



Government of
Northwest Territories

Fiscal Situation and Outlook

BUDGET DIALOGUES 2020



Introduction

The 2020 Budget Dialogue is an opportunity for NWT residents to learn more about how the Government of the Northwest Territories (GNWT) budget works and to share their views on spending.

The following information is provided for your reference and to help inform the discussion.

GNWT Revenue and the Economy

- There is a weak connection between economy and GNWT revenue due to fiscal arrangements with Canada.
- Federal transfers account for about 80% of GNWT revenue:
 - About 70% 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.
- 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 a new shed)
- 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 the operating surplus.

Rule: Capital investment requires Operating Surpluses

Balancing Operating Expenses with Capital Investment

- There is an infrastructure gap in the NWT compared to the rest of the country. The capital budget has increased to improve this, but the gap with Canada remains wide.
- Cost-sharing programs with Canada mean small investments can have large returns, but the GNWT needs operating surpluses to in order to take advantage.
- The GNWT must face trade-offs between:
 - Programs and services versus infrastructure; and
 - Different infrastructure investments.

Budget 2020

- Budget delivered February 25, 2020 and passed June 4, 2020, delayed by COVID-19 pandemic.
- Budget 2020 provides \$1.9 billion for programs and services to residents and businesses.
- A total increase of \$94 million over Budget 2019 was proposed, including:
 - \$64 million for program enhancements, \$40 million in new spending supported by \$29 million in federal funding, \$6 million to continue 18th Assembly initiatives, \$2 million in amortization, and \$15 million in savings.

Budget 2020 Update

- After the Budget was tabled in March, the GNWT added \$65 million to spending.
- Since the federal government paid for \$44 million of this new spending, the net amount added to the budget for pandemic response measures and mandate initiatives was \$21 million (1.1% of operating spending).
- New spending includes:
 - GNWT emergency response measures: \$37 million
 - Mandate and other initiatives: \$27 million
 - Standing committee feedback: \$2 million

