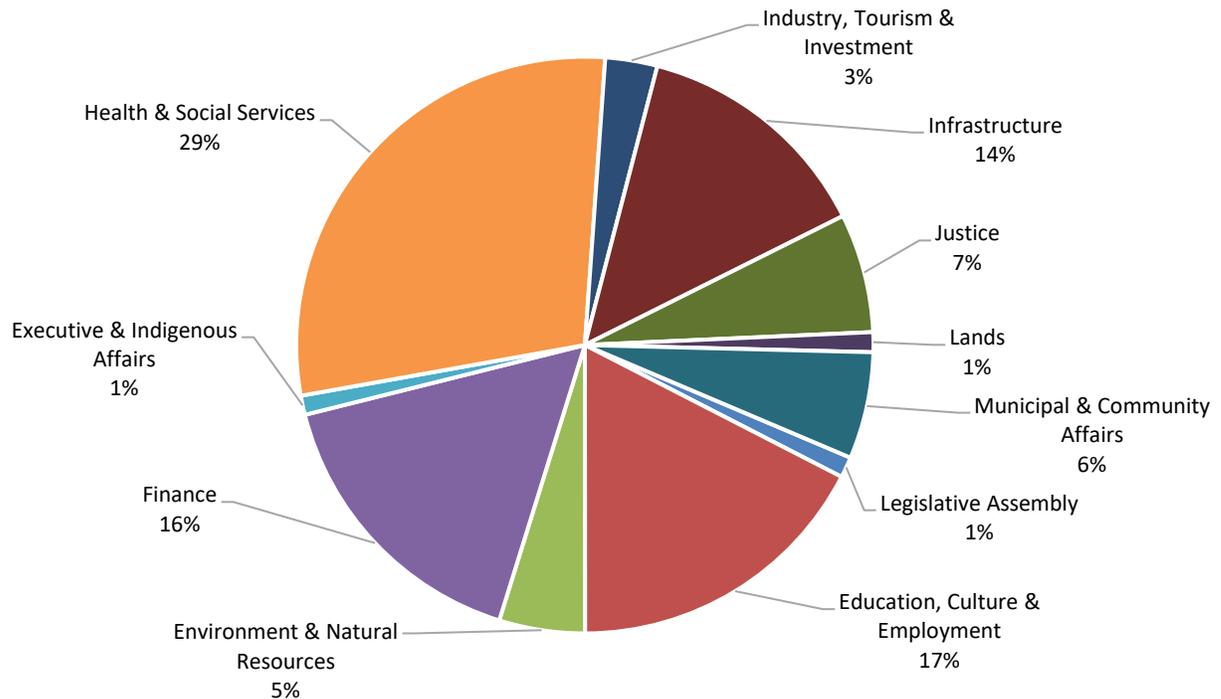
Operating Expenditures

Budget 2022-23 projects \$2.1 billion in departmental operating expenditures, of which \$1.2 billion, or 57 per cent, is dedicated to social programs in education, health care, social services, housing, policing and corrections. Departmental spending is expected to increase \$43 million compared to Budget 2021-22, split between social programs, up \$8.03 million, and all other spending, up \$35 million.

The 2022-23 operating expenditure budget is created by using the previous year's approved department budgets as the budget base. Expenditures for programs that are ending and other reductions are removed from that base and new funding for increased costs due to inflation or increased demand for particular programs or services are then added to each department's budget. Finally, new spending on initiatives is considered on a government-wide basis within the limits of the Government's fiscal resources. Under the *Fiscal Responsibility Policy*, the GNWT cannot borrow for operating expenses.

The following provides a description of proposed new spending whether it is for new or enhanced spending on priorities or to address increased costs for existing programs and services. The \$54 million in sunsetting programs and \$25 million in wage increases under collective bargaining agreements for GNWT employees and teachers are not broken out by department in the following list of initiatives. As a result of sunsetting programs, the total budgets for some departments did not increase from their 2021-22 budget even though they received additional funding for other programs and collective bargaining.

2022-23 Operations Expenditures by Department



Legislative Assembly

Included in the Legislative Assembly's \$25 million 2022-23 budget is \$1.2 million in additional funding for:

- \$935,000 towards Public Affairs and Communications including:
 - \$679,000 for simultaneous interpretation in the Chamber,
 - \$198,000 to upgrade technology in the Chamber, Caucus Room and Committee Room A,
 - \$35,000 for remote setting technology,
 - \$20,000 for public meeting interpretation, and
 - \$3,000 for public meetings.
- \$145,000 for facilities maintenance including fuel tank membrane replacement, exterior window caulking, window replacement, and roadway and walking trail maintenance.
- \$100,000 for election preparations in the Office of the Chief Election Officer.
- \$3,000 for training and software costs for the Human Resources Advisory Panel.

