

Fiscal Review

2021-2022

Northwest Territories

Department of Finance
February 4, 2021



FISCAL REVIEW

2019-20 Final Results

Total revenues for the Government of the Northwest Territories (GNWT) in 2019-20 were \$1.85 billion; an increase of \$80 million, or 4.5 per cent, from 2018-19. Increased revenues from Territorial Formula Financing, other federal transfers and general revenues offset an \$8 million decrease in tax revenues from the previous year's results.

Total operating expenditures on programs and services in 2019-20 were \$1.88 billion, an increase of \$118 million, or 6.7 per cent, from 2018-19. The highest percentage increase in the budget from 2018-19 to 2019-20 was 21 per cent for the Legislative Assembly; an increase of \$4.2 million in its budget. Over one-half the total spending increase went to the Department of Health and Social Services for a total budget increase of 12 per cent, or \$60 million. The Department of Finance's budget increased \$18 million; the Department of Education Culture and Employment rose \$8 million; and the departments of Environment and Natural Resources, Infrastructure and Municipal and Community Affairs each received increases of over \$6 million.

2019-20 operating expenditures were higher than revenues, resulting in an operating deficit of \$71 million, the second consecutive deficit. Total debt increased to \$1.2 billion as March 31, 2020.

2020-21 Revised Estimates

Total revenues for 2020-21 are expected to be \$2.175 billion. Despite the economic disruption caused by the global COVID-19 pandemic, total revenues decreased \$10.5 million from the projections in the 2020-21 Budget released February 25, 2020. The federal government has committed to providing \$124 million in transfers to help with expenses created by the pandemic and after the reallocation of infrastructure transfers to future years, total federal transfers increased \$45 million from the 2020-21 Budget forecast. Out of a projected \$55 million decrease in own-source revenues from the 2020-21 Main Estimates, roughly \$45 million can be attributed to the economic disruption caused by the COVID-19 pandemic. Pandemic-related declines are primarily projected decreases in fuel and carbon tax revenues from reduced fuel consumption (mainly mining) and foregone revenues (leases, bridge tolls, some fees and licences) that were not collected as a means of providing financial support to business during the most severe public health restrictions. The \$23 million decline in projected corporate income tax revenue partially relates to economic events in 2019 rather than in 2020-21.

Total operating spending for 2020-21 is estimated at \$2.05 billion; an increase of \$154 million from the 2020-21 Budget. Most of this increase is related to increased expenditures to address public health restrictions during the pandemic: \$71 million was provided to Health and Social Services and \$11 million to Municipal and Community Affairs. The Department of Finance budget increased by \$39 million to cover additional costs in the first months after the March 18 declaration of a public

health emergency and for supports to Northern airlines. From another perspective, two-thirds, or \$103 million of increased expenditures were grants and contributions to support Northwest Territories residents and businesses through the economic crisis brought on by the pandemic. Compensation increases for jobs related to carrying out public health orders were 12 per cent, or \$18 million.

For the third year in a row, expenditures are projected to be greater than revenues, resulting in an operating deficit of \$31 million. This will force Government to borrow more than expected to cover operating deficits, but also borrow for the capital budget, which was to be partially funded by the projected operating surplus.

Total debt for the purposes of the federally-imposed borrowing limit is projected to be \$1.33 billion as of March 31, 2021. The borrowing limit was increased from \$1.3 billion to \$1.8 billion in September 2020. This leaves \$469 million in borrowing capacity expected at March 31, 2021.

2021-22 Main Estimates

Total 2021-22 revenues are estimated at \$2.19 billion and total expenditures at \$2.12 billion, providing a projected operating surplus of \$69 million.

Total revenues are supported by an \$86 million increase in federal transfers since the 2020-21 Main Estimates. Own-source revenues are forecast to be \$86 million lower than the 2020-21 Main Estimates due to declines in forecasted corporate income tax, resource royalties and revenues from the Yellowknife Airport and Marine Transportation System revolving funds.

The fiscal independence of the GNWT has been affected by the decreases in own-source revenues as federal transfers are projected to have increased from 81 per cent in 2019-20 to 85 per cent of total revenues in the 2021-22 Main Estimates.

Total budgeted 2021-22 department expenditures are \$2.01 billion, a 6 per cent increase from 2020-21 Main Estimates. Compensation and benefits, 21 per cent of the operating budget, a 6 per cent increase from the 2020-21 budget. Grants, contributions and transfers, 47 per cent of the total operating budget, also increased 6 per cent. Contract services, which are 11 per cent of the budget, are projected to increase 1 per cent.

Multiple years of deficits, plus the approved 2021-22 capital budget of \$441 million, including infrastructure contributions, will increase the debt forecast to \$1.59 billion at March 31, 2022, leaving \$215 million in available borrowing room.