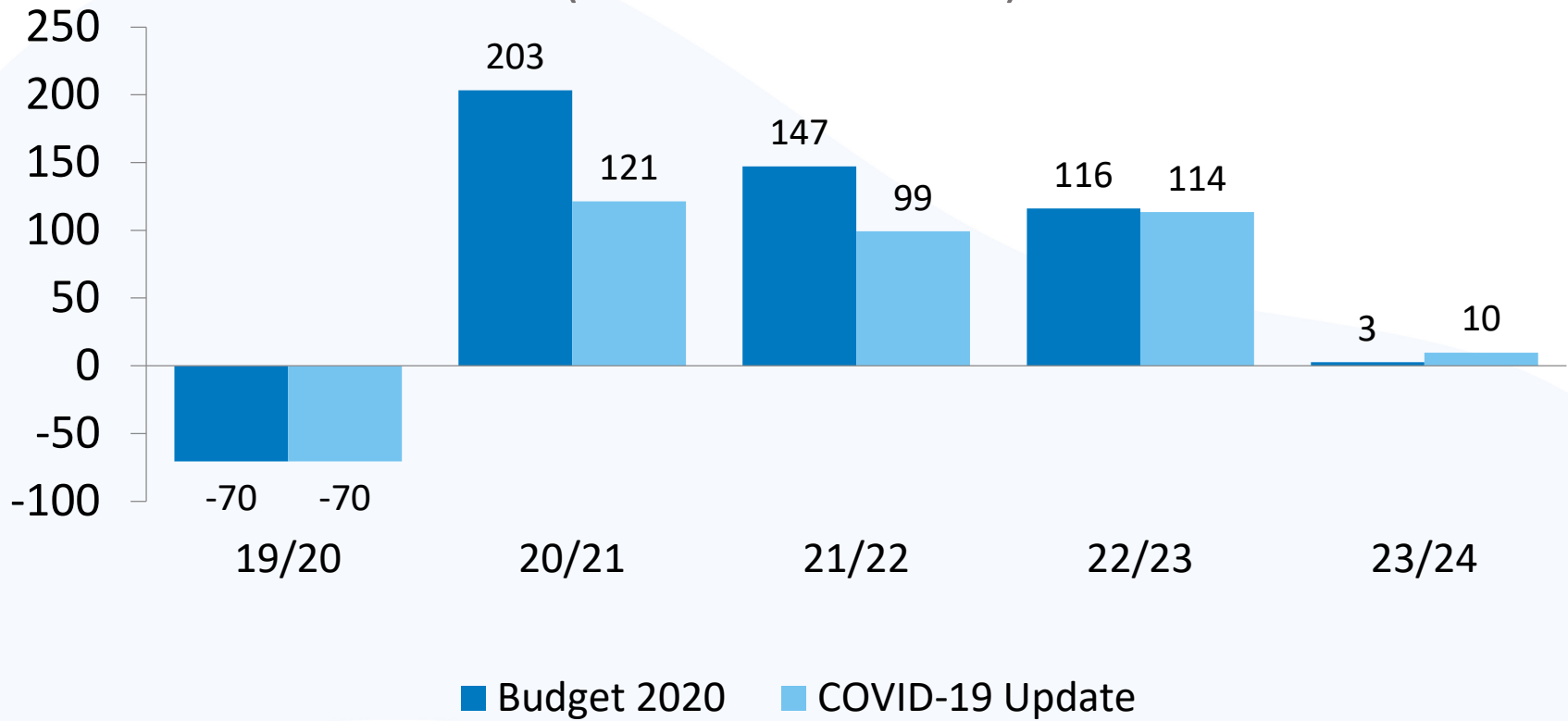
Projected Operating Surpluses

- Compared to Budget 2020 projections, revenue is down and expenditure is up, reducing operating surplus projections.
- The greatest decrease is in the current year and in 21/22.
- By 22/23, TFF Grant offsets begin to take effect and reduce the impact of previous own-source revenue declines.
- By 23/24, the operating surplus is slightly higher than projected in Budget 2020, but it is still a low level.

Lower operating surpluses over the medium-term outlook will affect the ability to invest in capital.

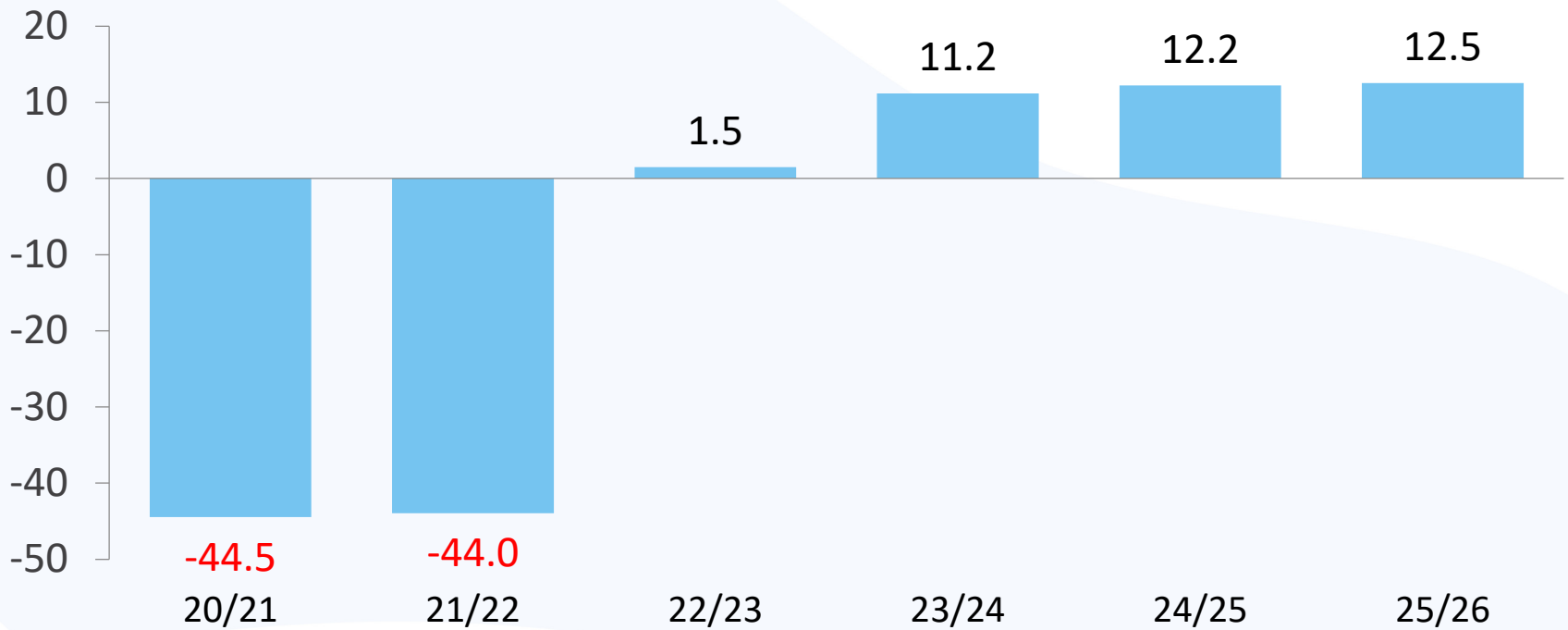
Operating Surplus (Deficit)