Education, Culture and Employment

The Department of Education, Culture and Employment is allocated \$10.7 million in additional spending, bringing the total 2022-23 department budget to \$358 million, including:

- \$1.01 million for actions under the Education Renewal and Innovation plan including:
 - \$300,000 to develop, pilot and implement the Education Assistance and Inclusion Certificate program to assist in developing the capacity of employed support assistants,
 - \$250,000 for *Our Languages Curriculum* to develop resources and train Indigenous language instructors,
 - \$210,000 to aid in the development of integration of services for children and youth with complex needs,
 - \$150,000 to support small community school principals by providing mentorship and professional learning focussed on strengthening instructional leadership, and
 - \$100,000 to help teachers in small communities address the challenges that accompany teaching different ages with best practice teacher and learning training, workshops and professional development.
- \$626,000 to help with adjustments to the 2022-23 School Funding Framework to address declining enrolment and help provide stable administrative and other school support.
- \$500,000 to increase the number of new childcare spaces created under the Childcare Infrastructure Fund.
- \$322,000 in increased funding for the delivery of French-language services; this funding is fully offset through the *Canada-Northwest Territories Agreement on Minority Language Education and Official Language Instruction*.
- \$298,000 to support initiatives under the *Canada-Northwest Territories Early Learning and Child Care Agreement* to further support early learning and childcare programs.
- \$159,000 for additional research to modernize the *Education Act*.

Environment and Natural Resources

The total 2022-23 budget for the Department of Environment and Natural Resources increases to \$99 million with \$1.6 million in additional spending including:

- \$1.03 million to support conservation and recovery of the Bathurst and Bluenose-East barren-ground caribou herds.
- \$260,000 to increase the Hunters and Trappers Compensation Program to better reflect the impacts of natural disasters and to fund river mapping in flood-prone areas.

- \$251,000 for increases in air tanker contracts and insurance costs.

Finance

The total 2022-23 budget for the Department of Finance is \$335 million, including \$33 million in additional spending for:

- \$12.2 million for Tłı̄ch̄o All-Season Road Public-Private Partnership annual service payments, bringing the total annual payment to \$14 million to pay for the road's construction and annual maintenance for the next 25 years.
- \$6.0 million to adopt the new Public Sector Accounting Standard 3280 to account for obligations that arise when assets are retired at the end of their useful life. This is an accounting change and does not affect cash.
- \$3.3 million for increases in NWT carbon tax large-emitter individual accounts due to NWT carbon tax rate increases effective July 1, 2022.
- \$2.6 million for increases in NWT carbon tax rebates for carbon tax paid on heating fuel and fuel used to generate electricity for distribution, and 72 per cent of the carbon tax paid by large-emitters due to NWT carbon tax rates increases effective July 1, 2022.
- \$2.3 million to cover the increase in NWT carbon tax Cost of Living Offset benefit payments to \$260 per adult and \$300 for children under 18 years effective July 1, 2022.
- \$1.9 million for increases in the GNWT's general insurance costs as a result of rising insurance rates and increases in the value of the government's insured property inventory.
- \$262,000 to support two additional Benefits Officer positions in response to the growing number of employee medical travel requests being processed.

Health and Social Services

The total 2022-23 budget for the Department of Health and Social Services is \$595 million, including \$11.864 million for the COVID Secretariat to continue to implement the Chief Public Health Officer's orders and manage the GNWT's response to the COVID pandemic through 2022-23. The Department's budget also includes \$30 million in additional spending:

- \$7.1 million under the Territorial Health Investment Fund provided by Canada including:
 - \$5.0 million health investment fund (Medical Travel),
 - \$1.05 million for positions related to system sustainability, and
 - \$1.05 million for primary healthcare reform by funding nine primary healthcare positions.

- \$2.92 million for actions under the *Northern Wellness Agreement* with Indigenous Services Canada to provide community-based programs which aim to reduce health disparities, and improve the health outcomes of Indigenous individuals, families and communities, including:
 - \$1.779 million to support mental health initiatives, including problematic substance abuse as well as suicide prevention,
 - \$649,000 for healthy living initiatives programs including chronic disease, Nutrition North and the tobacco control strategy,
 - \$280,000 to support health child and youth development. Community programs to aid in youth development include prenatal nutrition, fetal alcohol spectrum disorder and maternal child health,
 - \$106,000 to extend the Public Health Project Coordinator (formerly Sexual Health Coordinator) position that has been delayed due to the COVID-19 pandemic, and
 - \$106,000 towards On-the-land Collaborative Community Healthy Living Fairs and other awareness and prevention activities.
- \$1.4 million for additional support for community-based aftercare and addictions programs and services, including:
 - \$750,000 for the Community Based Addictions and Aftercare Fund that provides funding for external organizations to hire counsellors in support of specific community needs,
 - \$500,000 for additional community resources, including developing standards and a toolkit for helping communities make decisions on what policies and program infrastructure will best match their needs, and
 - \$150,000 for a senior advisor, Indigenous knowledge and wellness position to further support culturally respectful and community-based addictions programming.
- \$1.334 million and on-going for locums to address a shortfall in the provision of life-sustaining specialist physician services in internal medicine, general surgery, obstetrics and paediatrics.
- \$1.035 million for cancer care programs including:
 - \$530,000 to support territorial cancer care, including four positions for a cancer care nurse navigator, an oncology medical social worker, a territorial specialist for colorectal cancer screening, and a clinical program assistant;
 - \$245,000 for medical oncology support with Alberta Health Services to improve cancer care in terms of continuity, capacity, and responsiveness, to support on-site visits and timely virtual reviews of patients, and to promote staff education and mentoring;
 - \$189,000 for a cancer care program to provide an 80 per cent increase in colorectal cancer screening fecal immunochemical (FIT) tests for all eligible NWT residents; and

