



Government of
Northwest Territories

Budget Dialogue 2021: Fiscal Situation and Outlook

May 2021

GNWT Revenue and the Economy

- Weak connection between economy and GNWT revenue due to fiscal arrangements with Canada.
- Federal transfers are about 80% of GNWT revenue.
 - About 70% of revenue from Territorial Formula Financing (TFF) Grant;
 - The TFF Grant is designed to partially recover losses in “own-source revenue” over several years after a revenue shock such as COVID-19.
- The remaining “own-source revenues” are taxes such as personal and corporate income, fuel, carbon, tobacco, payroll taxes, fees and charges, and resource revenue.



GNWT Revenue and the Economy

- The GNWT maintains a competitive tax regime to support the economy and encourage economic diversification and development.
- A small economy with a low tax base limits the options to raise additional new revenues.
- Government, especially the GNWT, is a large part of the economy.



Operating and Capital Budgets

- Two budgets: Operating and Capital
 - Operating: day-to-day spending for programs and services (like groceries and expenses to maintain a household)
 - Capital: one-time projects that are durable and have a long life (like buildings such as schools and health clinics, roads, airports)
- The surplus in the Operating Budget determines the amount available for Capital Budget (infrastructure)
 - The *Fiscal Responsibility Policy* requires at least half of capital budget must be paid for from cash from the operating surplus.
- **Rule: Capital investment requires cash from Operating**



Surpluses

Balancing Operating Expenses with Capital Investment

- There is an infrastructure gap in the NWT and the capital budget has increased to narrow the gap and provided funds to allow the GNWT to take advantage of federal funds for larger projects.
- Cost-sharing programs with Canada means small investments can have large returns, but the GNWT needs operating surpluses to participate in these programs.
- There are also trade-offs between spending on programs and services and infrastructure.
- Also trade-offs between different infrastructure investments.



