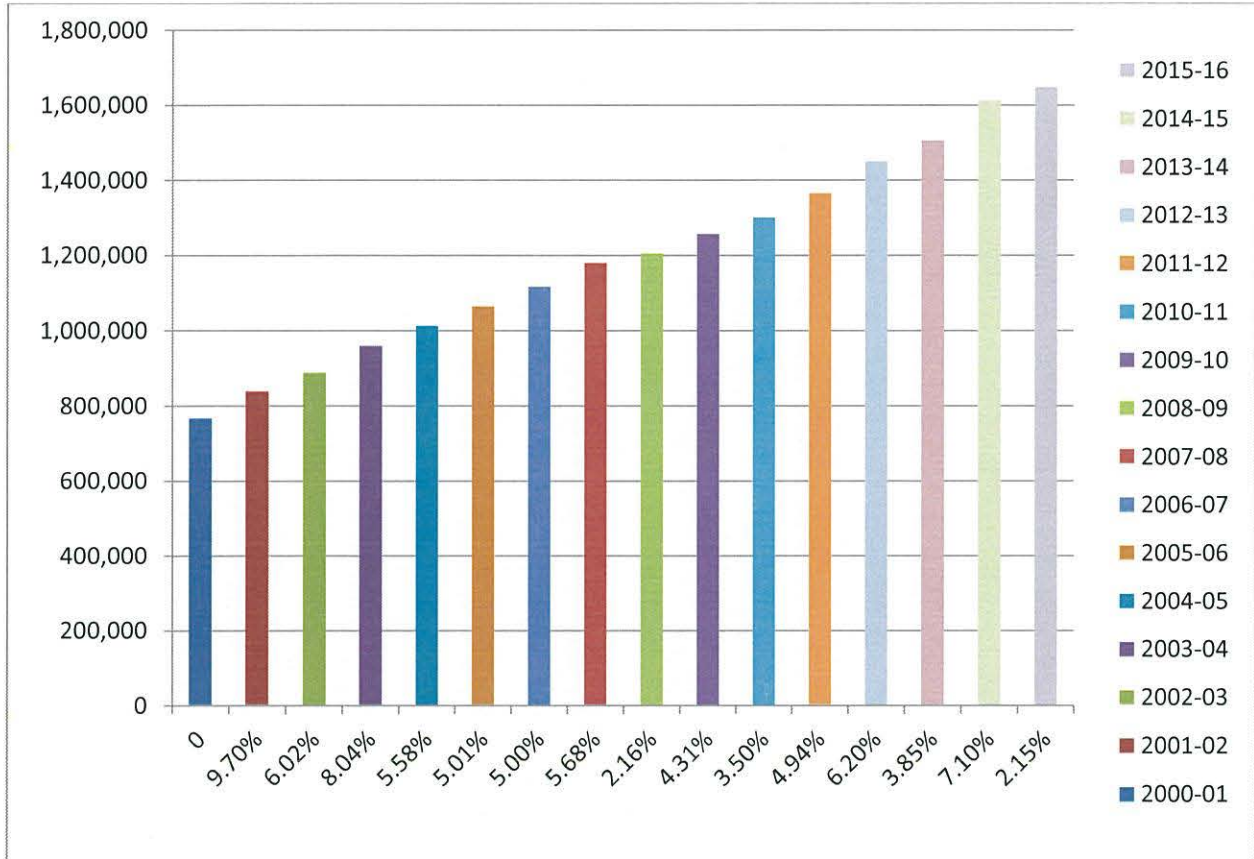


Daryl Dolynny, MLA Range Lake  
 May, 2015

**Measuring GNWT fiscal performance and accountability**

There are several ways to measure fiscal performance and accountability. The first is the annual growth rate in operational and capital spending.