- \$71,000 to upgrade the database of patient screening records to be compatible with modern systems and to offer CT colonography within the territory, which will reduce wait times and medical travel for NWT residents.
- \$1.011 million to implement phase 2 of the territory's midwifery program as recommended by the *NWT Midwifery Stakeholder Engagement Report* (August 2017), which includes the establishment of six new midwife positions in Hay River (1), Fort Smith (1) and Yellowknife (4).
- \$935,000 to support poverty-reduction in the NWT including:
 - \$750,000 for the Anti-Poverty Fund,
 - \$110,000 for the Anti-Poverty Roundtable Advisory Council, and
 - \$75,000 in additional funding for the Hay River Shelter.
- \$743,000 to support four new Indigenous Patient Advocate positions and one manager position to address cultural safety and anti-racism within the health and social services system.
- \$710,000 to support new positions and software upgrades relating to home and community care. This is offset by federal funding under the *Canada-Northwest Territories Home and Community Care and Mental Health and Addiction Services Bilateral Funding Agreement*.
- \$710,000 to help community projects and positions that support mental health and addiction initiatives. This is offset by federal funding under the *Canada-Northwest Territories Home and Community Care and Mental Health and Addiction Services Bilateral Funding Agreement*.
- \$500,000 for increases to the Healthy Family Program to provide communities with program resources, supplies, and events to support and improve early childhood development.
- \$265,000 for the delivery of the NWT COVID-19 immunization program, which is offset by federal funding under the *Health System Investments Agreement*.
- \$225,000 for increased costs for Child and Family Services legal contracts due to the extension of services offered to youth leaving care and incorporating mediation or alternative dispute resolution mechanisms, which results in increases in custody hearings, case management conferences and mediations.
- \$187,000 to support increased costs for the operation of the Yellowknife Combined Day Shelter and Sobering Centre, which may be offset by a reduction in emergency visits to Stanton Territorial Hospital for alcohol use since the shelter's opening.
- \$174,000 to support positions and operating expenses under the *First Nations and Inuit Home and Community Care Agreement*, which will be fully offset by federal funding.
- \$172,000 for continued Mental Health Act Review Board operations.
- \$159,000 to add one additional deputy public guardian position in the Office of the Public Guardian to help address the increase in case volumes and complexity and the duration of guardianship situations.

- \$100,000 to fund the Toll-Free Quitline Numbers on Tobacco Packaging Initiative. The funding is offset by revenues received through a memorandum of agreement with Health Canada.
- \$100,000 for the Foster Family Coalition to provide respite services for caregivers.
- \$85,000 to support the Canadian Congenital Anomalies Surveillance System by strengthening the reporting of NWT congenital anomalies.
- \$33,000 for the Emergency Treatment Fund Bilateral Agreement with Health Canada.
- \$17,000 increase in funding to support training costs at Aurora College for expanded training programs for Personal Support Workers and Licensed Practical Nurses.

Industry, Tourism and Investment

The total 2022-23 budget for the Department of Industry, Tourism and Investment is \$60 million, with \$2.5 million in additional spending including:

- \$1.071 million to support the *Tourism 2025: Roadmap to Recovery* strategy, including support for Community Tourism Coordinators in three community governments and to strengthen tourism capacity at the community level.
- \$389,000 to advance the knowledge economy, with contributions to Makerspace YK and the Arts, Crafts and Technology Micro-manufacturing Centre in Inuvik and extension of makerspace services into other communities, and resources to support an action plan to guide building the knowledge economy through research, entrepreneurship, connectivity infrastructure, collaboration, and capacity building.
- \$300,000 to expand the Mining Incentive Program to attract and increase support for early-stage and advanced exploration projects.
- \$188,000 to support and develop the agricultural sector, including financial support for commercial operators and Canadian Agricultural Partnership contributions.
- \$169,000 and ongoing for increased utility costs at territorial parks, bringing the total base funding for water and sewer delivery and heating and electricity costs to \$470,000.
- \$100,000 to support Indigenous capacity building in the resource sector, which contributes to increased mineral exploration and development and is a component of the *Mineral Development Strategy*.