(millions of dollars)



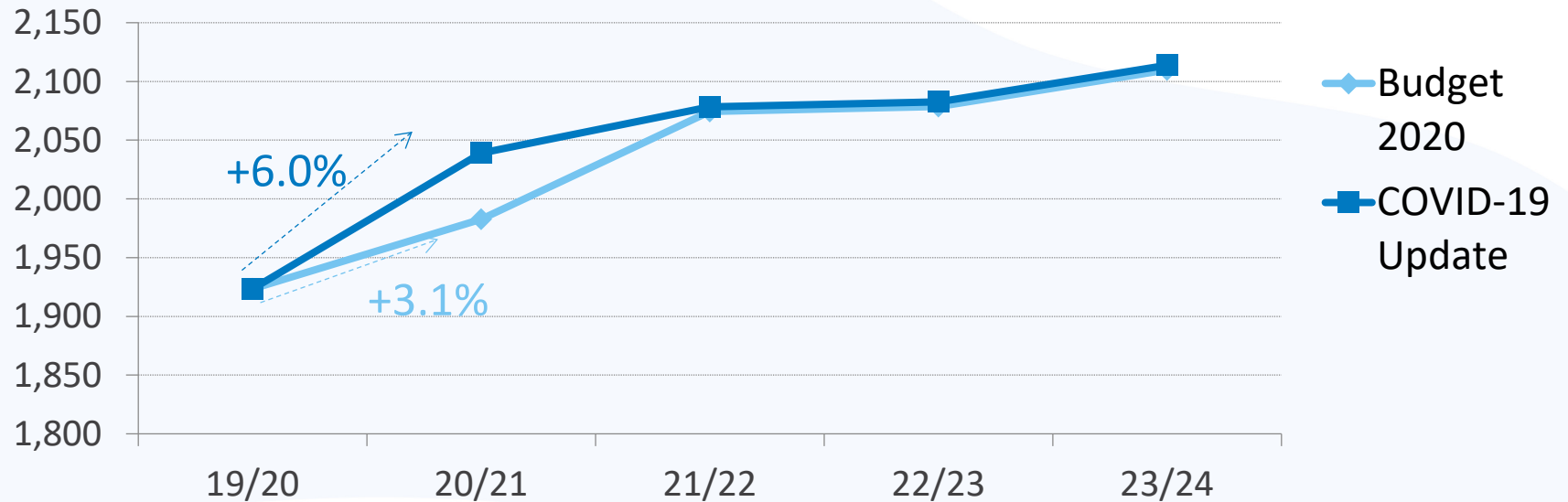
Forecast Revenue Changes from Budget 2020-21

(millions of dollars)