**GNWT Operations Spending, 2000-2016 (in thousands of dollars)**

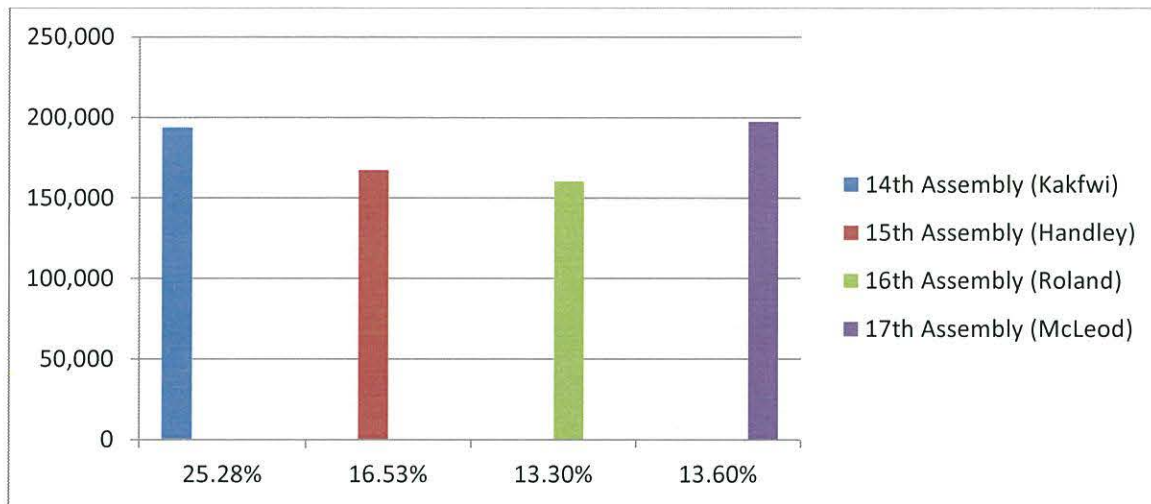


**Percentage increase, year over year**

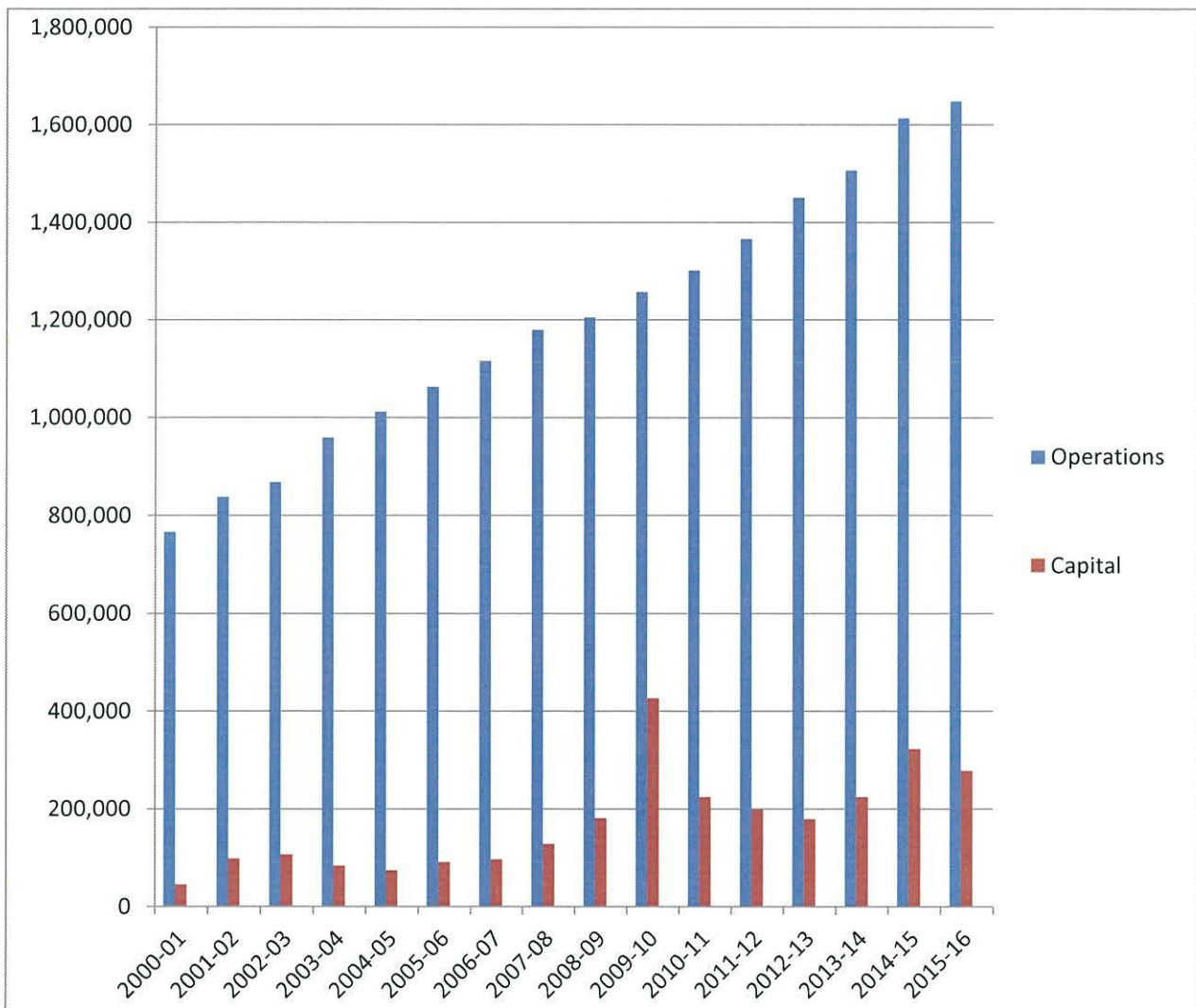
The total increase from 2000-01 to 2015-16 is 115%. The Bank of Canada’s calculation of the inflation rate from 2000-2015 is 33.23%. The growth of GNWT operations spending during this period is more than triple the official inflation rate.

- Growth in operations spending is only marginally discretionary, and should be considered in tandem with revenue.
- The 14<sup>th</sup> Assembly was the first one following division of the NWT and Nunavut. (see chart below)
- Growth during the 17<sup>th</sup> Assembly includes spending for new NWT responsibilities following devolution.
- GNWT revenue grew more (150%) than operations spending (115%) from 2000 to 2016.

### Growth in GNWT Operations Spending, by Assembly (in thousands of dollars)

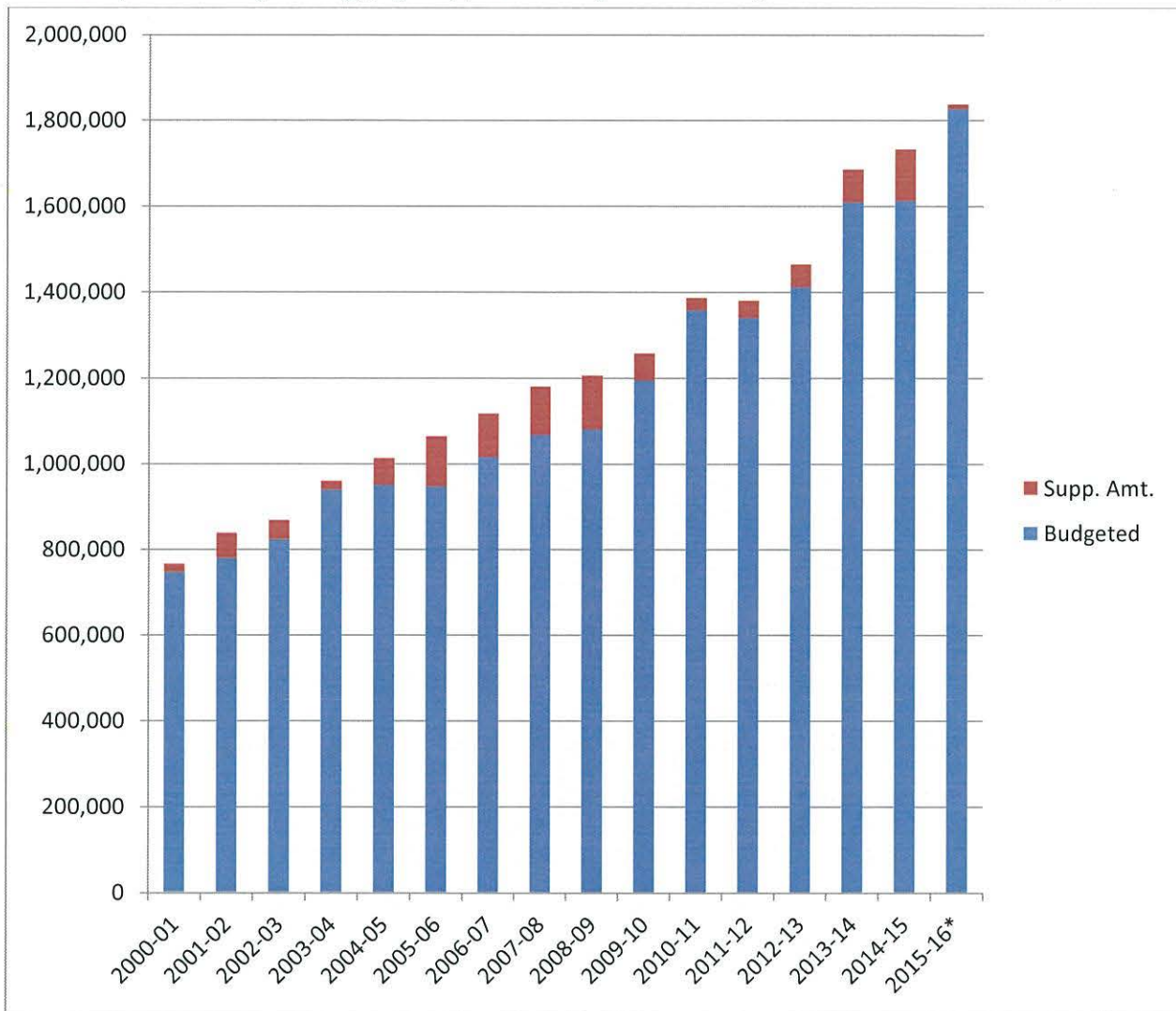


### GNWT Operations & Capital Spending, 2000-16 (in thousands of dollars)



- Growth in capital spending in 2009-10 was largely in response to the economic downturn, and the government’s policy to address the NWT’s “infrastructure deficit.” This was aided by the federal government’s Building Canada Plan.
- Declining federal investment in social housing has required additional investment by the GNWT, which will continue as federal funding falls to zero in 2038-39.