Infrastructure

The total 2022-23 budget for the Department of Infrastructure is \$279 million, with \$8.8 million in additional spending including:

- \$4.67 million to reallocate funding from the Low Carbon Economy Leadership Fund to Arctic Energy Alliance programming and grants to support investments by community governments and commercial and industrial buildings to reduce greenhouse gas emissions.
- \$1.135 million ongoing to address increased lease costs for renewals and operations and maintenance for GNWT general purpose office space.
- \$552,000 to cover operations and maintenance costs for new leased space for relocating employees of the Hay River Health and Social Services Authority.
- \$478,000 ongoing to address increased costs for winter salt for highways.
- \$370,000 ongoing for increased airport maintenance contract costs in Fort Good Hope, Tulita, Délı̄ne, Colville Lake, Łutselk'e, Gamètì, Wekweètì, Jean Marie River, Fort McPherson, Sachs Harbour, Ulukhaktok and Paulatuk.
- \$163,000 to establish a regional occupational health and safety position in Hay River in response to an increased workload.
- \$135,000 for a Highway Transport Officer position in Yellowknife to address enforcement pressures created by an increase in winter resupply road traffic and to reduce driver examination delays.

Justice

The total 2022-23 budget for the Department of Justice is \$137 million, with \$4.1 million in additional spending including:

- \$1.856 million for the GNWT's share of the costs associated with the addition of Royal Canadian Mounted Police (RCMP) positions, vehicles, housing and other policing services under the *Northwest Territories Territorial Police Service Agreement*, including:
 - \$424,000 to add two RCMP positions and vehicles for the Behchokò Detachment,
 - \$233,000 to add one RCMP position and one vehicle for the Tuktoyaktuk Detachment,
 - \$390,000 for two RCMP Constable-level positions and one public service analyst position for the Internet Child Exploitation Unit, and
 - \$809,000 for increased RCMP housing costs.
- \$190,000 to establish a Legal Officer position to support the Supreme Court.

- \$150,000 for the *NWT Guns and Gangs Strategy*, fully offset by federal funding under the Gun and Gang Violence Action Fund.
- \$129,000 ongoing for a data coordinator position for Legal Aid Services located in Yellowknife.
- \$123,000 for one Court Officer position in Yellowknife to address registry workload demands.
- \$25,000 to fund the Judicial Remuneration Commission's recommendation to increase compensation for Territorial Court Judges and Deputy Judges.

Lands

The total 2022-23 budget for the Department of Lands is \$23 million with \$727,000 in additional spending including:

- \$304,000 to support coordinating the GNWT's response to regulatory changes of the *Mackenzie Valley Resource Management Act* and regulatory policy initiatives of Crown-Indigenous Relations and Northern Affairs Canada.
- \$24,000 for enforcing land tenure and addressing unauthorized and rights-based occupancy.

Municipal and Community Affairs

The total 2022-23 budget for the Department of Municipal and Community Affairs is \$123 million, with \$2 million in additional spending including:

- \$922,000 on-going for the Community Government Operations and Maintenance Fund to continue to reduce the municipal funding gap for operations and maintenance funding, including \$833,000 for community governments and \$89,000 for the Délı̄ne Gó'ı̄ne Government. This brings the annual Community Government Operations and Maintenance Fund contribution to \$57.6 million.
- \$507,000 one-time funding to address the budget deficit in operating the NWT 9-1-1 system pending a review of long-term needs.
- \$331,000 ongoing to pay for increased grants-in-lieu of property taxes in taxed-based communities resulting from changes in assessed property values and increases in mill rates.
- \$123,000 to audit the administration of the Investing in Canada Infrastructure Program, which is offset by federal funding.

Northwest Territories Housing Corporation

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

- \$947,000 ongoing for increased operations and maintenance costs of 90 new federally-funded public housing units.
- \$752,000 ongoing to respond to increased demand for emergency overnight shelters in Hay River and Fort Simpson.
- \$164,000 ongoing for increased property tax costs for 1,531 properties.

Capital Plan Budget

The GNWT's 2022-23 capital budget was approved in December 2021. The capital budget consists of \$492 million for the GNWT's own infrastructure plans, including \$29 million for community infrastructure investments. If the \$11 million for the NWT Housing Corporation (NWT HC) housing investments included in the 2022-23 Main Estimates is considered, total planned infrastructure investment in 2022-23 will be \$503 million.

Community governments will receive \$17 million in federal Gas Tax Fund allocation and \$24 million from other federal infrastructure funding.

Major highlights in the capital estimates include:

- \$47 million for health facility replacements and renovations;
- \$150.2 million for highways, winter roads, bridges and culverts. This includes funding for highway projects submitted under the federal Infrastructure Plan;
- \$84.1 million for airports and runways;
- \$29 million to continue to provide funding to community governments for their infrastructure needs; and
- \$21.7 million for new education facilities and renovations to existing facilities.

The GNWT continues to face the difficult challenge of maintaining existing assets, improving housing stock and meeting legislative requirements. Finding fiscal resources in the operating budget allows additional funds to be dedicated to infrastructure investments that would not otherwise be financially feasible. In turn, investments in strategic infrastructure will better position the NWT to maximize economic opportunities in the territory and to explore options for adapting to the impact of climate change.

Medium-Term Outlook

The medium-term outlook is based on a five-year revenue forecast using data available as of January 2022. The outlook uses operating expenditures estimated using the four-year business plans revised in November 2021 and incorporates new expenditures proposed in the 2022-23 Budget. Capital investments are based on 2022-23 Capital Estimates approved in December 2021 and long-term capital planning projections.

