

Resourcing our Legacy

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Starting April 1, 2014, the Government of the Northwest Territories (GNWT) will become steward of the Northwest Territories' lands, waters, and non-renewable resources and will share the revenues from these resources with the federal and Aboriginal governments. Recognizing that revenues from non-renewable resources will not last forever, the GNWT is committed to transforming non-renewable resource revenues into a legacy of infrastructure and savings to maximize the benefits of these resources for NWT residents today and in the future.

We want the view of NWT residents on how to create a legacy that benefits today's residents while providing for future generations.

Unique Nature of Non-Renewable Resource Revenues

Non-renewable revenues will disappear as the resources on which they are levied are depleted. For this reason, many people support turning the revenues from their sale into investments that will provide a stream of benefits over time. Long-term investment of resource revenues helps provide 'intergenerational equity' where the benefits of the non-renewable resources are preserved for future generations.

A Resource Legacy for the Benefit of All Generations

A goal of the 17th Legislative Assembly is to maximize the benefits of resource development for all NWT residents. Current NWT residents, as guardians of the future NWT, have choices to make about how best to maximize these benefits over time. The GNWT's approach to ensuring intergenerational equity is to never borrow for day-to-day government operations and to borrow only for investments in infrastructure which can benefit many generations. Under this approach, resource revenues generated today are viewed as belonging to present and future generations and should therefore not be used to fund government operations but instead invested as follows:

1 Infrastructure: Infrastructure is a long-term asset, and investment in infrastructure, such as building a new road or health centre, can be enjoyed by future generations. Strategic infrastructure investment creates the environment for new economic opportunities and new sources of revenue for government. The GNWT's \$3 billion infrastructure deficit means rising costs to support aging infrastructure and missed opportunities for strategic infrastructure investment.

2 Debt repayment: Long-term debt places a burden on future generations to pay for today's expenditures. The GNWT has borrowed to invest in infrastructure and using non-renewable resource revenues to retire this debt reduces the burden on future generations.

3 Heritage Fund: In 2012, the GNWT passed the *Northwest Territories Heritage Fund Act* to create a vehicle for long-term investment. Amounts invested can never be taken out and only the income generated by this invested principal can be used by future generations.

NWT Heritage Fund: established in 2012

"to ensure that future generations of people of the Northwest Territories benefit from on-going economic development, including the development of non-renewable resources."

Withdrawals can begin after 20 years and cannot exceed 5% of the balance; the principal can never be withdrawn.

Current Balance: \$501,497

Given pressing infrastructure needs and a federally-imposed borrowing limit, the GNWT is proposing a 5% contribution of resource revenues to the Heritage Fund so that there will be adequate funds to make meaningful debt repayment and investment in strategic infrastructure. As the GNWT's infrastructure deficit is reduced to a more sustainable level, debt is reduced, or resource revenues rise with more resource development, contributions to the Heritage Fund can be increased accordingly.

How much resource revenues are we expecting to receive?

Beginning April 1, 2014, the GNWT will collect all resource revenues in the NWT. At the same time the Territorial Formula Financing Grant that the GNWT receives from the federal government will be reduced by half the amount collected, or slightly more if the cap on resource revenues is triggered. Effectively, the GNWT will keep a Net Fiscal Benefit of 50% of resource revenues up to a maximum of \$70 million, growing each year. The GNWT has committed to sharing up to 25% or \$18 million of what it keeps, or the Net Fiscal Benefit with Aboriginal governments, leaving a maximum of \$52 million annually for the GNWT.

Had devolution happened in 1999, the GNWT's share, after sharing with Aboriginal governments, would have been \$364 million or an average of \$28 million annually. Since we spend over \$1.5 billion each year on programs and services, we will continue to depend on federal transfers for the majority of our revenue. Federal transfers currently make up about three-quarters of total GNWT revenues.

What about funding programs and services?

When the GNWT assumes control over lands and resources on April 1, 2014, the additional responsibilities to manage these resources will be financed through a \$67.3 million adjustment to the Territorial Formula Financing Grant and will grow annually. This means that resource revenues do not have to be used to fund GNWT programs to manage NWT lands, waters and non-renewable resources; nor are resource revenues needed for other programs and services if the GNWT maintains its commitment to fiscal sustainability.

The GNWT's pledge to ensure fiscal sustainability is built on the principle of living within our means. This commits the GNWT to not spend more than it brings in, ensuring that it does not borrow from future generations for today's programs and has resources available for investment in infrastructure.

