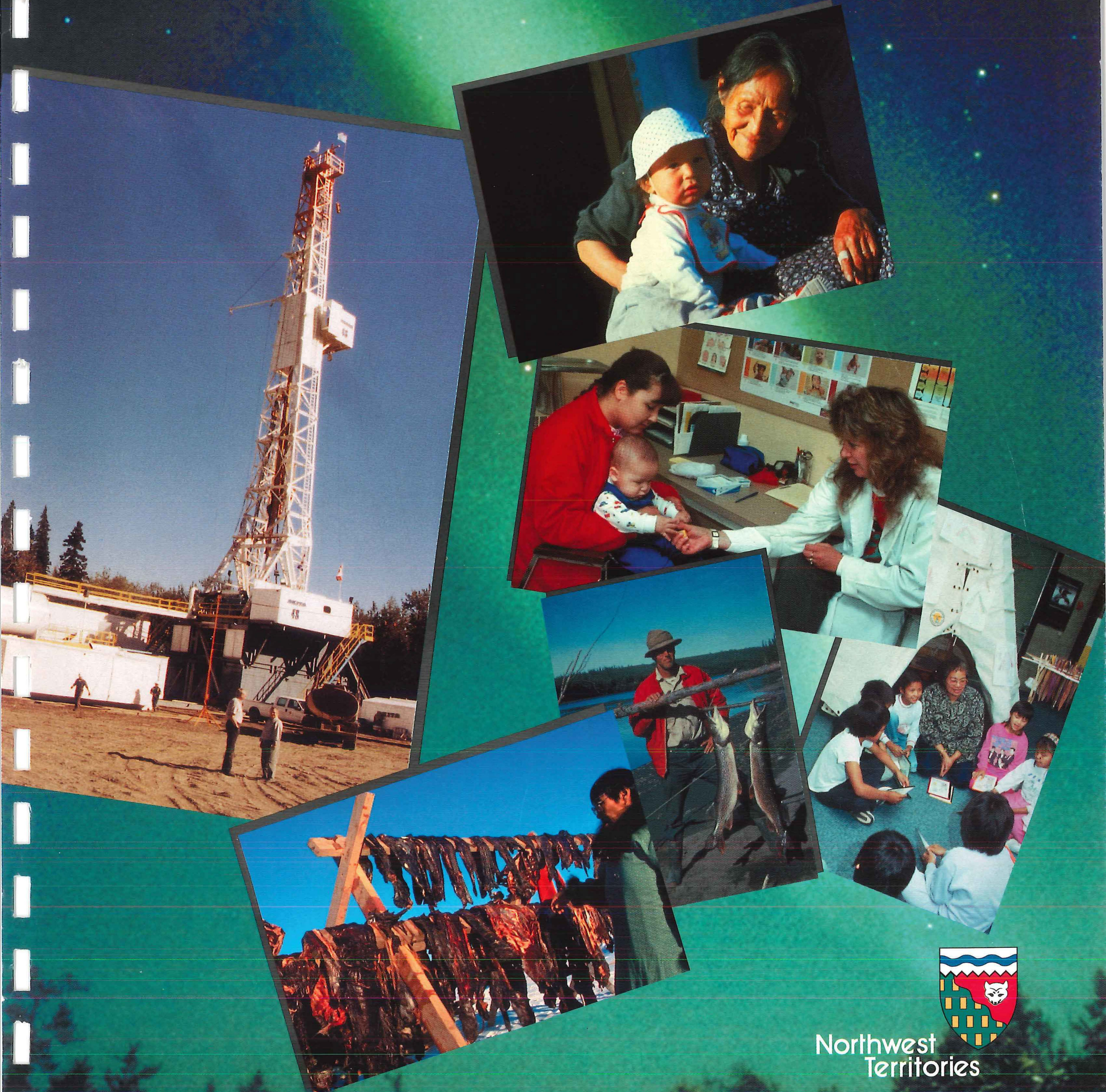
Public Accounts

Northwest Territories • 2001-2002

Section IV Government Indicators



Northwest Territories

SECTION IV

FINANCIAL INDICATORS

(Unaudited)

TABLE OF CONTENTS

INTRODUCTION

The Public Accounts of a government report on the fiscal year's revenues and expenses and how they relate to the overall surplus or deficit position of the Government. It is important to note that the financial condition of a government is often quite different from the financial condition of the economy.