The medium-term outlook shows that under current projections the GNWT is not generating enough cash to pay for infrastructure investments and total borrowing continues to increase. To reduce risk from revenue or expenditure shocks, the GNWT targets having at least \$100 million in borrowing capacity below the \$1.8 billion borrowing limit. Under current assumptions, the GNWT is expected to be slightly above the cushion for 2022-23 and will be \$46 million under the borrowing limit by 2023-24 and will be over the limit by the end of 2026-27.

Medium Term Outlook (January 2022 Forecast)

	2020-21 Actuals	2021-22 Revised Estimates	2022-23 Main Estimates	2023-24	2024-25	2025-26	2026-27
				(Forecast)			
Total Revenue	2,142	2,250	2,303	2,383	2,344	2,277	2,232
Operating Expenditures	2,075	2,222	2,172	2,212	2,207	2,202	2,234
Operating surplus (deficit)	67	28	131	171	137	75	(2)
Capital Investment	184	314	402	340	314	284	238
Total (Debt) at March 31							
Cash Surplus (Deficit) at year end	(386)	(609)	(791)	(828)	(817)	(812)	(887)
Long Term Debt and Guaranteed Debt	(864)	(846)	(905)	(926)	(922)	(930)	(930)
Total (Debt) at March 31	(1,250)	(1,455)	(1,696)	(1,754)	(1,739)	(1,742)	(1,817)
Borrowing Limit	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Available Borrowing Capacity	550	345	104	46	61	58	(17)

Risks to the Fiscal Outlook

The GNWT fiscal risks include:

- *The NWT's economic dependence on resources and uncertainty about the economic recovery from the pandemic* – 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. The COVID-19 pandemic has disrupted economies around the world and the economic recovery elsewhere will have implications for the demand for NWT resources and carries significant risk for lower tax revenues for the GNWT. Other sectors,

especially the tourism and hospitality and accommodation sectors, have also suffered severe revenue and job losses but do not pose a significant risk to GNWT own-source revenues. Reduced economic activity also has implications for the size of the NWT population, which affects the federal transfers that the GNWT receives.

- *Revenue volatility* – Corporate income tax has historically been the GNWT’s most volatile own-source revenue although the Territorial Formula Financing Grant is responsive over time to changes in corporate income tax revenues. Resource revenues are also volatile but their variability is not offset through Territorial Formula Financing. Resource revenues are sensitive to commodity price swings, exchange rate fluctuations, and operational decisions made by resource developers. The risk to the operating budget of large resource revenue shocks is largely neutralized by the GNWT’s commitment not to spend resource revenues on operations, but rather only on contributions to the Heritage Fund, debt repayment and infrastructure. Furthermore, 62.5 per cent of resource revenues are shared with other governments, further reducing the revenue risk to the GNWT fiscal framework.
- *Slow revenue growth* – Territorial Formula Financing is on average 70 per cent of total revenues, affording considerable year-to-year stability to the budget. Growth in Territorial Formula Financing relies heavily on NWT population growth relative to Canada and provincial/local government spending. Massive provincial spending for pandemic-related supports to businesses and individuals will increase Territorial Formula Financing over the short term; however the territory’s share of Canada’s population is declining and potential provincial and local government fiscal austerity measures to address increased levels of debt will reduce long-term growth in the Territorial Formula Financing Grant. This means that revenues grow more slowly and there will be reduced funding for operating and capital budgets. An underdeveloped private sector limits the ability to raise additional revenue through tax changes.
- *On-going operating expenditure pressures* – Constant pressure exists to enhance current programs and to implement initiatives while not reducing existing program and service expenditures. Operating spending has grown over time through a combination of initiatives, adjustments to enhance or improve programs, and forced increases based on higher costs and demand for services.
- *Unexpected expenditures and capital project cost overruns* – Typical operating expenditure shocks are extraordinary fire suppression needs or other natural disasters. With the undertaking of large capital projects, the risk of capital cost overruns is heightened.
- *Debt Position and Financing* - The GNWT issues debt to partially finance its capital program and to meet short-term borrowing requirements. The amount of debt has increased almost continuously since 2009-10, reflecting investments in capital projects. The GNWT has also taken advantage of cost-shared dollars with the federal government to develop the territory’s infrastructure. The state of NWT infrastructure is a barrier to increased economic opportunities and the attractiveness of the NWT as a place to live and work is negatively affected by lack of good quality infrastructure to deliver programs and services. Small operating surpluses and three years of unexpected operating deficits have increased short-term borrowing and large infrastructure projects have increased long-term debt. As debt increases throughout the medium-term outlook, the following risks increase:

- *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 funds available for programs, services, and infrastructure investment.
- *Exceeding the Borrowing Limit* - the federally-imposed borrowing limit is \$1.8 billion. While GNWT total debt is projected to remain below the borrowing limit for the next four years, the cushion between the limit and current debt projections is uncomfortably small. There is no guarantee that the federal government will agree to a further borrowing limit increase.
- *Downgrade of the Credit Rating* - The *Fiscal Responsibility Policy* (see box) is a major component in the GNWT's credit ratings. In October 2021, Moody's Investors Service confirmed the GNWT's Aa1 credit rating, for the 14th consecutive year, one of the highest ratings available. In January 2022, Fitch Ratings Inc. released its first rating for the GNWT as AA-, only two notches below Canada's AA+ rating. Both ratings serve as validation that the GNWT continues responsible financial management practices.