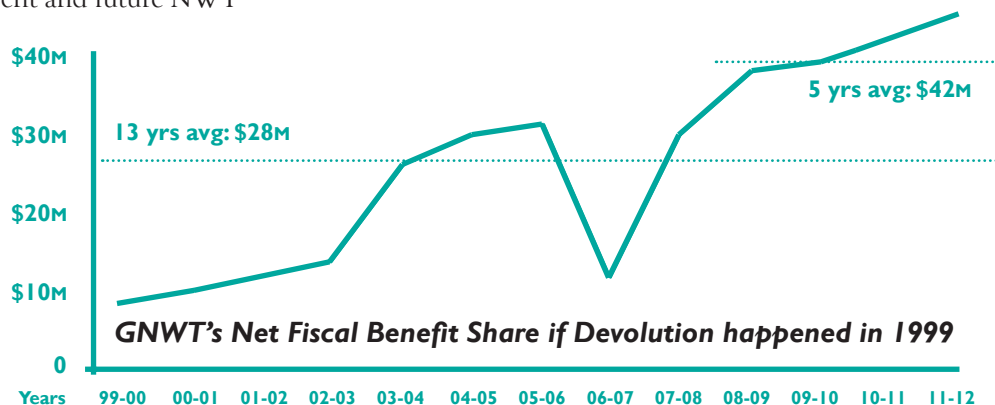
Keeping resource revenues separate from general revenues used to pay for operating expenditures is part of this fiscal sustainability goal. Unlike Alberta or Newfoundland and Labrador, whose resource revenues make up more than 25% of their budget, the GNWT's resource revenues will be less than 4% of the budget. The modest level of resource revenues in relation to expenditures means that the revenues could quickly become subsumed in the operating budget. Only by continuing to live within our means can the GNWT ensure these funds are used for the long-term benefit of current and future NWT residents.

Similarly, we will need more than resource revenues to reduce the infrastructure deficit. Generating operating surpluses to help pay for infrastructure will continue to be part of the GNWT's prudent borrowing strategy and help it adhere to its *Fiscal Responsibility Policy* to fund at least half of infrastructure spending through cash generated from operating surpluses. In its 2013 credit analysis of the GNWT, Moody's Investors Service regarded the GNWT's approach to resource revenues as demonstrating "long-term planning and fiscal discipline, which is considered credit positive."

Investing resource revenues outside the operating budget has the added benefit of mitigating the need to drastically cut programs in the face of falling non-renewable resource revenues. Non-renewable resource revenues are volatile; over the past decade revenues have fluctuated from year to year, doubling or tripling in some years and falling more than 60% in others. If the GNWT had received resource revenues beginning in 1999, they would have fluctuated between \$9 and \$49 million annually. Using such volatile revenues to fund programs and services can result in fiscal distress during resource busts, a time when government spending is needed most, and runs the risk of creating program expectations and dependencies where the funding source is highly unpredictable.

Note: Norman Wells project profits are excluded from resource revenues

Source: NWT Dept. of Finance - Fiscal Policy (July 2013)



Tell us what you think:

How do you see the GNWT ensuring non-renewable resource revenues are used for the benefit of current and future residents of the NWT?

Is there an optimal split between investing in infrastructure, debt repayment, and the Heritage Fund?

Is there a minimum amount we should be devoting to any one purpose?

Issues to Consider

Here are some things that you may want to consider:

Flexibility of Funds: Resource revenues transferred into the Heritage Fund become the principal of the Fund and can never be spent, only the income they generate can ever be withdrawn. In other words, the Heritage Fund is not a 'rainy day' fund; any money invested in the Heritage Fund will not be accessible in the future in case of an emergency or economic downturn.

Uncertainty of Revenues: Resource revenues are sensitive to events beyond the government's control such as commodity price swings or operational decisions like maintenance shutdowns, and can fluctuate significantly.

Infrastructure Deficit: The GNWT has a large infrastructure deficit and is constrained in financing infrastructure through debt by its *Fiscal Responsibility Policy* and the federally-imposed borrowing limit.

Continued Dependence on Transfers: The GNWT receives about three-quarters of its revenues from the federal government. We will not generate enough resource revenues to significantly alter this relationship in the foreseeable future.

We want to hear from YOU!

Tell the Finance Minister at:

Behchokò	Thursday, October 3 at the Charlie Charlo Building Meeting Room
Fort Simpson	Monday, October 7 at the Nahanni Inn Boardroom
Hay River	Tuesday, October 8 at the Ptarmigan Inn Louisa Alexandra Falls Room
Fort Smith	Tuesday, October 15 at the Pelican Rapids Inn Blue Room
Yellowknife	Monday, October 28 at the Explorer Hotel Janvier Room
Inuvik	Tuesday, November 12 at the Mackenzie Hotel Boardroom
Norman Wells	Wednesday, November 13 at the Heritage Hotel Boardroom
All meetings start at 7:30pm.	

Send a letter to: Dialogue 2013, Department of Finance, GNWT
PO Box 1320, Yellowknife, NT X1A 2L9

Send an email to: budgetdialogue@gov.nt.ca

For locations and more information please visit www.fin.gov.nt.ca

Si vous souhaitez vous exprimer en l'une ou l'autre des langues officielles des Territoires du Nord-Ouest (autre que l'anglais), veuillez nous écrire à l'adresse budgetdialogue@gov.nt.ca

If you wish to use an NWT official language other than English, please email the address above.