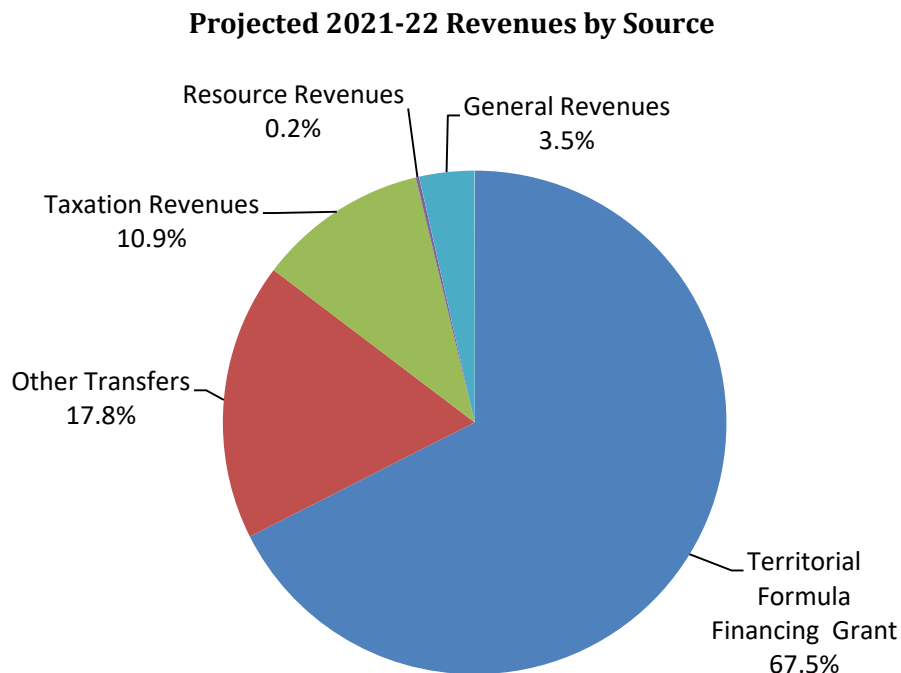
2021-22 Budget Highlights

Revenue Initiatives

Budget 2021-22 does not contain any new taxes although some tax rates will change. The small business tax rate is planned to be reduced from 4 per cent to 2 per cent effective January 1, 2021. Property mill rates and some fees will be increased by inflation in keeping with financial management practices.

The GNWT committed under the *Pan-Canadian Framework on Clean Growth and Climate Change* to increase the Northwest Territories carbon tax from the current \$30 per carbon-equivalent tonne of greenhouse gas emissions to \$40 per tonne on July 1, 2021. This will mean that the carbon tax rate on gasoline will increase 2.4 cents per litre to 9.4 cents per litre. Carbon tax rates are set in the *Petroleum Products and Carbon Tax Act* and will increase annually by \$10 per carbon-equivalent tonne of greenhouse gas emissions until they reach \$50 per tonne on July 1, 2022.

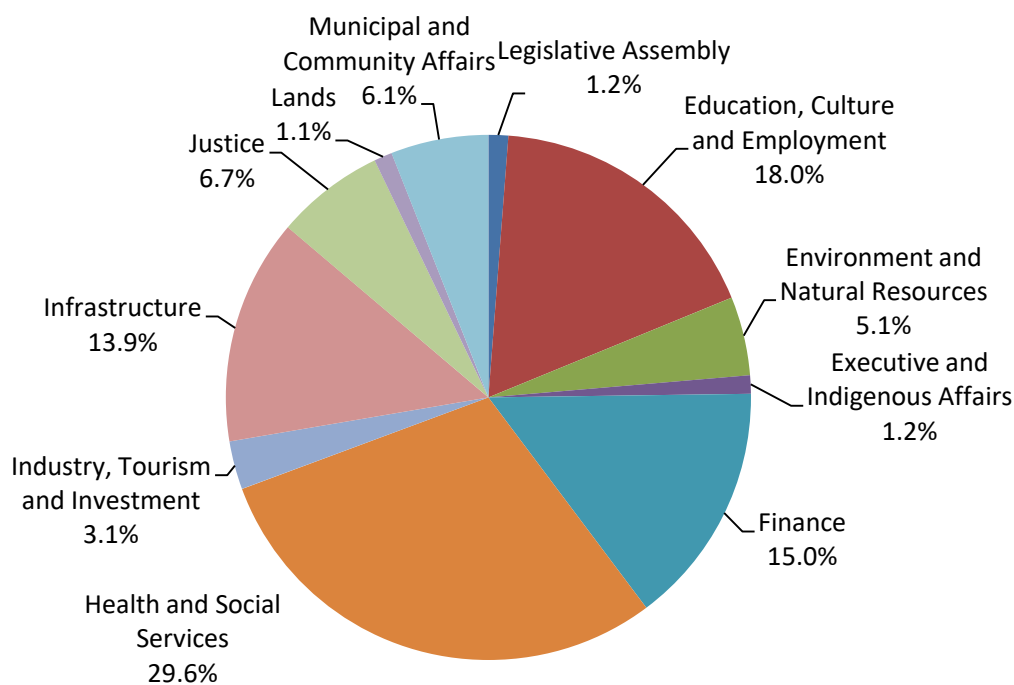
Carbon tax revenues are recycled into the economy through government programs such as the Cost of Living Offset benefit, full rebates for carbon tax paid on heating fuel and fuel used for community electricity production, large-emitter rebates and grants, and greenhouse gas-reducing investments by the GNWT. The carbon tax exemption for aviation fuel helps reduce the implications for carbon pricing on the cost of living.