**GNWT Operations Spending (w/ Supplementary breakdown, in thousands of dollars)**



\*Year is incomplete, with supplementary appropriations to come.

- Supplementary appropriations often include substantial amounts for unavoidable spending, such as firefighting. However, large and repeated supplementary appropriations may signal a need for budget adjustments.

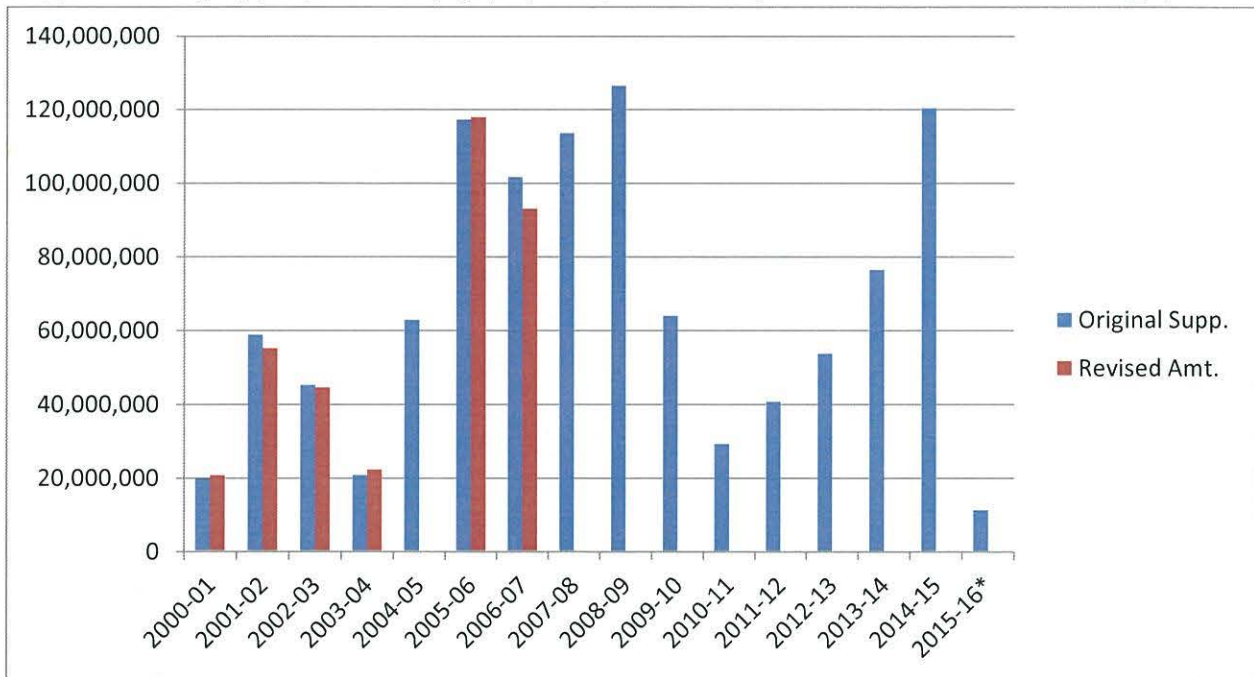
- C.D. Howe institute ranked the GNWT 8<sup>th</sup> of 14 Canadian governments (FPT) in terms of accuracy of spending forecasts for the years 2004-05 to 2014-15. Accuracy also improved over the same period.

**Supplementary Appropriations for Operations Spending, 2000-2016 (in millions of dollars)**

Year	Supp. Amount	% of Operations	Revised Amount*	Difference
2000-01	19.93	2.6	20.71	.78
2001-02	58.82	7.0	55.17	(3.65)
2002-03	45.17	5.1	44.58	(0.59)
2003-04	20.67	2.2	22.26	1.39
2004-05	62.88	6.2		
2005-06	117.37	11.0	117.91	.54
2006-07	101.49	9.1	93.12	(8.37)
2007-08	113.68	9.6		
2008-09	126.51	10.5		
2009-10	64.03	5.0		
2010-11	29.18	2.2		
2011-12	40.72	3.0		
2012-13	53.74	3.8		
2013-14	76.57	4.3		
2014-15	120.48	7.5		

\*Finance has provided revised numbers for these years since the bills were presented in the House. Finance plans to do a full reconciliation of these years at a later date.

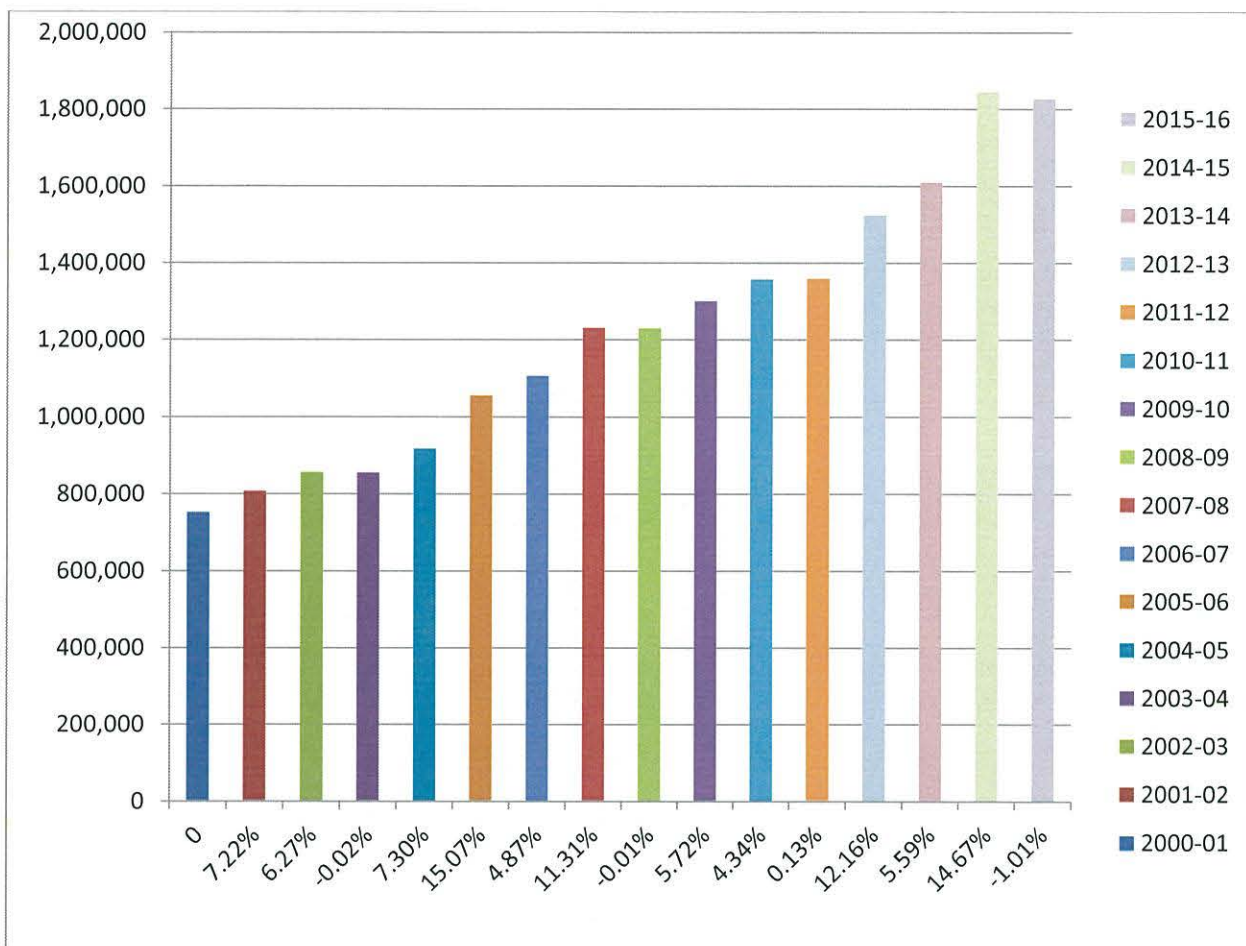
**Supplementary Appropriations (Ops) by Year, in dollars (no revisions where bar is single)**