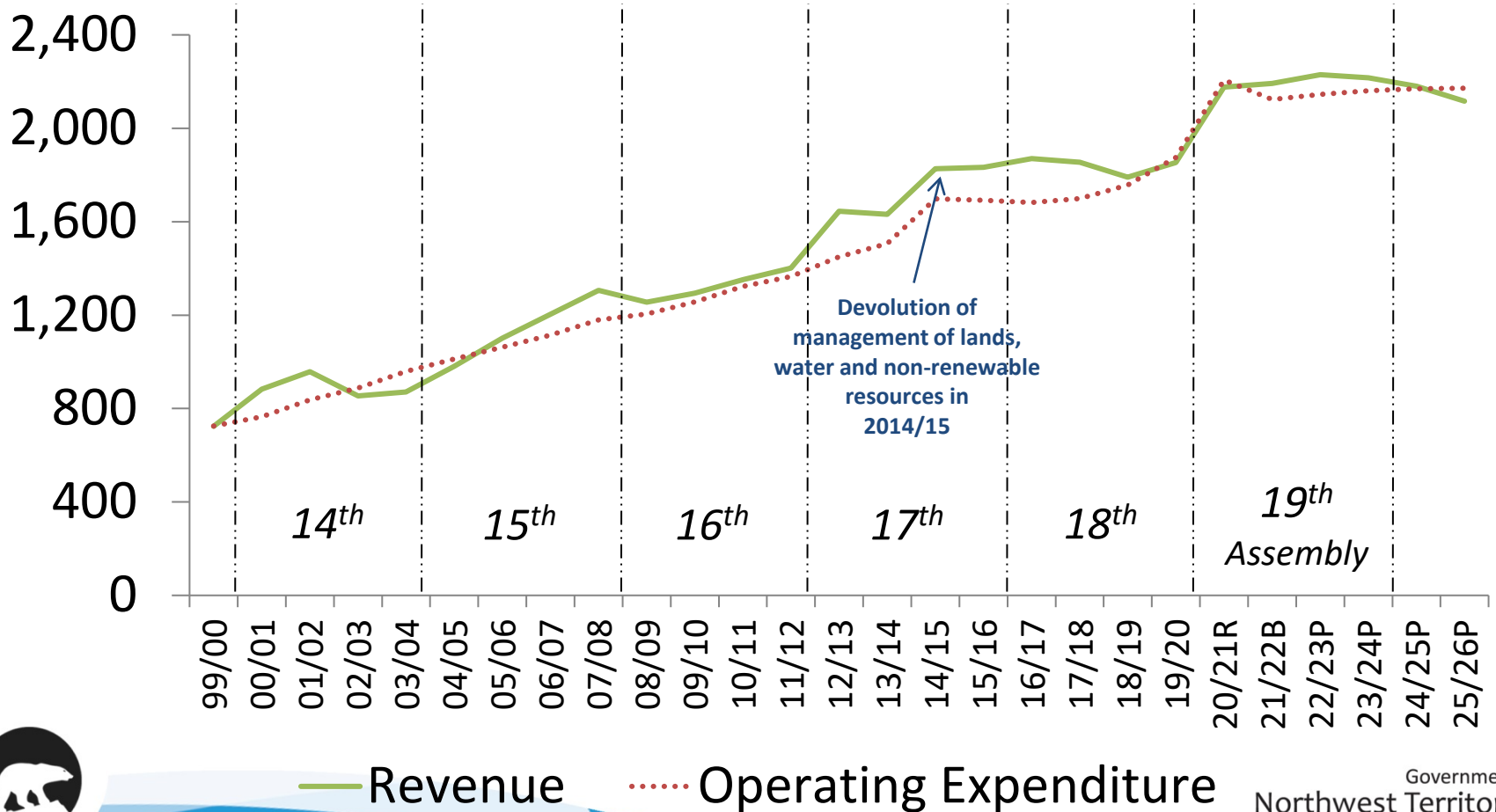
Budget 2021-22

- Budget 2021 has two parts :
 - Keep the population safe and to support individuals and businesses affected by the pandemic. These objectives are the main economic policy focus in the short term.
 - Prepare to invest in an economic recovery when have a better understanding of what the recovery will look like.
- Includes an additional \$90 million to build on previous budget's priorities; given the economic uncertainty there are no expenditure cuts and no new taxes.
- Projecting an operating surplus for 2021-22 but over the medium term the fiscal situation is unsustainable and projections show that the borrowing limit could be exceeded by 2024-25, even though the limit was increased \$500 million to \$1.8 billion in September 2020.