Operating Expenditures

Budget 2021-22 projects \$2.01 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 \$117 million compared to Budget 2020, split between social programs, up \$93 million, and all other spending, up \$24 million.

2021-22 Operations Expenditures by Department



Legislative Assembly

- \$921,000 for the Office of the Clerk to complete various projects and technical upgrades.
- \$458,000 for Statutory Offices to add a Human Rights Officer position, change positions from part time to full time, and address increases in telecommunications and travel costs.
- \$427,000 for increases to Members' allowance and pension expenses.
- \$179,000 for positions and hours worked in the Office of the Chief Electoral Officer.
- \$1,000 for the Office of the Speaker inflation increases for the Speaker and Deputy Speaker.

Education Culture and Employment

- \$4.108 million for the Income Assistance Program to address increased costs related to more clients, inflationary pressures, enhancements to increase assistance to low and modest income families, enhancements for single applicant rental allowance benefits and increased allowances for seniors and persons with disabilities.
- \$4.255 million for School Contributions COVID-19 Support to provide funding to address increased costs to safely reopen NWT schools for the 2020-21 school year ending in June 2021, including additional cleaning costs, teaching and substitute teaching in case of higher sick absenteeism, increased materials and supplies and acquisition of devices that can access the internet.
- \$1.170 million to ensure the Northern Distance Learning program is sustainable and to expand the program to remaining rural community schools.
- \$1.088 million for the Student Financial Assistance Support Program to provide increased support to students related to COVID-19 costs through two application-based grants: one-time \$750 non-repayable, but taxable, technology grant for full-time students to assist with the cost of technology (e.g. computer, printer, scanner) required to participate in online/virtual post-secondary studies; and, an eight month non-repayable, taxable grant of \$100 per for full-time students for increased internet and other home utility costs as a result of the online delivery of courses and as a mitigation for reduced summer employment earnings due to COVID-19.
- \$774,000 to record the increase in the valuation allowance (uncollectible student loans) for the Student Loan Revolving Fund, which, because it is treated as an expense, serves to reduce the recorded value of loans so that the loan amounts equals the amount that is expected to be collected.
- \$711,000 under the Canada-NWT Cooperation Agreement on Minority Language Education and Second Official Language Instruction to provide support to education bodies and Collège nordique francophone for delivery of French language training.
- \$600,000 to continue work to revitalize Indigenous languages by developing an Indigenous Languages Adult Immersion Diploma in partnership with Aurora College, the University of Victoria and Indigenous governments that will provide work force skills development required for occupations requiring a capacity to speak Indigenous languages.
- \$600,000 for a one-time funding increase under the *Canada-Northwest Territories Workforce Development Agreement* to enhance existing workforce programs to support people in obtaining and maintaining employment, such as wage subsidy programs, skills development, entrepreneurship support and job creation programs provided in response to the disruptions created by the COVID-19 pandemic.
- \$508,000 to hire career and education advisors for schools in Fort Simpson, Norman Wells and Fort Smith to work with students and guardians to provide information to transition to post-secondary education and to connect with employers.

- \$500,000 to establish an ongoing funding program to support the creation of licensed early learning and child care spaces across the territory by subsidizing non-government organizations for the cost of space acquisition, renovations, and repairs.
- \$365,000 to extend temporary funding to maintain 12 multi-person family housing rental units for Aurora College in Inuvik.
- \$306,000 for research to modernize the *Education Act*.
- \$265,000 to support competency-based professional standards for Junior Kindergarten to Grade 12 educators and improve their opportunities to use online technology for professional collaboration.
- \$222,000 for two Student Records Coordinators to support increased requests for school records relating to the Federal Indian Day School Class Action settlement.
- \$177,000 for a Quality Assurance Coordinator position to ensure accreditation standards are met at the post-secondary level.
- \$165,000 increase to address costs for a travelling mental health team to provide services to the smallest communities, estimated at \$55,000 per school, as part of the Northwest Territories School and Community Child and Youth Care Counsellors program, which provides access to mental health and wellness counselling resources for children, youth and families.