A research study conducted by the Canadian Institute of Chartered Accountants states:

The financial health of a government is it's financial health as measured by sustainability, vulnerability and flexibility, looked at in the context of the overall economic and financial environment. These terms are defined as follows:

- *Sustainability: the degree to which a government can maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy.*
- *Flexibility: the degree to which a government can increase its financial resources to respond to rising commitments, by either expanding its revenues, or increasing its debt burden.*
- *Vulnerability: the degree to which government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.*

The information provided in the following pages is intended to assist readers of the Consolidated Public Accounts in their assessment of the Government's financial health. Information relating to assets or liabilities of the Government is specific to a point in time, whereas information relating to revenues and expenses encompasses the results of a fiscal year.

GROSS DOMESTIC PRODUCT COMPARISONS

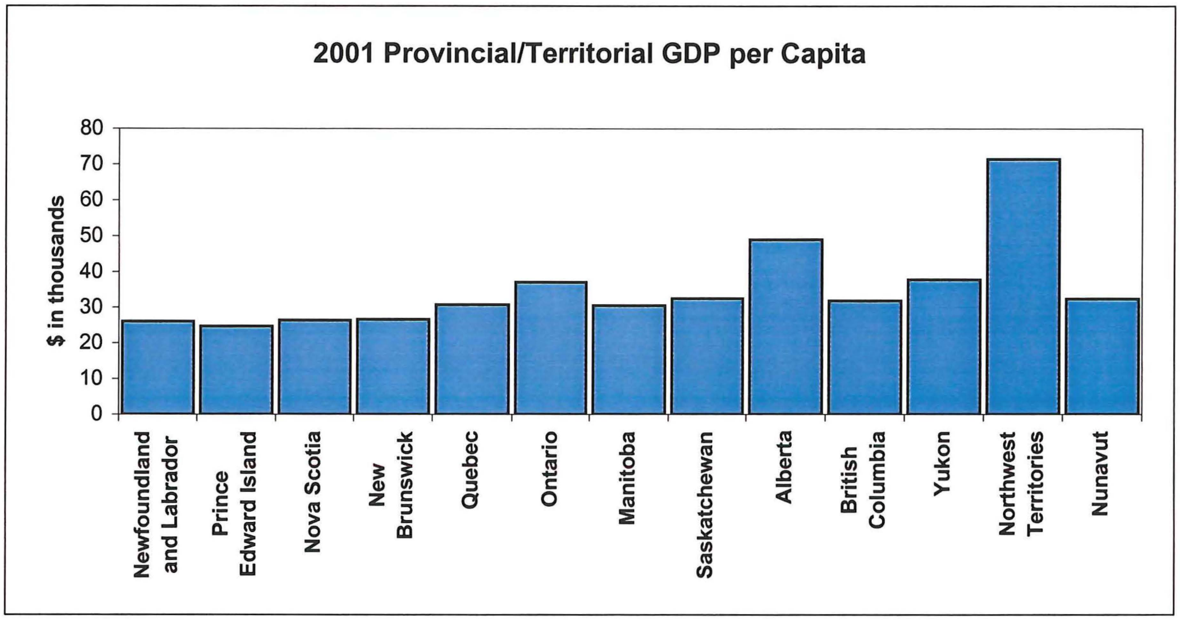
Gross Domestic Product (GDP) represents the total unduplicated value of goods and services produced within the geographical boundaries of a country, or province or territory, irrespective of whether the factors of production involved are resident or non-resident. GDP is typically measured in two ways: as total incomes earned in current production (income-based); and, as total final sales of current production (expenditure-based). Both methods yield the same estimate of GDP. Estimates of GDP are typically expressed at market prices, which includes the impact of taxes and subsidies in the estimate.