Revenue and Expenditure Growth

Millions of Dollars



— Revenue Operating Expenditure

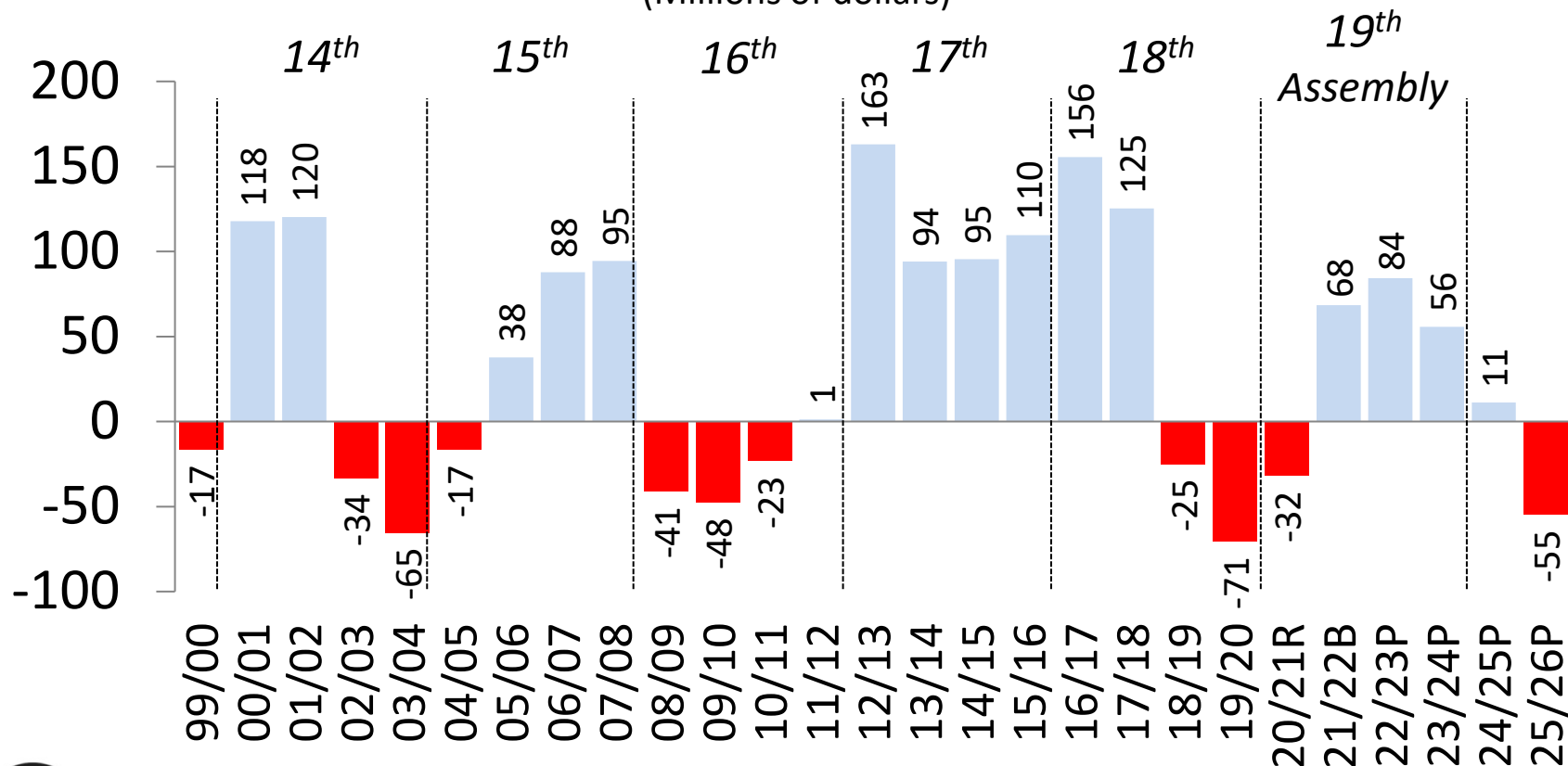
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R: Revised, B: Budget, P: Projection

Need Larger Operating Surpluses

GNWT Operating Balance

(Millions of dollars)