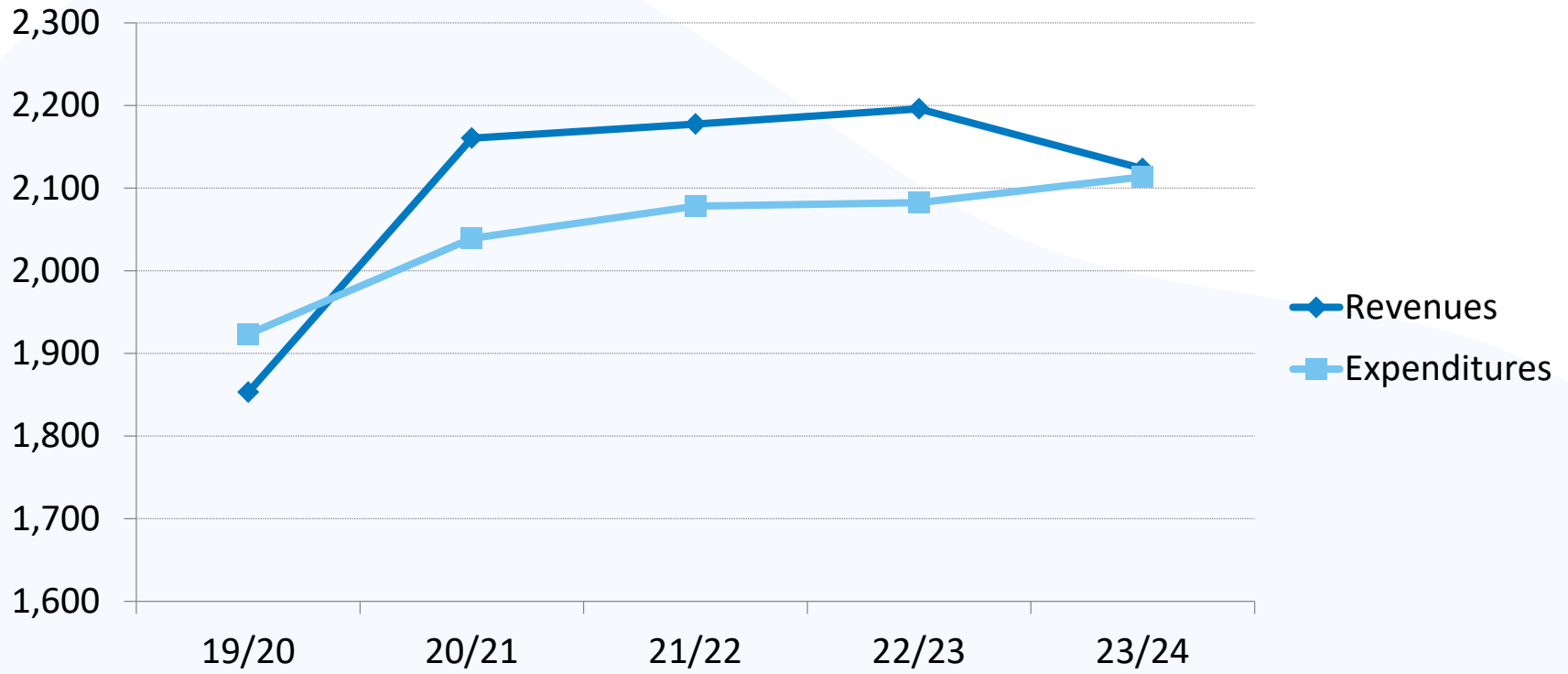
Operating expenditures increasing due to COVID-19

Operating Expenditure Update
(millions of dollars)



Operating Revenue and Expense Outlook

(millions of dollars)