\*2015-16 year is incomplete.

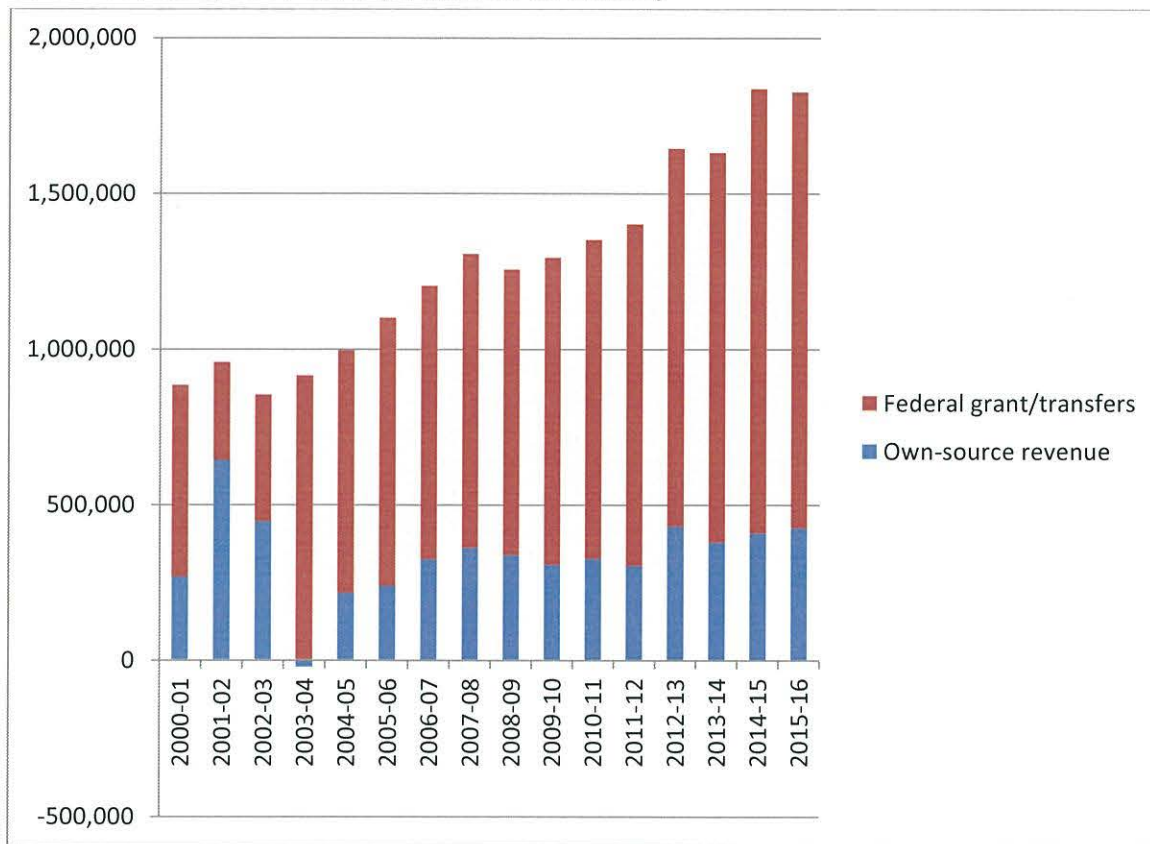
On an annual basis, supplementary appropriations have exceeded \$100-million five times, from 2005-06 through 2008-09 and again in 2014-15. Supplementary appropriations fell dramatically in the final year of the 16<sup>th</sup> Assembly and first year of the 17<sup>th</sup> Assembly, but have risen since then. Notably, more than \$50-million of the 2014-15 operations supplementary appropriation was for firefighting.

### GNWT Revenue, 2000-2016 (in thousands of dollars)



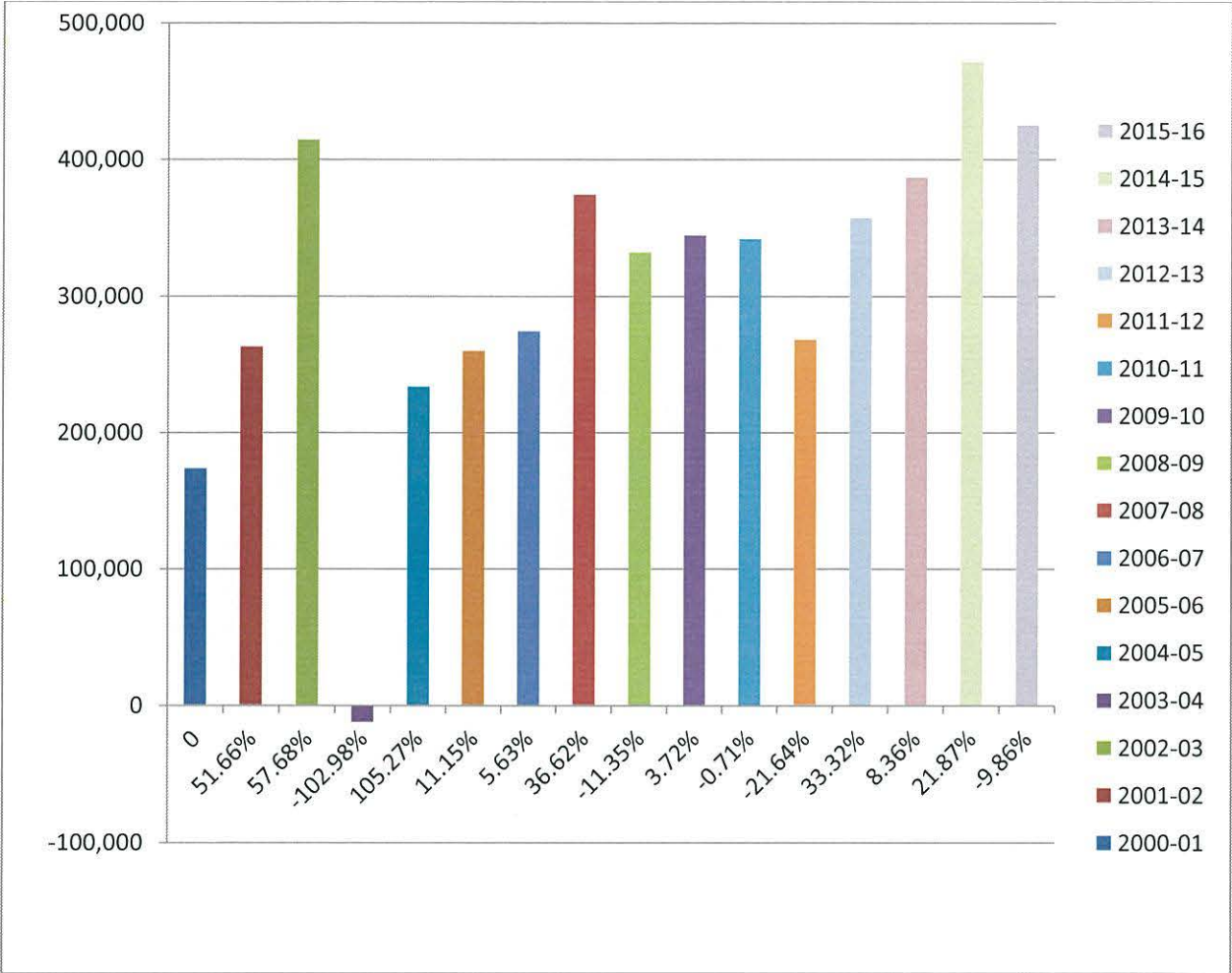
- GNWT revenue grew by 149.79% from 2000-16, substantially more than the Operations spending growth of 115% and the official inflation rate of 33.23%.
- Federal transfers currently account for more than 70% of GNWT revenue, with population as a significant factor. However, federal transfers have increased despite only modest NWT population growth from 40,845 in 2001 to 43,234 in 2015.
- Operations spending growth exceeded revenue growth in 5 of the 16 years. Only in 2003-04 was this difference substantial.
- While revenue exceeds Operations spending, the surplus is used to fund infrastructure (capital) spending and therefore is not an overall surplus. (See debt section below.)