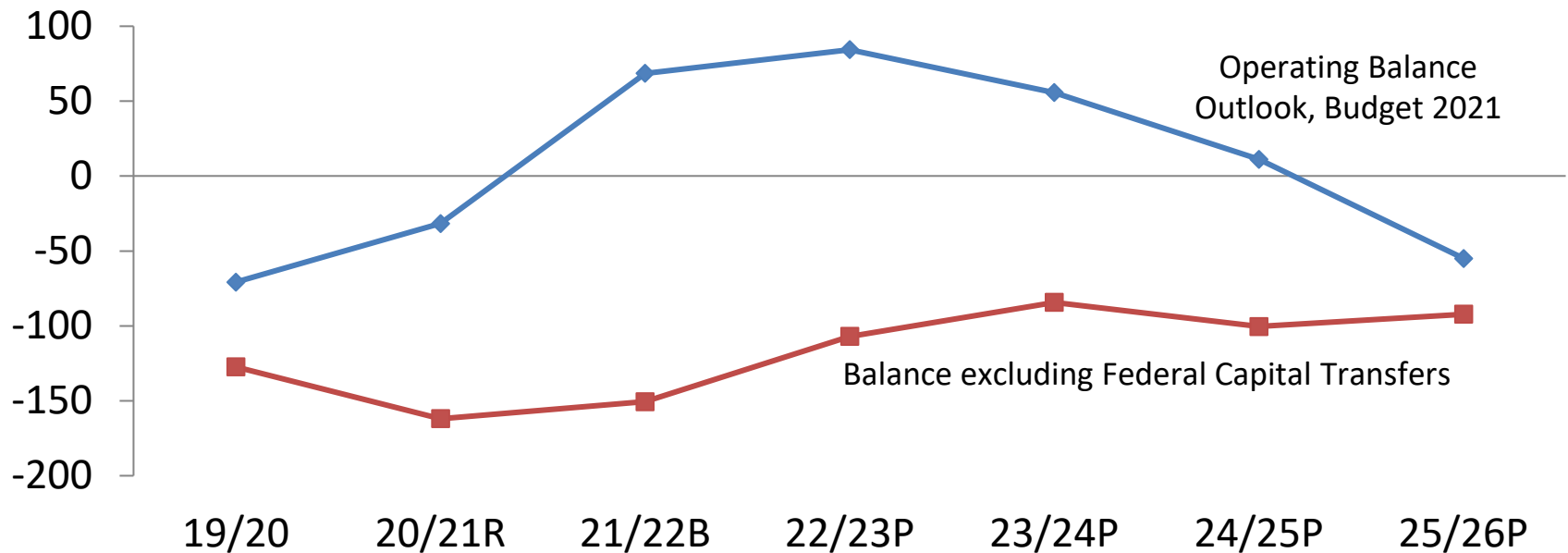
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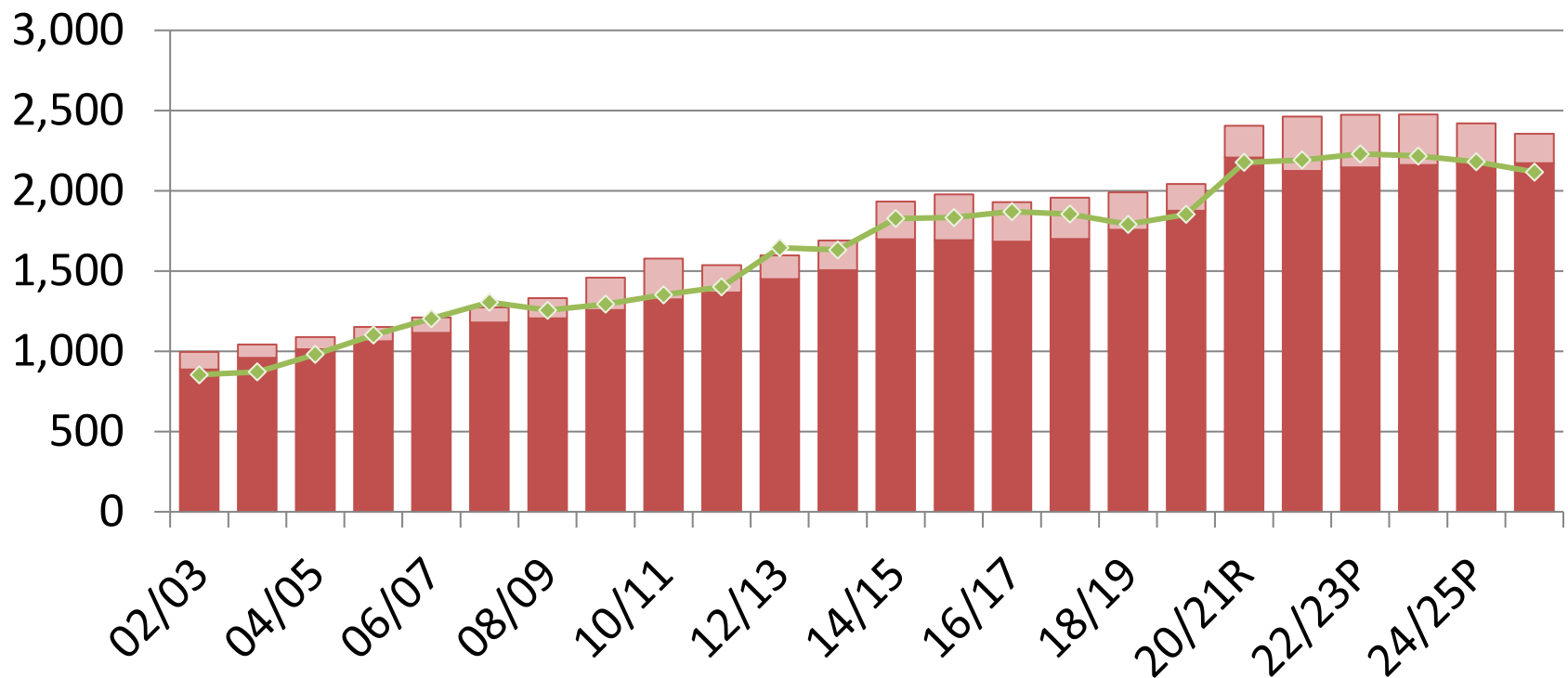
Surplus Boosted by Temporary Capital Funding from Federal Government