Environment and Natural Resources

- \$2.601 million to continue to implement the *2030 NWT Climate Change Strategic Framework 2019-2023 Action Plan*.
- \$127,000 for air tanker contract increases for forest fire suppression services.
- \$110,000 in additional funds for the Sustainable Livelihoods Program to work with partners to develop and deliver harvesting training courses, including safety and navigation, harvesting and processing skills and food preparation.
- \$58,000 for a part-time French Language Communications and Services Coordinator to provide French Language Services.

Executive and Intergovernmental Relations

- \$631,000 for the creation of the Gender Equity Unit that will support the implementation of gender-based analysis plus (GBA+) government-wide. This includes \$150,000 in grants and contributions to increase funding available to the Native Women's Association, the Status of Women's Council, and the Women's Initiative grant, and will assist non-government organizations in addressing the expanded definitions and parameters of gender within society and government.

Finance

- \$5.1 million increase 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, 2021.
- \$2.3 million to cover the increase in the NWT carbon tax Cost of Living Offset benefit annual payments to \$208 per adult and \$240 for children under 18 years.
- \$1.8 million for the Tłıchǫ All-Season Road annual service payments.
- \$1 million for increases in NWT carbon tax large emitter individual accounts due to NWT carbon tax rate increases, effective July 1, 2021.
- \$100,000 for increased interest costs on the Deh Cho Bridge debt.

Health and Social Services

- \$34.589 million for the COVID-19 Secretariat to continue implementing public health orders in 2021-22.
- \$8.423 million for 45 positions and other operating expenses for activities under the First Nation and Inuit Home and Community Care Agreement with Indigenous Services Canada.
- \$7.512 million to reflect demands and the 24 hours, seven days a week nature of NWT Health and Social Services Authority.
- \$5.855 million to increase capacity in Child and Family Services by adding front-line positions to deliver services across all regions and increase program support provided by the department and the NWT Health and Social Services Authority.
- \$4.346 million for 27 positions under the NWT School and Community Child and Youth Care Counsellors program, which is designed to increase access to mental health and wellness counselling resources for children, youth and families across the Northwest Territories.
- \$4.16 million for increased costs for insured hospital and physician services provided to Northwest Territories residents in other provinces and territories.
- \$3.441 million for increased costs related to medical travel including increased number of cases and trips per case.
- \$1.828 million for supplementary health benefits to address increases in service and supply costs, especially in pharmacy and medical travel programs due to increases in the claimant numbers.
- \$1.12 million to train personal support workers and licenced practical nurses at Aurora College to care for long term care residents.

- \$1.1 million to renew and improve the Healthy Family Program to better reflect early childhood development and culturally-based prevention priorities.
- \$1.023 million for insured hospital and physician services for non-residents of the Northwest Territories; these costs will be fully recovered by billing the non-NWT residents' home jurisdiction.
- \$615,000 for the expansion of the Hay River dialysis unit.
- \$406,000 to cover wage increases under the *AVENS Collective Agreement*.
- \$400,000 to review and amend the Meat Inspection Framework to remove barriers for safe meat production, including drafting *Meat Inspection Regulations* and development of policies and processes related to the program and training employees and meat producers.
- \$333,000 to carry over unused federal funds for work under the *Northern Wellness Agreement*, including filling the Sexual Health Coordinator position.
- \$290,000 for the Paid Family Caregiver Project and to fund project software for home and community care initiatives under the *Canada-Northwest Territories Home and Community Care and Mental Health and Addictions Services Funding Agreement*.
- \$285,000 for the Northwest Territories Health and Social Services Authority to cover increased costs for non-discretionary supplies and chemotherapy drugs.
- \$280,000 to extend the Peer Support Program for people with mental health and addiction issues.
- \$138,000 for a position to lead the Canadian Hospitals Injury Reporting and Prevention Program Agreement at the Stanton Hospital.

Infrastructure

- \$2.705 million to establish the Department's ongoing budget for utilities at Stanton Hospital.
- \$1.798 million to adjust the Department's budget for increased electricity costs for facilities owned by the GNWT.
- \$1.195 million for increased costs to maintain Highway 8 (Dempster Highway) caused by increased contract costs, permafrost degradation, increases in volume and price of supplies for repairs; increased hauling and transportation costs; and increased costs for maintenance of, or replacement for, aging equipment.
- \$1.12 million to address office space lease requirements for increasing capacity in the Child and Family Services Program.

- \$151,000 to establish one Occupational Health and Safety Officer in Inuvik to maintain the regulatory requirements of the *Safety Act*, related to transportation, marine services, airports and winter road worksites across the territory.
- \$83,000 for increased water and sewer costs associated with the Lafferty and N'Dulee ferries.
- \$49,000 for reallocation of approved funds for *Low Carbon Economy Leadership Fund Agreement* with Environment and Climate Change Canada to reflect an amended timeline.