**GNWT revenue, 2000-2016 (in millions of dollars)\***



\*Actual revenue is used from 2000-13; revised estimates are used in 2013-15, and main estimates are used in 2015-16.

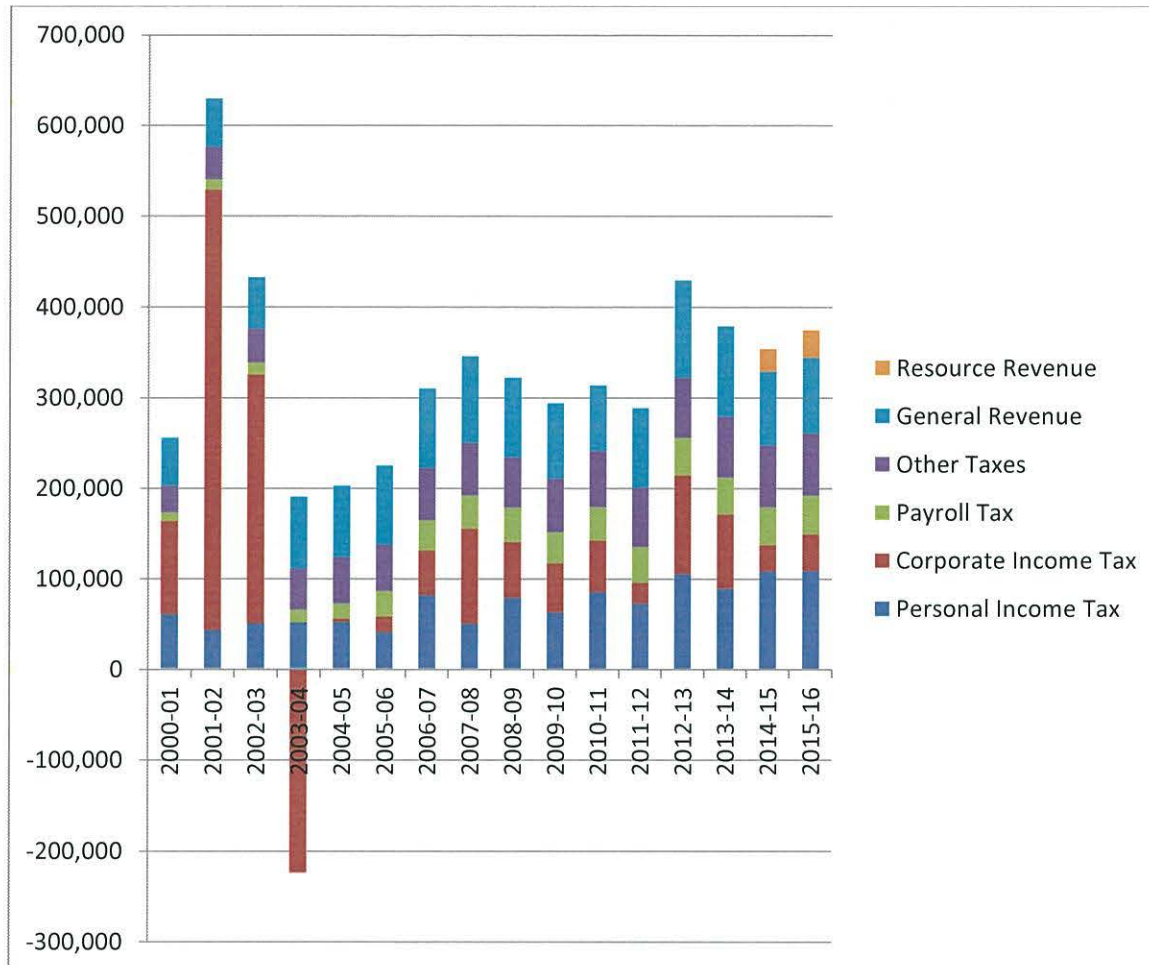
**GNWT Own-Source Revenue growth, 2000-2016 (in thousands of dollars)**



**GNWT Own-Source Revenue, 2000-2016**

- Own-source revenue is another measure of government fiscal performance. In the chart below, it includes all GNWT revenue other than federal transfers. This revenue grew by 143.2% from 2000-2016, far more than inflation but less than total revenue.
- Own-source revenue is more variable than federal transfers due to the volatility of corporate tax revenue, which is also difficult to forecast in advance.
- Own-source revenue now accounts for roughly 23% to 25% of total GNWT revenue. Excluding a federal error on corporate income tax recovered in 2003-04, own-source revenue exceeded \$400-million only twice since 2000, in 2014-15 and 2015-16.
- A portion of increases in own-source revenue is ‘lost’ due to a reduction in federal transfer payments.
- Increasing own-source revenue through taxes also tends to increase the cost-of-living; reducing the cost-of-living has been a long-term priority.

**Components of GNWT Own-Source Revenue, 2000-2016 (in thousands of dollars)\***



\*Actual revenue is used from 2000-13; revised estimates are used in 2013-15, and main estimates are used in 2015-16. Resource revenue used is the net revenue after the reduction in the Territorial Formula Financing Grant and after sharing with aboriginal governments, but before the annual allocation to the Heritage Fund.