GNWT Deficit is Permanent when Federal Capital Funding Removed



Operating and Capital Expenses Outpace Total Revenue

(millions of dollars)



Operating Expenditure Capital Revenue

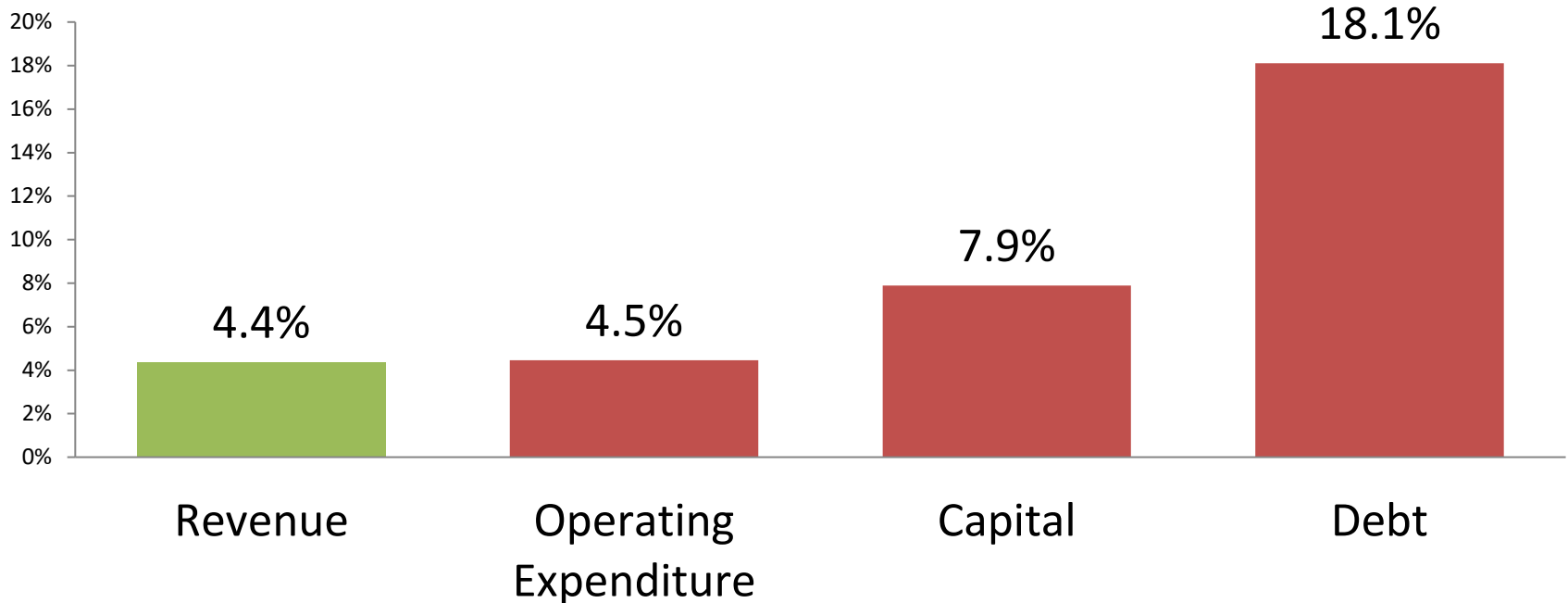
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And Growth in Debt is Outpacing Everything