Industry Tourism and Investment

- \$936,000 to support the first year of a renewed tourism strategy with *Tourism 2025*, a five-year investment strategy.
- \$400,000 to maintain 2020-21 funding levels in the Mining Incentive Program.
- \$360,000 to develop regulations for the *Mineral Resources Act* that came into effect in 2019.
- \$350,000 to advance strategies for developing the knowledge economy and to establish regional economic development plans.
- \$250,000 to re-profile the Fishing Sector Support Officer position and provide a contribution to assist the Tu Cho Fishers Cooperative to complete the work required to be ready to operate and manage the fish processing plant being built in Hay River as part of the *Strategy for Revitalizing the Great Slave Lake Commercial Fishery*.
- \$225,000 to implement the *Northwest Territories Petroleum Resources Strategy*.
- \$76,000 to fund a seasonal Tourism Development Officer position in Inuvik to address increased enforcement duties from the rise in tourism activity related to the opening of the Inuvik-Tuktoyaktuk Highway.
- \$58,000 to establish a new seasonal Parks Officer position in Fort Providence in response to increased visitors to South Slave region parks.
- \$58,000 to provide a part-time French Language Communications and Services Coordinator for French Language Services.

Justice

- \$422,000 to fund three new Royal Canadian Mounted Police (RCMP) constable positions in the Yellowknife Detachment to absorb increased training and administrative requirements that cannot be balanced with the detachment's 24 hours, seven days per week operating schedule.

- \$303,000 for a pilot Community Safety Officer Program to be administered and delivered by a community organization to provide trained officers to respond to incidents and liaise between residents and other enforcement agents.
- \$257,000 to fund recommendations in the *2020 Judicial Remuneration Commission Report* for increased compensation and benefits for Territorial Court judges and deputy judges and to establish a professional development budget for judges.
- \$233,000 to fund two new Sheriff Officer positions in Yellowknife to address increased demand for court services.
- \$158,000 to continue work with the Government of Canada to implement the *Gun and Gang Strategy* to support community-level prevention and enforcement efforts to address criminal activity arising from organized crime, drug, and firearm trafficking.
- \$123,000 for the North Slave Correctional Complex to address increased inmate service costs due to increasing number of inmates and rising costs of goods and services.
- \$99,000 for the Office of the Children's Lawyer to cover increased costs for external counsel services resulting from an increase in the number of clients.

Lands

- \$309,000 to address untenured and unauthorized occupancy on public lands, including identifying ownership, determining if occupancy is based on rights, and establishing the policy framework for the GNWT to offer tenure.
- \$253,000 for the permanent establishment of a Wek'eezhii Land Use Planning Committee and Planning Office.

Municipal and Community Affairs

- \$3.334 million to reduce the municipal funding gap by increasing the annual Community Government Funding base.
- \$1.406 million for payments required under the Grant-in-lieu Property Tax Program caused by changes in the assessed value of government assets.
- \$199,000 for the incremental grant funding provided under the Délı̄ne Got'ı̄ne Government Financing Agreement.

Northwest Territories Housing Corporation

- \$5 million to provide the funds necessary to be able to participate in the National Housing Co-Investment Fund, which supports the new and revitalization construction of mixed-income, mixed-tenure, mixed-use affordable housing.

- \$300,000 to extend the Fuel Tank Replacement Program to provide income-tested one-time forgivable loans to homeowners to replace aging fuel tanks that do not qualify for insurance coverage nor meet current standards.
- \$109,000 to assist emergency shelters with increased costs due to inflation.

Medium-Term Outlook

Medium Term Outlook (December 2020 Forecast)

	2019-20 Actuals	2020-21 Revised Estimates	2021-22 Mains Estimates	2022-23	2023-24	2024-25	2025-26 (forecast)
Total Revenue	1,849	2,175	2,192	2,230	2,217	2,181	2,117
Operating Expenditures	1,919	2,207	2,124	2,146	2,161	2,170	2,172
Operating surplus (deficit)	(71)	(32)	68	84	56	11	(55)
Capital Investment	165	199	344	326	314	248	180
Total (Debt) at March 31							
Cash Surplus (Deficit) at year end	(523)	(476)	(631)	(738)	(818)	(907)	(952)
Long Term Debt and Guaranteed Debt	(683)	(855)	(954)	(986)	(998)	(1,004)	(966)
Total (Debt) at March 31	(1,206)	(1,331)	(1,585)	(1,724)	(1,816)	(1,911)	(1,918)
Borrowing Limit	1,300	1,800	1,800	1,800	1,800	1,800	1,800
Available Borrowing Capacity	94	469	215	76	(16)	(111)	(118)

The medium-term outlook is based on a five-year revenue forecast using data available as of December 2020. Operating expenditures are estimated using the four-year business plans developed in September 2020, and builds in new expenditures from the 2021-22 Budget. Capital investments are based on the 2021-22 Capital Estimates approved in October 2020 and longer term capital planning projections.