Fiscal Responsibility Policy

The GNWT relies 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 generated from 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 in recent years to lower the growth rate of operating expenditures.

Fiscal Strategy

The GNWT continues its efforts to keep operations and infrastructure investment expenditure growth in line with revenue growth and follow the *Fiscal Responsibility Policy*.

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

- Allocate \$10 million in funding for 19th Assembly mandate priorities in 2020-21, with a total of \$25 million for the life of the Assembly.
- Seek cost sharing and funding from the federal government to advance priorities.
- Collaborate with Indigenous Governments to advance projects that share priorities.
- Perform four-year business plans and increase program evaluation.

The 2022-23 Budget advances this fiscal strategy. Starting 2023-24, expenditure growth for inflationary and increased demand pressures will be limited to \$10 million and funding for new initiatives will be limited to \$5 million annually.

The GNWT is taking a number of actions, including developing regional economic development plans, taking actions arising from the recommendations in its procurement practices review, and supporting the work of the Red Tape Reduction Working Group, to help create the environment for a more vibrant economy. Furthermore, the GNWT continues to make strategic and affordable infrastructure investments. These strategies should help strengthen the economy and expand the tax base, reducing the need for new revenue sources.

Government Renewal - Program Evaluation

In October 2020, the Minister of Finance announced the Government Renewal Initiative (GRI) to shift budget development from incremental increases or decreases from the previous year's budget to a planning focus that relies on value-driven budgeting. GRI is based on the principle that government financial resources should be allocated based on government priorities as well as on how effectively programs and services give value to residents.

GRI is working to complete program and service inventories for all departments and will transition to program evaluation work in 2022-23. Program evaluation techniques will allow the GNWT to:

- define program objectives and outcomes and describe program staff actions and outputs in clear terms so managers and staff know what to do and what they are trying to achieve;
- create a plan for program implementation to avoid confusion or major shifts in delivery;
- show managers what they should be monitoring in the program to identify what is working well and should be supported or expanded, and what problems should be proactively fixed; allowing them to effectively manage their programs, deal with issues that come up, continue things that work well, and ensure value is being delivered to clients;
- establish a defined timeline and plan to assess programs to determine if they are achieving what they are supposed to be achieving; and
- help the government know whether it is being effective and what it can do if it is not effective.

Summary of Operations

	(thousands of dollars)			
	2020- 2021 Actuals	2021- 2022 Main Estimates	2021- 2022 Revised Estimates	2022- 2023 Main Estimates
REVENUES	2,142,361	2,192,397	2,249,920	2,302,537
OPERATIONS EXPENSE				
Compensation and Benefits	413,146	425,482	426,578	427,977
Grants, Contributions and Transfers	993,397	944,755	978,431	975,626
Amortization	117,754	127,366	127,366	129,368
Chargebacks	23,673	23,338	23,518	23,507
Computer Hardware and Software	11,882	6,058	6,060	6,005
Contract Services	205,974	225,806	257,983	243,753
Controllable Assets	5,188	3,037	2,999	2,989
Fees and Payments	126,543	132,433	137,635	124,631
Interest	16,347	20,478	20,464	20,463
Loss on Sale of Assets	773	-	-	-
Materials and Supplies	26,401	22,217	22,068	21,981
Purchased Services	18,047	17,812	17,564	19,920
Travel	8,087	20,281	16,234	15,854
Utilities	40,182	40,891	40,891	40,890
Valuation Allowances	6,736	3,193	3,193	3,193
TOTAL OPERATIONS EXPENSE TO BE VOTED	2,014,130	2,013,147	2,080,984	2,056,157
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	128,231	179,250	168,936	246,380
Infrastructure Contributions	(60,031)	(63,691)	(77,453)	(84,048)
Deferred Maintenance	(809)	(2,000)	(3,558)	(1,800)
Supplementary Reserve	-	(65,000)	(65,000)	(35,000)
Estimated Appropriation Lapses	-	20,000	5,000	5,000
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	77,250	88,634	111,807	129,122
Expenditures	(77,250)	(88,634)	(111,807)	(129,122)
OPERATING SURPLUS FOR THE YEAR	67,391	68,559	27,925	130,532
ACCUMULATED SURPLUS, BEGINNING OF YEAR	1,718,360	1,686,991	1,785,751	1,813,676
ACCUMULATED SURPLUS, END OF YEAR	1,785,751	1,755,550	1,813,676	1,944,208

Summary of Revenues

(thousands of dollars)