Fiscal Growth Rates

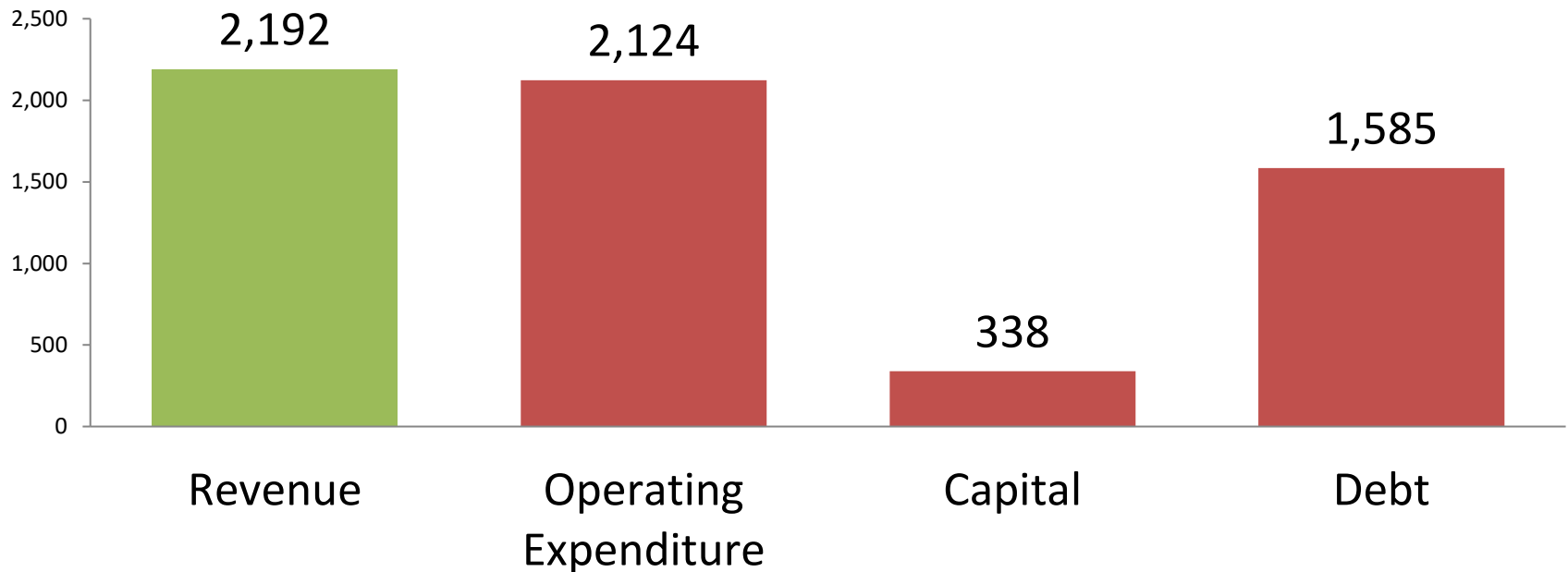
Average Annual Percentage Change
2008/09 to 2021/22