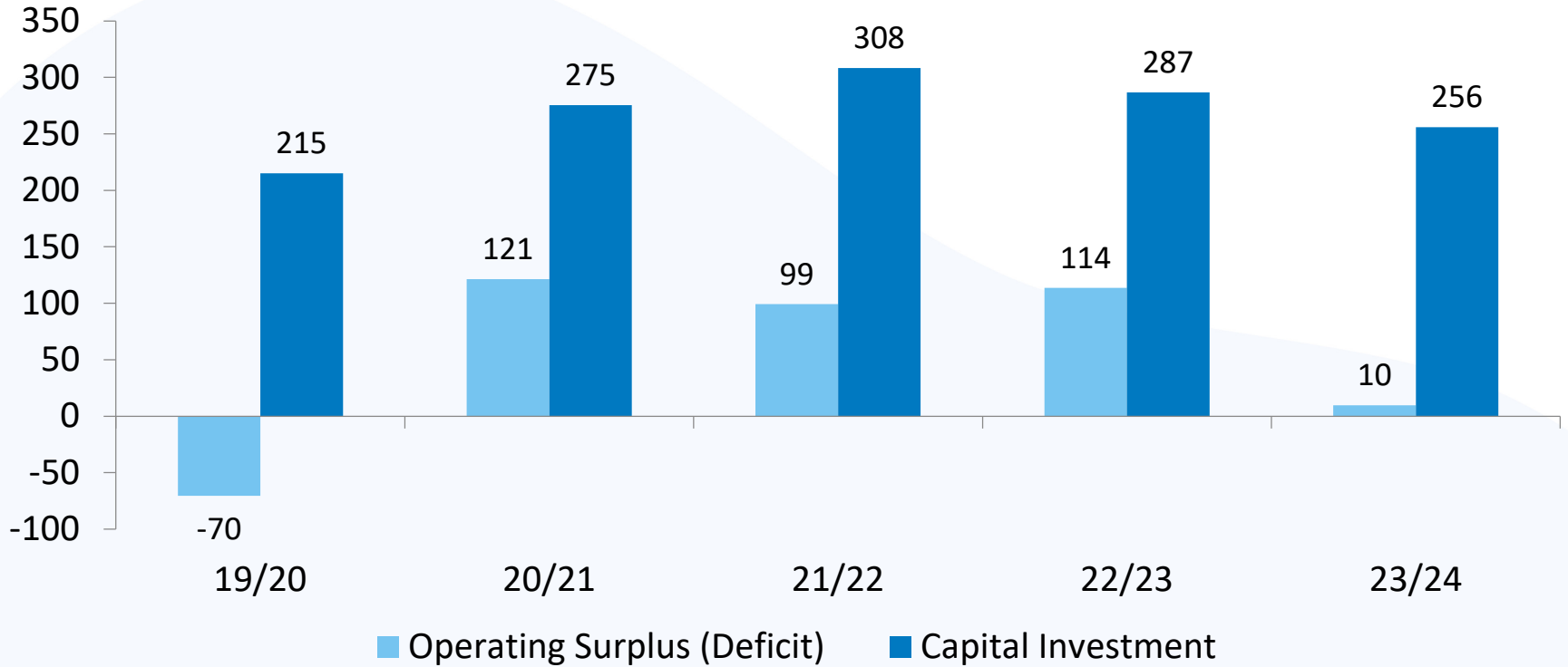


The Capital Plan will require increases in operating surpluses

- If surpluses are not maintained or restored, the Capital Plan will need to be revised

Operating Balance and Capital Outlook

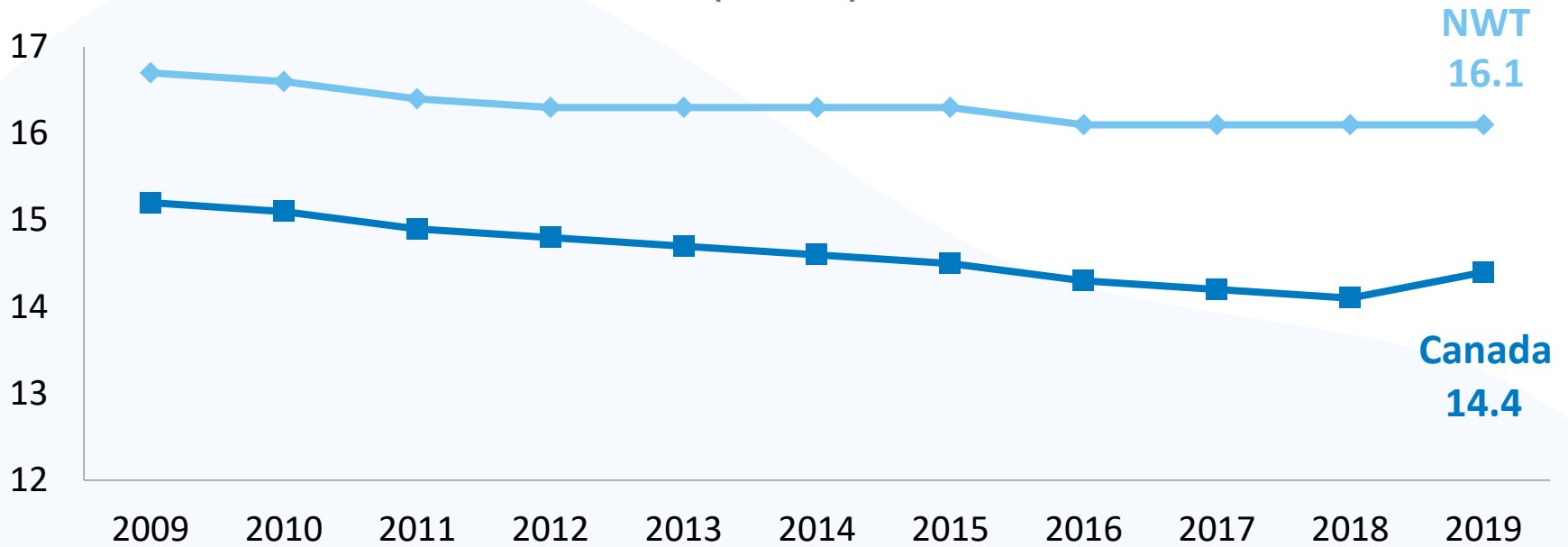
(millions of dollars)