- The variability of corporate tax revenue is further illustrated by examining the components of own-source revenue. Overpayments by the federal government and subsequent recoveries from 2001-04 triggered changes in the GNWT’s method of forecasting this revenue. (see chart above)
- With allowances for volatility, corporate income tax revenue has trended down in the period from 2000-2016. Adjusted for inflation, the trend would be more pronounced.
- Significant rises in payroll tax revenue are linked to the openings of new diamond mines; otherwise, this revenue is fairly consistent, rising with wages. As mines have geared up, payroll tax revenue has become more significant. If mines closed, significant reductions in payroll tax revenue would occur.
- Personal income tax revenue has grown 79.6% since 2000, a slower rate of growth than overall revenue but still more than double the official rate of inflation.



**NWT Taxes**

- Corporate and personal income taxes in the NWT are among the lowest in Canada.
- In January, 2015, the Fraser Institute rated Canada’s premiers based on corporate and personal tax rates (the lower, the better) and changes in tax rates. By these measures, Premier McLeod would rate second overall (behind Alison Redford of Alberta), with a score of 87.2. On corporate taxes, Premier McLeod would rate first, with a score of 86.8. On personal income tax, Premier McLeod would rate second, with a score of 87.5 (behind Alison Redford of Alberta).

**Corporate Income Tax Rate**

- The tax rate for small businesses was cut in half from 1990 to 2009, and remains at 4%.
- The general corporate tax rate of 11.5% is lower than all provinces except Alberta (10% in 2014) and British Columbia (11% in 2014). The general corporate tax rate was reduced from 14% to its current level in 2006.

	1-Jan	1-Jan	1-Jul	1-Jan	1-Jan	1-Jan	1-Jul	1-Jan	1-Jul	1-Jan
	2009	2007	2006	2005	2004	2003	2002	1994	1991	1990
General Rate	11.50%	11.50%	11.50%	14.00%	14.00%	12.00%	12.00%	14.00%	12.00%	12.00%
Small Business Rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	5.00%	5.00%	8.00%
Threshold	\$500,000	\$400,000	\$300,000	\$300,000	\$250,000	\$225,000	\$200,000	\$200,000	\$200,000	\$200,000

For Canadian-controlled private corporations, the first \$500,000 of their active business income is subject to the small business rate of 4%. Any income over this threshold is subject to the general rate of 11.5%.

**Personal Income Tax**

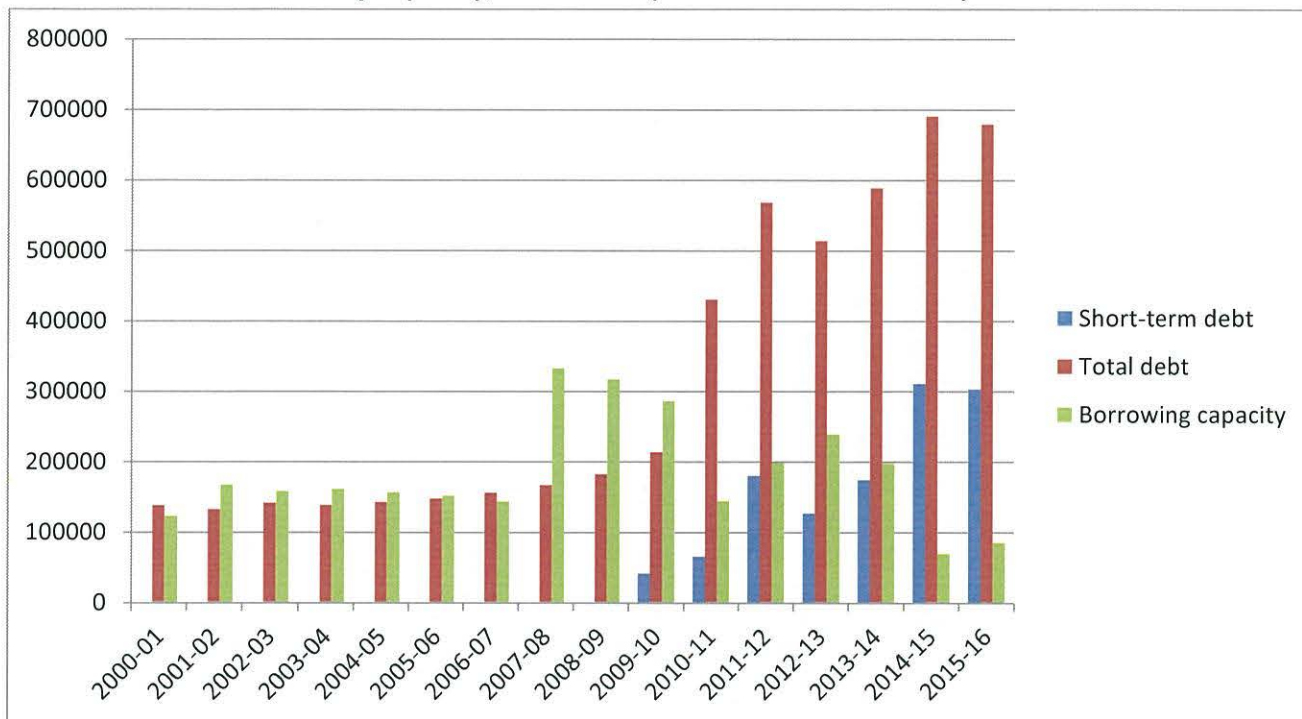
- 1st Bracket**  
 \$38,679 or less: 5.9%
- 2nd Bracket**  
 \$38,67.01 - \$77,360: 8.6%
- 3rd Bracket**  
 \$77,360.01 - \$125,771: 12.2%
- 4th Bracket**  
 Over \$125,771: 14.05%

- These tax rates have been in place since at least 2009, although the thresholds have increased with inflation.

### GNWT debt and borrowing capacity

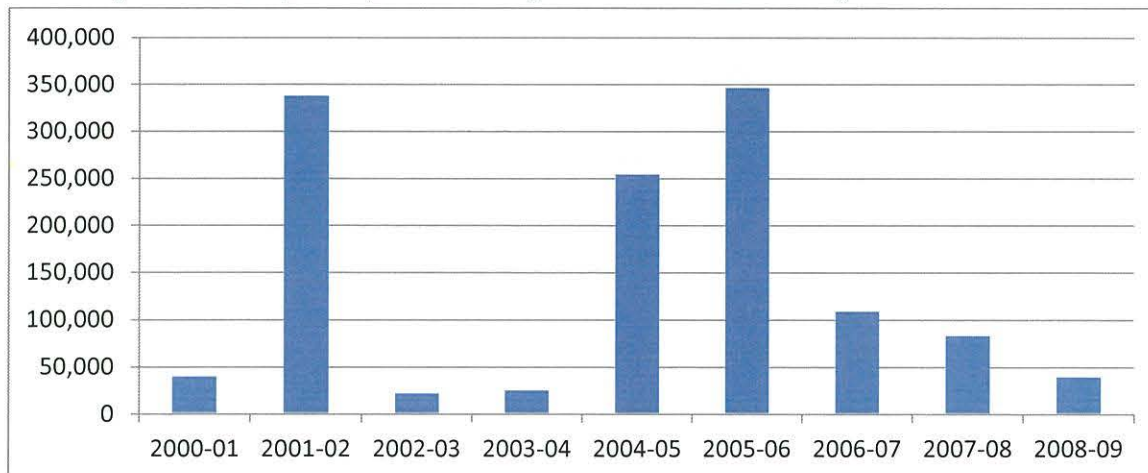
- Inability to borrow due to the federally-imposed debt limit restricted progressive capital investment from 2000 to 2007, leading to an “infrastructure deficit.” Arguably, this has curtailed efforts to diversify the NWT economy and tied the territory to the intensely cyclical resource development sector. The 16<sup>th</sup> and 17<sup>th</sup> Assemblies successfully pressured Canada to raise the debt limit.