Size of Revenue, Operating Expenditure, Capital Investment and Debt

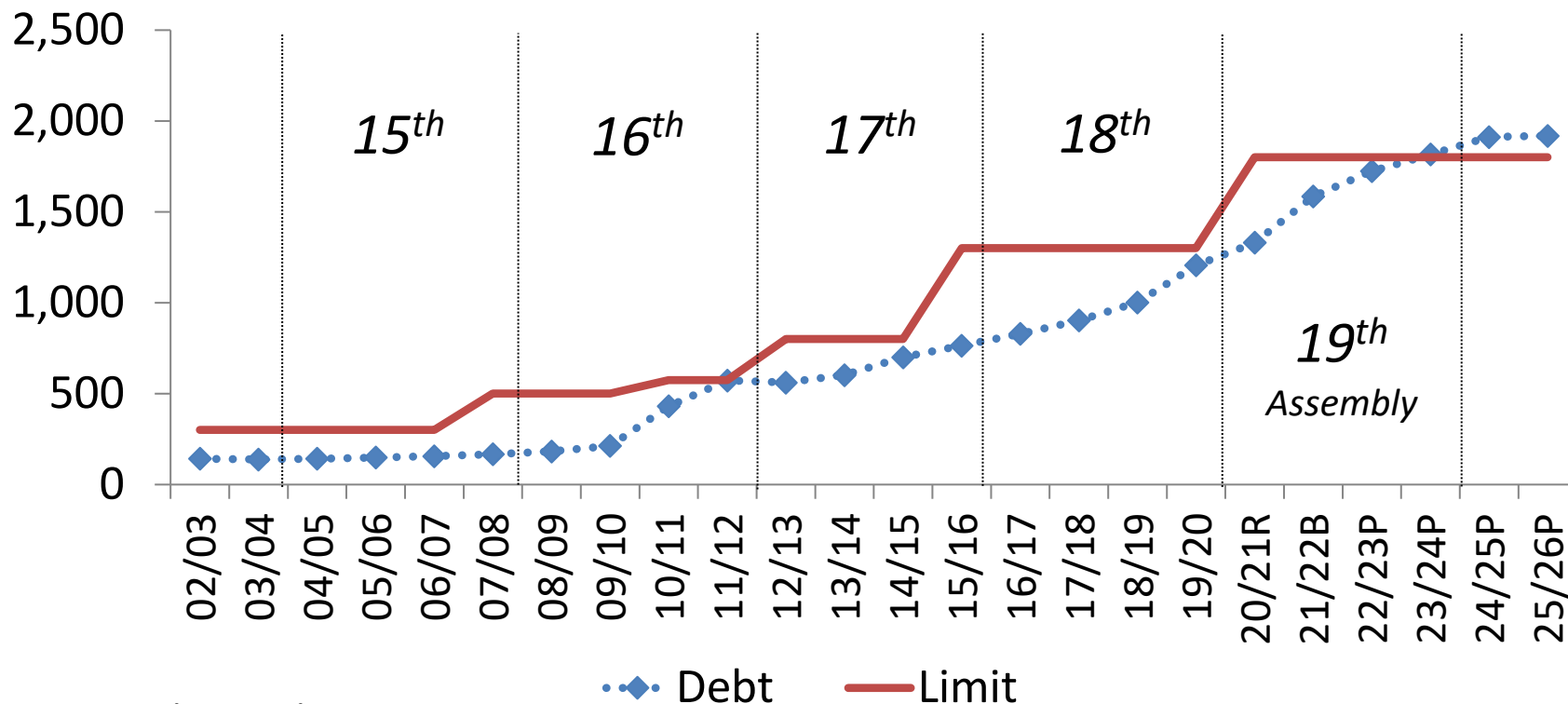
Spending by Type

Millions of dollars, 2021/22B



Growing Debt Forecast to Exceed Limit

Total Debt (Millions of dollars)