The medium-term outlook shows that under current projections the GNWT is not generating enough cash to pay for infrastructure investment, which results in an increase in total debt. Under the current assumptions, the GNWT will be only \$76 million below the borrowing limit in 2022-23 and will be over the limit by the end of 2023-24.

Risks to the Fiscal Outlook

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

- *The Northwest Territories' 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 Northwest Territories resources and carry 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 Northwest Territories population, which affects the amount of federal transfers that the GNWT receives.

- *Revenue volatility* – Corporate income tax has historically 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 also volatile and 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 Northwest Territories population growth relative to Canada’s and provincial/local government spending. 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 growth in the Territorial Formula Financing Grant. This means that revenues grow more slowly and there will be less money 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 Northwest Territories infrastructure is a barrier to increased economic opportunities and the attractiveness of the Northwest Territories 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 risk of the following increases:

- *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. The GNWT is reducing the risk of higher interest rates by converting some short term debt into long term debt through the issuance of a government bond in 2020.
- *Exceeding the Borrowing Limit* - the \$1.8 billion federally-imposed borrowing limit was raised in September 2020. Without that increase, the GNWT would have exceeded the borrowing limit in 2020-21. While the GNWT is projected to remain below the borrowing limit for 2021-22 and 2022-23, current debt projections will exceed the limit in 2023-24. 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 Aa1 rating from Moody's Investors Service, one of the major international credit rating agencies. On October 30, 2020, Moody's Investors Service confirmed the GNWT's Aa1 credit rating, for the thirteenth consecutive year but downgraded the outlook on the credit rating from Stable to Negative citing longer term concerns about a narrow economy with a declining diamond sector and rising health expenditures due to an aging population and elevated infrastructure spending. This rating is one of the highest available and serves as validation that the financial management of the GNWT is sound and prudent.

Fiscal Responsibility Policy

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 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 that were undertaken in recent years to lower the growth rate of operating expenditures.

Fiscal Strategy

The GNWT must continue its efforts to live within its means to keep expenditure growth for both operations and infrastructure investment in line with revenue growth and adhere to the *Fiscal Responsibility Policy*.

The fiscal strategy plans to ensure long-term fiscal sustainability by managing expenditures and finding new revenues where feasible to avoid further operating deficits while still making investments in priority areas. The GNWT can continue to borrow as required to finance a prudent amount of infrastructure investments over the medium term to support the Northwest Territories economy.

The fiscal strategy set out in the 2020-21 budget provided 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 increased program evaluation.

The 2021-22 Budget advances this fiscal strategy and is the product of four-year business plans. With this four-year planning horizon, the Government expects to achieve greater value for the resources spent; allowing each dollar to be stretched further.

The GNWT is taking a number of actions, including developing regional economic development plans, renewal of its procurement practices, and establishing a red tape reduction working group 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 strengthen the economy and expand the tax base, reducing the need for new revenue sources.

Government Renewal - Program Evaluation

On October 30, 2020, the Minister of Finance announced the Government Renewal Initiative to shift the way the budget is currently developed, which is focused on incremental increases or decreases from the previous year's budget, to a planning focus that relies on value-driven budgeting principles. This priority-based budgeting is based on the principle that government financial resources should be allocated based on government priorities as well as how effectively programs and services give value to residents.

The Government Renewal Initiative started with the introduction of four-year business plans and the next step is to perform performance evaluations of GNWT programs and services department by department and allocate resources to areas that are most critical and valuable to residents. Using the departments of Finance and Education Culture and Employment as the test departments, step is to use program evaluation techniques 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)

	2021-2022 Main Estimates	2020-2021 Revised Estimates	2020-2021 Main Estimates	2019-2020 Actuals
REVENUES	2,192,397	2,175,621	2,186,168	1,850,779
OPERATIONS EXPENSE				
Compensation and Benefits	425,482	417,455	399,677	388,745
Grants, Contributions and Transfers	945,195	993,880	891,368	856,881
Amortization	127,366	125,054	125,054	114,316
Chargebacks	23,338	22,401	22,536	22,957
Computer Hardware and Software	6,058	8,878	5,761	9,019
Contract Services	225,806	231,826	223,815	206,670
Controllable Assets	3,037	3,784	3,343	17,175
Fees and Payments	132,433	124,644	107,999	132,704
Interest	20,478	20,578	20,591	22,115
Loss on Sale of Assets	-	-	-	301
Materials and Supplies	22,217	21,997	20,186	24,427
Purchased Services	17,372	17,562	15,563	15,897
Travel	20,281	20,033	19,305	16,958
Utilities	40,891	38,397	38,248	42,928
Valuation Allowances	3,193	3,193	2,419	4,060
TOTAL OPERATIONS EXPENSE TO BE VOTED	2,013,147	2,049,682	1,895,865	1,875,153
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	179,250	125,939	290,303	(24,374)
Infrastructure Contributions	(63,691)	(109,941)	(75,317)	(44,613)
Deferred Maintenance	(2,000)	(2,367)	(2,000)	(1,637)
Petroleum Products Stabilization Fund net profit (loss)	-	-	(200)	(146)
Supplementary Reserve	(65,000)	(50,000)	(30,000)	-
Estimated Appropriation Lapses	20,000	5,000	20,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	88,634	106,234	87,361	110,634
Expenditures	(88,634)	(106,234)	(87,361)	(110,634)
OPERATING SURPLUS FOR THE YEAR	68,559	(31,369)	202,786	(70,770)
ACCUMULATED SURPLUS, BEGINNING OF YEAR	1,686,990	1,718,359	1,852,597	1,789,129
ACCUMULATED SURPLUS, END OF YEAR	1,755,549	1,686,990	2,055,383	1,718,359