**GNWT debt and borrowing capacity, 2000-2016 (in thousands of dollars)\***



\*Actuals are used from 2000-13; revised estimates are used in 2013-15, and main estimates are used in 2015-16.  
 \*The Main Estimates for 2015-16 did not reflect the increase in debt capacity beginning in April, 2015.

**Annual year-end surpluses, 2000-2009 (in thousands of dollars)**

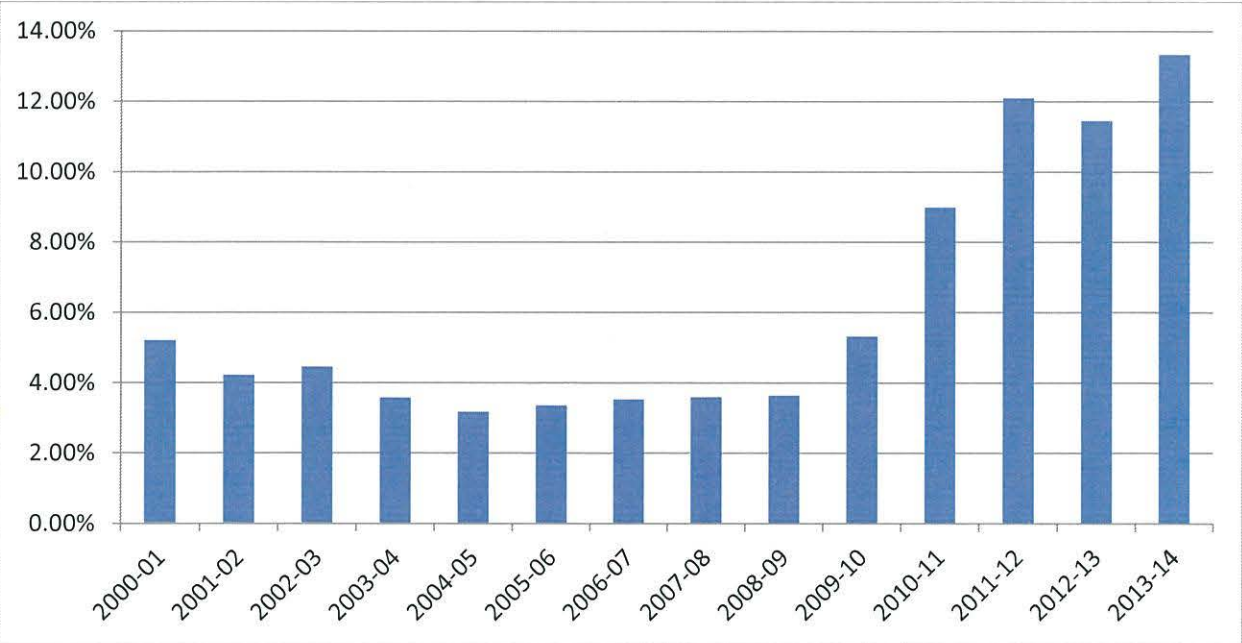


- Trends in debt and borrowing capacity are another measure of fiscal performance. From 2007-2016, total GNWT debt has risen dramatically, by 392.5%. Large capital projects, such as the Deh Cho Bridge (\$180-million) and the Mackenzie Valley Fibre-optic Link are major contributors to the growth of debt during the current term. (see chart above)
- As total debt has grown, borrowing capacity has shrunk – although the federally-imposed limit has recently been increased to \$1.3-billion, creating approximately \$500-million in new debt capacity.
- Prior to the recent increase in the debt limit, capacity to borrow fell \$100-million in 2014-15.
- From 2000-2009 the GNWT ended each year with a cash surplus and did not require short-term debt. Short-term debt has generally increased since 2009, but has become significant during the life of the current government (see charts above).
- The large surplus in 2001-02 is an anomaly resulting from excess payment of Corporate Income Tax by the federal government, subsequently recovered.

	Debt limit (\$ millions)	Total debt (\$ millions)
March, 1999	300	137*
March, 2007	500	156
April, 2010	575	213
March, 2012	800	568
April, 2015	1,300	690

\*In 2000-01.