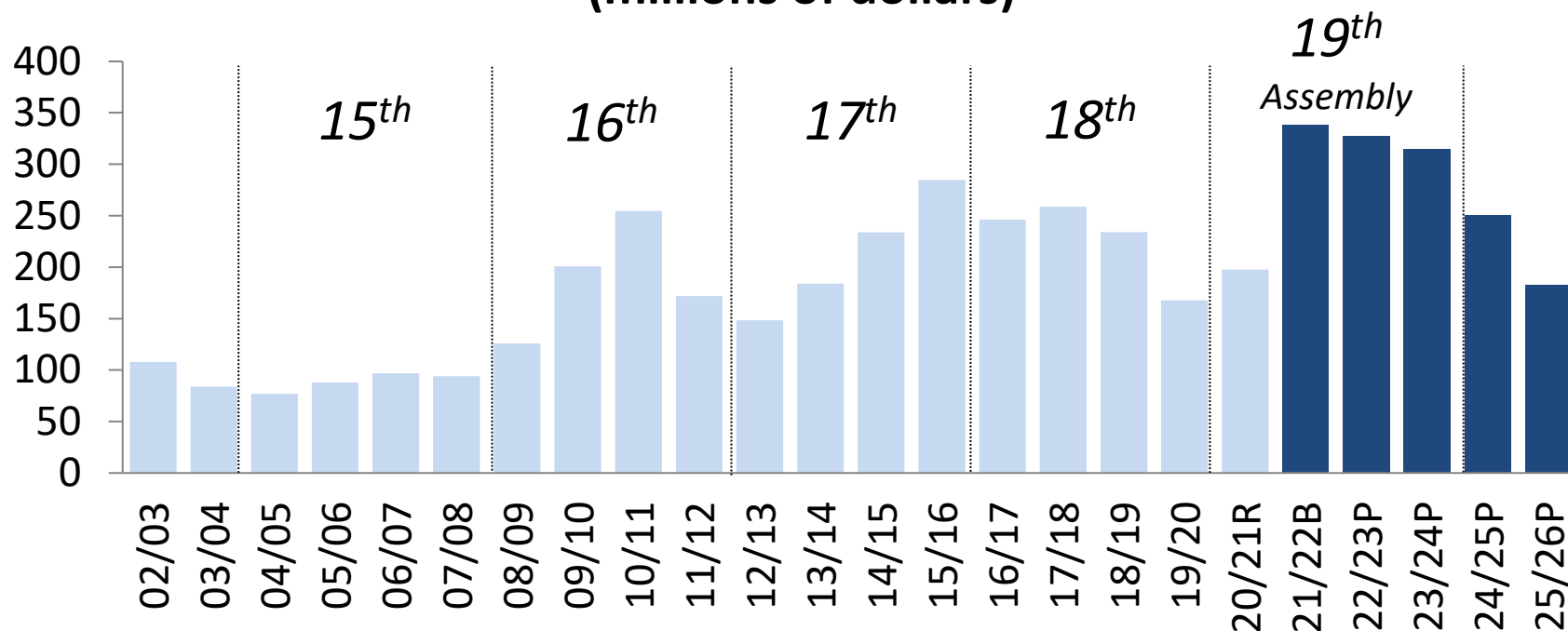


R: Revised, B: Budget, P: Projection



Capital Investment Plan will require increases in cash from operating surpluses

**GNWT Capital Investment
(millions of dollars)**



R: Revised, B: Budget, P: Projection

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So what needs to happen?

- The Budget needs to generate more cash from operating surpluses to lessen the borrowing pressures.
- The 20th Legislative Assembly will face difficult choices in its first budget, unless the 19th Assembly on the current projected path
- To achieve this, some or all of the following will have to happen:
 - Reallocate money from elsewhere to fund new programs.
 - Make current programs more efficient.
 - Continue reviewing current programs to evaluate whether they are effective.
 - Need to be strategic in infrastructure investment, while supporting economic recovery and balancing fiscal realities



Changes for Improving Budgeting

- Government Renewal Initiative - aims to shift government budgeting from incremental budgeting (what is spent last year on a particular program is automatically the starting point for the next budget) to a value-driven exercise where the entire program spending needs to be justified.
- Improving the role government plays in helping the economic recovery without expending financial resources :
 - Accelerating the procurement review
 - Developing clear rules for private sector and Indigenous-owned firms on how to interface with government when bidding on contracts
 - Working group on red tape reduction for small business



We want to hear from you

- What programs/services and infrastructure benefit your community the most?
- What programs/services and infrastructure are you willing to give up to keep the spending that you feel is most important?
- What revenue options would you support?