Summary of Revenues

(thousands of dollars)

	2021-2022 Main Estimates	2020-2021 Revised Estimates	2020-2021 Main Estimates	2019-2020 Actuals
GRANT FROM CANADA	1,480,118	1,412,734	1,412,734	1,309,278
TRANSFER PAYMENTS	390,587	417,173	372,237	193,764
TAXATION REVENUE				
Personal Income Tax	103,020	98,573	106,129	97,791
Corporate Income Tax	(8,418)	1,894	25,262	(8,781)
Cannabis Excise Tax	331	317	331	168
Carbon Tax	34,977	24,657	28,739	12,611
Tobacco Tax	14,476	14,802	15,002	14,967
Fuel Tax	18,367	17,508	21,614	17,564
Payroll Tax	42,470	40,641	44,670	42,906
Property Taxes and School Levies	28,617	28,410	29,858	29,201
Insurance Premium Taxes	5,500	5,400	5,400	5,664
	239,340	232,202	277,005	212,091
Non-renewable Resource Revenue				
Licences, Rental and Other Fees	2,964	47,722	2,507	4,494
Minerals, Oil and Gas Royalties	1,511	-	30,681	19,183
Quarry Fees	100	100	100	117
	4,575	47,822	33,288	23,794
GENERAL REVENUES				
Revolving Funds Net Revenue	25,016	19,838	37,978	28,320
Regulatory Revenues	23,653	21,351	24,921	24,493
Interest	200	280	280	306
Investment Income	400	400	400	5,397
Lease	4,024	506	4,009	4,266
Program	19,540	17,995	17,995	21,502
Grants	-	-	-	24
Grants in kind	140	140	140	3
Service and miscellaneous	1,804	2,180	2,181	13,495
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	14,046
	77,777	65,690	90,904	111,852
TOTAL REVENUES	2,192,397	2,175,621	2,186,168	1,850,779

Summary of Operations Expenditures

(thousands of dollars)

	2021-2022 Main Estimates	2020-2021 Revised Estimates	2020-2021 Main Estimates	2019-2020 Actuals
Department				
Legislative Assembly	24,443	22,720	22,720	23,789
Education, Culture and Employment	353,599	355,815	340,268	340,364
Environment and Natural Resources	97,874	102,931	97,085	93,977
Executive and Indigenous Affairs	22,428	23,186	22,886	22,102
Finance	301,826	325,735	286,668	260,826
Health and Social Services	596,784	593,080	522,011	545,914
Industry, Tourism and Investment	59,989	65,886	59,585	58,209
Infrastructure	278,894	276,056	271,468	263,337
Justice	133,753	133,961	133,617	129,414
Lands	22,425	23,364	23,364	22,733
Municipal and Community Affairs	121,132	126,948	116,193	114,488
	2,013,147	2,049,682	1,895,865	1,875,153
Expenditure Category				
Compensation and Benefits	425,482	417,455	399,677	388,745
Grants, Contributions and Transfers	945,195	993,880	891,368	856,881
Amortization	127,366	125,054	125,054	114,316
Chargebacks	23,338	22,401	22,536	22,957
Computer Hardware and Software	6,058	8,878	5,761	9,019
Contract Services	225,806	231,826	223,815	206,670
Controllable Assets	3,037	3,784	3,343	17,175
Fees and Payments	132,433	124,644	107,999	132,704
Interest	20,478	20,578	20,591	22,115
Loss on Sale of Assets	-	-	-	301
Materials and Supplies	22,217	21,997	20,186	24,427
Purchased Services	17,372	17,562	15,563	15,897
Travel	20,281	20,033	19,305	16,958
Utilities	40,891	38,397	38,248	42,928
Valuation Allowances	3,193	3,193	2,419	4,060
	2,013,147	2,049,682	1,895,865	1,875,153

Summary of Infrastructure Investment

(thousands of dollars)