**GNWT total debt as a percentage of GDP (at annual market prices)**

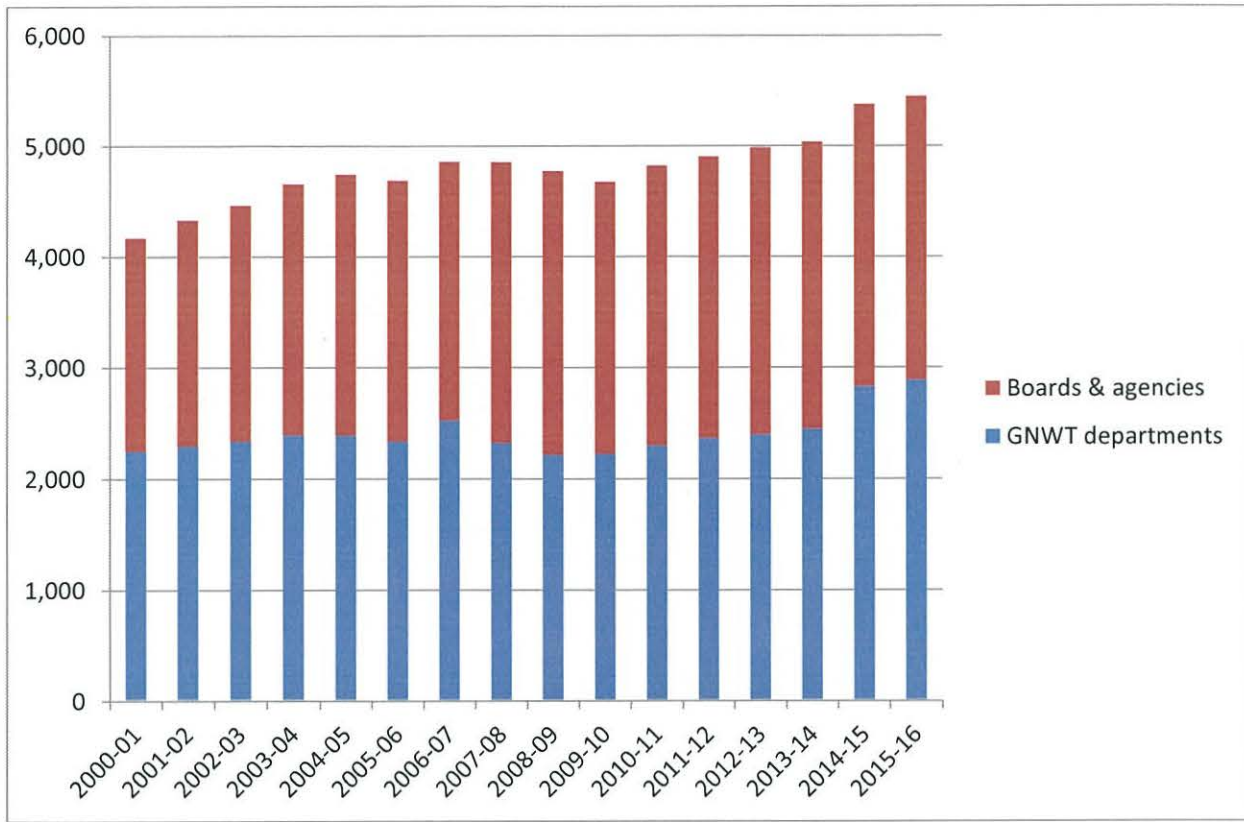


- Rising debt and softening/static GDP combined have caused GNWT debt to rise as a percentage of GDP (see chart above). Government responses to economic conditions and the “infrastructure deficit” required additional debt. The percentage of debt to GDP will likely increase again with the addition of large capital projects, unless GDP rises more than expected.
- GNWT’s debt is rated Aa1 by Moody’s, its second-highest tier, the same rating earned by Saskatchewan and Manitoba. The rating takes into account “strong governance and management,” economic factors, and the GNWT’s relatively low debt load.
- Total government debt in Canada is about 38% of GDP, compared to the GNWT’s 13.3%. (Canada’s debt to annual GDP is relatively low: the G-7 country average is about 82%.)

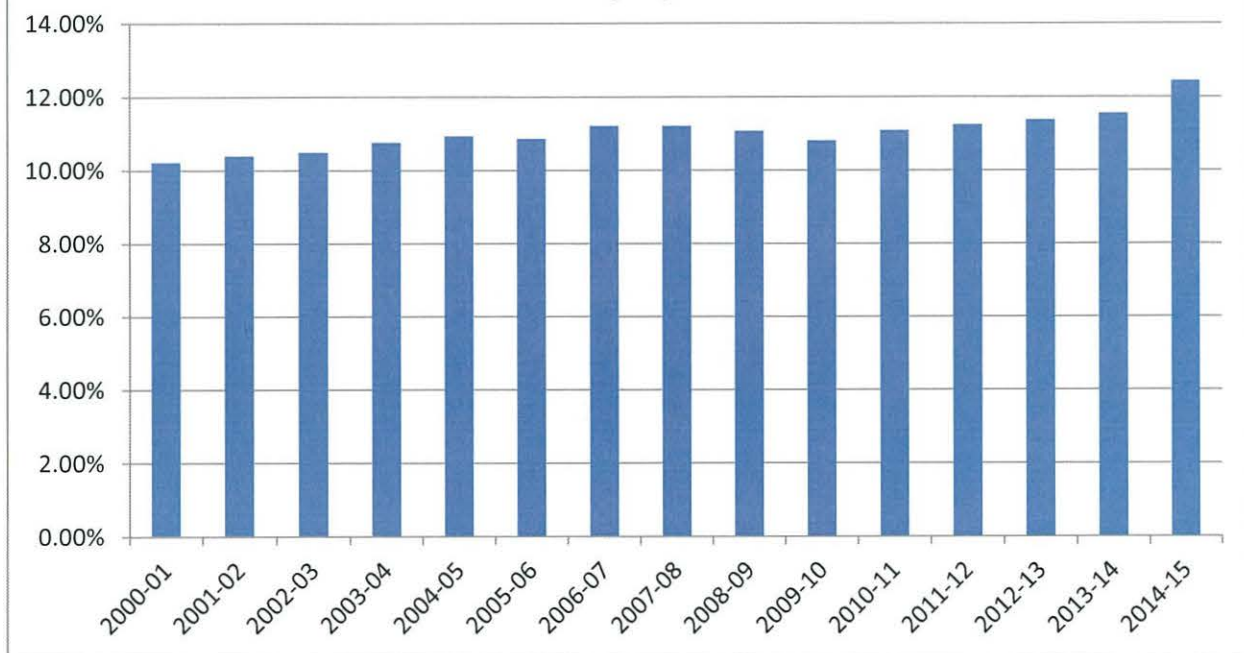
### **Growth of the GNWT workforce, 2000-2016**

- Managing the size of government is an important component of fiscal performance. Compensation and benefits for government departments, boards, and agencies account for approximately 40% of the GNWT’s spending on operations. Increases in compensation and benefits are considered forced growth once the terms of collective agreements are negotiated.
- The 2015-16 average cost of compensation and benefits per employee for government departments (excluding boards and agencies) is more than \$130,000/year.
- The GNWT workforce (including boards and agencies) has grown 30.7% from 2000 to 2016, to a total of 5,448 employees projected for 2015-16 (see chart below). This rate of growth is significantly lower than the growth of Operations Spending (115%) and Revenue (149%) during the same period.
- Boards and agencies have grown somewhat more than GNWT departments. Board and agency staffs have grown by 33.1% from 2000 to 2016, or from 1,923 to 2,560.
- Devolution of responsibilities from Canada to NWT in 2014 resulted in substantial growth of the GNWT workforce (and a reduction of Canada’s NWT workforce). This contributed to the GNWT’s workforce rising above 12% of the total NWT population for the first time in the period from 2001 to 2015 (see chart below).
- The number of GNWT employees, relative to the total NWT population, has risen from 10.21% in 2001 to 12.43% in 2015. Even before devolution, this percentage was rising moderately (see chart below).

### Growth of the GNWT workforce, 2000-2016



### GNWT employees as a percentage of NWT population



## Public Reporting

Reporting of government spending should be timely, clear, and comprehensible to people without accounting degrees. GNWT reporting has generally improved over the years. However, there is evidence that more improvement is possible and warranted.

*[On] the quality-of-reporting scale [...] the Northwest Territories [...] earn(s) a grade [of] D+. Although PSAB-consistent public accounts save the Northwest Territories from getting outright failing grades, its budgets would bewilder our idealized reader with multiple presentations of revenue and spending figures that no non-expert could possibly reconcile with the headline figures in their public accounts.*

– C.D. Howe Institute, Commentary No. 424, “By the Numbers: Fiscal Accountability of Canada’s Senior Governments, 2015”

The Standing Committee on Government Operations has commented extensively on the Public Accounts and the need for improved clarity and consistency with annual budgets.

On the other end of the spectrum, GNWT departmental business plans provide detailed information on both spending and activities, and are made public once the budget is passed in the House. Business plans have improved dramatically since 2000, particularly in the last decade. However, Standing Committees have commented on the lack of detailed information for some major boards and agencies requiring large expenditures, including Aurora College, education authorities, health authorities, and the NWT Power Corporation.