NWT Infrastructure is not getting any younger

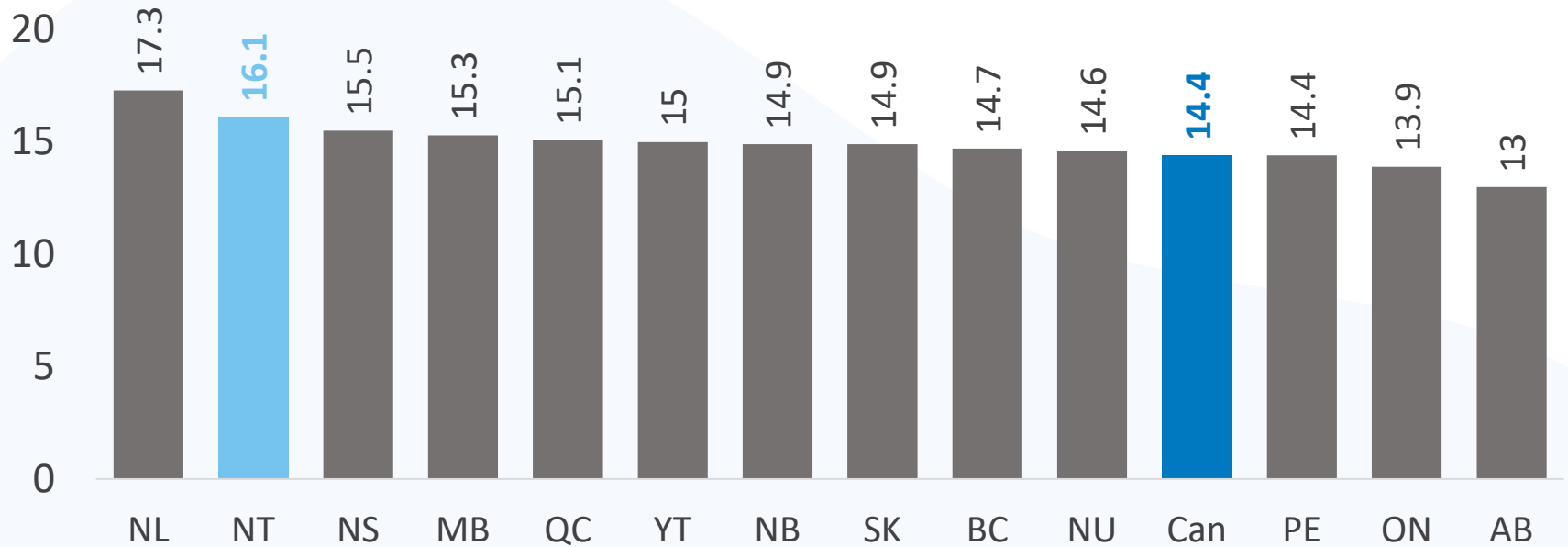
- NWT's infrastructure lags the rest of the country, with the second oldest capital stock.
- Capital investments have recently played an important role in reducing the average age of capital assets but there is still a wide gap with the rest of Canada, on average.

Average Age of Infrastructure (Years)



Source: Statistics Canada, Infrastructure Economic Accounts

Average Age of Infrastructure (Years, 2019)



Source: Statistics Canada, Infrastructure Economic Accounts

We want to hear from you.

What are the programs, services and infrastructure that benefit your community the most?

What programs, services and infrastructure are you willing to give up to keep the spending that you feel is the most important?

To learn more about the GNWT's budget
and budget process, visit:
www.fin.gov.nt.ca/budget