	2021-2022 Capital Estimates	2020-2021 Revised Estimates	2020-2021 Capital Estimates	2019-2020 Actuals
Tangible Capital Assets				
Legislative Assembly	110	3,000	3,000	97
Education, Culture and Employment	13,248	40,314	25,713	8,204
Environment and Natural Resources	2,159	4,702	2,159	2,670
Finance	9,254	11,151	4,277	7,703
Health and Social Services	61,120	91,676	52,356	17,963
Industry, Tourism and Investment	14,250	17,233	3,786	4,247
Infrastructure	211,645	217,786	143,833	108,275
Justice	1,541	4,277	1,541	10,825
Lands	234	348	234	119
	313,561	390,487	236,899	160,103
Infrastructure Contributions				
Education, Culture, and Employment	16,900	11,145	8,085	2,430
Infrastructure	17,791	69,796	38,232	11,215
Municipal and Community Affairs	29,000	29,000	29,000	29,000
	63,691	109,941	75,317	42,645
Deferred Maintenance (non-capital)				
Infrastructure	2,000	2,367	2,000	1,638
	2,000	2,367	2,000	1,638
Public Private Partnerships				
Health and Social Services	-	-	-	4,649
Infrastructure	61,330	86,737	84,390	-
	61,330	86,737	84,390	4,649
Total Capital Estimates	440,582	589,532	398,606	209,035

Summary of Debt and Estimated Borrowing Capacity

(thousands of dollars)

	2021-2022 Main Estimates	2020-2021 Revised Estimates	2020-2021 Main Estimates	2019-2020 Actuals
SHORT TERM DEBT				
Government of the Northwest Territories	631,000	476,000	465,000	523,170
Hay River Health and Social Services Authority	1,000	1,000	1,000	-
NWT Hydro Corporation	-	10,920	28,286	20,959
	632,000	487,920	494,286	544,129
LONG TERM DEBT				
Government of the Northwest Territories:				
Bonds repayable, GNWT	140,000	140,000	-	-
Bonds repayable, NTPC	40,000	40,000	40,000	-
New debt, NTPC bonds	105,000	-	-	-
Deh Cho Bridge - Real Return Bonds	171,515	173,871	175,452	176,560
Mackenzie Valley Fibre Optic Link, P3 debt	69,946	72,651	72,651	75,300
Stanton Territorial Hospital, P3 debt	127,129	130,431	130,431	133,654
Tłı̄chq̄ All-Season Road, P3 debt	74,243	128,993	128,993	64,525
Canada Mortgage and Housing Corporation	199	284	284	366
Public Agencies:				
NWT Hydro Corporation	199,695	204,564	204,564	207,984
NWT Housing Corporation	4,717	5,350	5,354	5,858
	1,564,444	1,384,064	1,252,015	1,208,376
TOTAL DEBT				
OBLIGATIONS UNDER CAPITAL LEASES				
Government of the Northwest Territories	-	-	-	-
NWT Hydro Corporation	15,984	16,397	16,389	16,768
LOAN GUARANTEES				
NWT Business Development and Investment Corp.	2,100	2,000	-	2,439
NWT Housing Corporation	4,947	6,765	8,443	8,583
	1,587,475	1,409,226	1,276,847	1,236,166
TOTAL GROSS BORROWING PER BORROWING REGULATIONS				
LESS: EXTERNALLY RESTRICTED SINKING FUNDS				
Government of the Northwest Territories	-	(77,982)	(77,340)	(29,680)
	1,587,475	1,331,244	1,199,507	1,206,486
TERRITORIAL BORROWING				
TERRITORIAL BORROWING LIMIT				
	1,800,000	1,800,000	1,300,000	1,300,000
AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES				
	212,525	468,756	100,493	93,514

Provincial/Territorial Tax Rates at January 8, 2021

	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	7.00	8.20	60.80	2.00	2.0	11.5	-
Nunavut	44.50	-	6.4	9.1	6.63	8.05	60.00	2.00	3.0	12.0	-
Yukon	48.00	-	6.2	7.2	6.63	8.05	62.00	-	0.0	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	6.63	8.05	55.00	-	2.0	8.0	-
Saskatchewan	47.50	6.0	15.0	15.0	6.63	8.05	54.00	-	0.0	12.0	4.0
Manitoba	50.40	7.0	14.0	14.0	6.63	8.05	60.00	2.15	0.0	12.0	6.0
Ontario	53.53	8.0	14.7	14.3	6.63	8.05	36.95	1.95	3.2	11.5	1.25
Quebec	53.31	9.975	19.2	20.2	-	-	29.80	4.26	4.0	11.5	1.25
New Brunswick	53.30	10.0	10.87	15.45	6.63	8.05	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	6.63	8.05	55.04	-	2.0	16.0	5.0
Newfoundland & Labrador	51.30	10.0	14.5	16.5	6.63	8.05	59.00	2.00	3.0	15.0	6.0
Weighted average ^(g)	52.48	7.4	15.4	15.6	5.27	6.32	43.11	2.09	2.8	11.4	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, 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, 2020.