	2020-2021 Actuals	2021-2022 Main Estimates	2021- 2022 Revised Estimates	2022- 2023 Main Estimates
GRANT FROM CANADA	1,412,734	1,480,118	1,480,118	1,519,233
TRANSFER PAYMENTS	320,173	390,587	362,346	393,515
TAXATION REVENUE				
Personal Income Tax	100,031	103,020	130,819	111,153
Corporate Income Tax	3,300	(8,418)	24,467	24,572
Cannabis Excise Tax	343	331	665	598
Carbon Tax	24,666	34,977	36,531	46,438
Tobacco Tax	15,722	14,476	15,403	15,071
Fuel Tax	17,656	18,367	19,269	19,281
Payroll Tax	43,000	42,470	43,860	43,856
Property Taxes and School Levies	27,996	28,617	28,346	29,273
Insurance Premium Taxes	5,997	5,500	5,500	5,500
	238,711	239,340	304,860	295,742
NON-RENEWABLE RESOURCE REVENUE				
Licences, Rental and Other Fees	47,174	2,964	2,964	2,779
Minerals, Oil and Gas Royalties	19,153	1,511	24,176	18,686
Quarry Fees	143	100	150	150
	66,470	4,575	27,290	21,615
GENERAL REVENUES				
Revolving Funds Net Revenue	25,262	25,016	21,691	21,292
Regulatory Revenues	22,444	23,653	23,766	22,930
Interest	156	200	336	340
Investment Income	4,678	400	400	400
Lease	425	4,024	4,024	3,981
Program	23,448	19,540	19,645	18,219
Grants	75	-	-	-
Grants in kind	-	140	140	-
Service and miscellaneous	3,784	1,804	2,304	2,270
Recovery of Prior Years' Expenditures	24,001	3,000	3,000	3,000
	104,273	77,777	75,306	72,432
TOTAL REVENUES	2,142,361	2,192,397	2,249,920	2,302,537

Summary of Operations Expenditures

	(thousands of dollars)			
	2020- 2021 Actuals	2021- 2022 Main Estimates	2021- 2022 Revised Estimates	2022- 2023 Main Estimates
Department				
Legislative Assembly	21,476	24,443	24,443	25,435
Education, Culture and Employment	350,410	353,159	356,285	358,318
Environment and Natural Resources	98,847	97,874	100,203	98,723
Executive and Indigenous Affairs	20,456	22,428	21,874	22,114
Finance	316,141	302,266	317,616	335,239
Health and Social Services	595,255	596,784	601,598	594,777
Industry, Tourism and Investment	63,093	59,989	65,869	59,625
Infrastructure	264,385	278,894	280,212	278,853
Justice	131,228	133,753	133,593	137,054
Lands	21,852	22,425	22,320	22,915
Municipal and Community Affairs	130,987	121,132	156,971	123,104
	2,014,130	2,013,147	2,080,984	2,056,157
Expenditure Category				
Compensation and Benefits	413,146	425,482	426,578	427,977
Grants, Contributions and Transfers	993,397	944,755	978,431	975,626
Amortization	117,754	127,366	127,366	129,368
Chargebacks	23,673	23,338	23,518	23,507
Computer Hardware and Software	11,882	6,058	6,060	6,005
Contract Services	205,974	225,806	257,983	243,753
Controllable Assets	5,188	3,037	2,999	2,989
Fees and Payments	126,543	132,433	137,635	124,631
Interest	16,347	20,478	20,464	20,463
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Purchased Services	18,047	17,812	17,564	19,920
Travel	8,087	20,281	16,234	15,854
Utilities	40,182	40,891	40,891	40,890
Valuation Allowances	6,736	3,193	3,193	3,193
	2,014,130	2,013,147	2,080,984	2,056,157

Summary of Infrastructure Investment

(thousands of dollars)

	2020-2021 Actuals	2021- 2022 Capital Estimates	2021- 2022 Revised Estimates	2022- 2023 Capital Estimates
TANGIBLE CAPITAL ASSETS				
Legislative Assembly	2,034	110	1,076	400
Education, Culture and Employment	4,356	13,248	24,165	15,919
Environment and Natural Resources	1,917	2,159	4,835	2,110
Finance	2,581	9,254	16,250	79,849
Health and Social Services	22,137	61,120	88,629	47,058
Industry, Tourism and Investment	2,837	14,250	19,978	4,437
Infrastructure	54,078	211,645	247,602	250,121
Justice	2,754	1,541	2,307	1,480
Lands	264	234	318	225
Municipal and Community Affairs	-	-	-	150
	92,958	313,561	405,160	401,749
INFRASTRUCTURE CONTRIBUTIONS				
Education, Culture and Employment	8,245	16,900	19,466	9,453
Health and Social Services	3,745	-	-	2,555
Infrastructure	20,469	17,791	26,487	43,040
Municipal and Community Affairs	29,000	29,000	31,500	29,000
	61,459	63,691	77,453	84,048
DEFERRED MAINTENANCE (NON-CAPITAL)				
Infrastructure	809	2,000	3,558	1,800
	809	2,000	3,558	1,800
PUBLIC PRIVATE PARTNERSHIPS				
Infrastructure	90,850	61,330	61,330	4,420
	90,850	61,330	61,330	4,420
TOTAL	246,076	440,582	547,501	492,017

Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2020- 2021 Actuals	2021- 2022 Main Estimates	2021- 2022 Revised Estimates	2022- 2023 Main Estimates
SHORT TERM DEBT				
Government of the Northwest Territories	374,964	631,000	594,000	790,000
Hay River Health and Social Services Authority	-	1,000	1,000	1,000
NWT Hydro Corporation	10,920	-	14,390	-
	<u>385,884</u>	<u>632,000</u>	<u>609,390</u>	<u>791,000</u>
LONG TERM DEBT				
Government of the Northwest Territories:				
Bonds repayable, GNWT	140,000	140,000	140,000	140,000
Bonds repayable, NTPC	40,000	40,000	40,000	40,000
New debt, NTPC bonds	-	105,000	-	75,000
Deh Cho Bridge, Real Return Bonds	174,533	171,515	174,598	173,517
Mackenzie Valley Fibre Optic Link, P3 debt	72,800	69,946	69,946	67,065
Stanton Territorial Hospital, P3 debt	130,454	127,129	127,129	123,690
Tłı̄chq̄ All-Season Road, P3 debt	149,796	74,243	74,400	72,300
Canada Mortgage and Housing Corporation	283	199	196	109
Public Agencies:				
NWT Hydro Corporation	203,416	199,695	191,802	188,531
NWT Housing Corporation	5,349	4,717	4,716	4,045
	<u>1,302,515</u>	<u>1,564,444</u>	<u>1,432,177</u>	<u>1,675,257</u>
TOTAL DEBT				
OBLIGATIONS UNDER CAPITAL LEASES				
NWT Hydro Corporation	16,355	15,984	15,984	15,579
LOAN GUARANTEES				
NWT Business Development and Investment Corp.	2,318	2,100	2,000	2,000
NWT Housing Corporation	6,721	4,947	4,893	3,232
	<u>1,327,909</u>	<u>1,587,475</u>	<u>1,455,054</u>	<u>1,696,068</u>
TOTAL GROSS BORROWING PER REGULATIONS				
LESS: EXTERNALLY RESTRICTED SINKING FUNDS				
Government of the Northwest Territories	(78,099)	-	-	-
	<u>1,249,810</u>	<u>1,587,475</u>	<u>1,455,054</u>	<u>1,696,068</u>
TERRITORIAL BORROWING				
TERRITORIAL BORROWING LIMIT				
	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,800,000</u>
AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES				
	<u>550,190</u>	<u>212,525</u>	<u>344,946</u>	<u>103,932</u>

Provincial/Territorial Tax Rates at February 14, 2022

	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	9.40	10.90	60.80	2.00	2.0	11.5	-
Nunavut	44.50	-	6.4	9.1	8.84	10.73	60.00	2.00	3.0	12.0	-
Yukon	48.00	-	6.2	7.2	8.84	10.73	62.00	-	-	12.0	-
British Columbia	53.50	7.0	14.5	15.0	9.96	11.71	65.00	1.95	2.0	12.0	-
Alberta	48.00	-	13.0	13.0	8.84	10.73	55.00	-	2.0	8.0	-
Saskatchewan	47.50	6.0	15.0	15.0	8.84	10.73	54.00	-	-	12.0	4.0
Manitoba	50.40	7.0	14.0	14.0	8.84	10.73	60.00	2.15	-	12.0	6.0
Ontario	53.53	8.0	14.7	14.3	8.84	10.73	36.95	1.95	3.2	11.5	1.25
Quebec	53.31	9.975	19.2	20.2	-	-	29.80	4.26	3.2	11.5	1.25
New Brunswick	53.30	10.0	10.87	15.45	8.84	10.73	51.04	-	2.5	14.0	5.0
Nova Scotia	54.00	10.0	15.5	15.4	-	-	59.04	-	2.5	14.0	4.0
Prince Edward Island	51.37	10.0	8.47	14.15	8.84	10.73	55.04	-	1.0	16.0	5.0
Newfoundland & Labrador	54.80	10.0	14.5	16.5	8.84	10.73	65.00	2.00	3.0	15.0	6.0
Weighted average ^(g)	52.53	7.4	15.4	15.6	6.78	8.17	44.03	2.09	2.6	11.4	1.42

Notes:

(a) Combined federal-provincial/territorial highest 2022 personal income tax rate and surtax.

(b) The NWT's off-highway gasoline tax rate is 6.4 cents/litre. British Columbia fuel tax rates do not include surtaxes that apply only in Victoria and the Lower Mainland. Quebec fuel tax rates also vary regionally.

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

(d) Manitoba and Saskatchewan apply provincial sales tax to tobacco products. Harmonized Sales Tax is applied to tobacco products in Ontario, New Brunswick, Prince Edward Island, Newfoundland & Labrador, and Nova Scotia. 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, 2021.