For the Northwest Territories (NWT), Statistics Canada estimates current dollar GDP at market prices at $2,920 million for 2001; this represents an increase of 17.9% over the 2000 estimate of $2,476 million. A final estimate of 2001 GDP for the NWT, along with the other provinces and territories, is scheduled for release in October 2002; preliminary estimates of 2002 GDP will be release in April 2003.

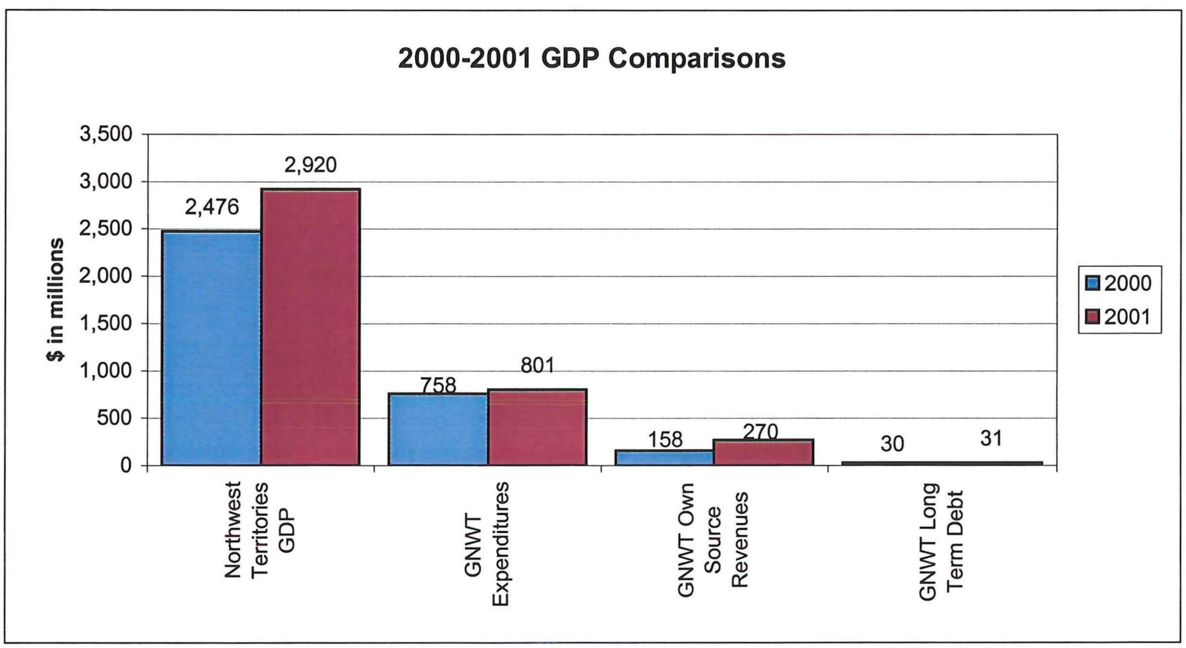
Gross Domestic Product at Market Prices, 2000 and 2001 (calendar year)
Canada, Provinces and Territories
Current Dollars ($millions)

	2001	2000	Percent Change
Canada	1,085,141	1,056,910	2.7
Northwest Territories	2,920	2,476	17.9
Nunavut	912	895	1.9
Yukon	1,131	1,124	0.6
British Columbia	130,396	127,564	2.2
Alberta	150,282	143,034	5.1
Saskatchewan	33,059	33,512	-1.4
Manitoba	35,084	33,780	3.9
Ontario	440,051	429,530	2.4
Quebec	228,516	223,481	2.3
New Brunswick	20,211	19,709	2.5
Nova Scotia	24,917	24,061	3.6
Prince Edward Island	3,423	3,344	2.4
Newfoundland and Labrador	13,916	14,081	-1.2

GROSS DOMESTIC PRODUCT COMPARISONS (continued)

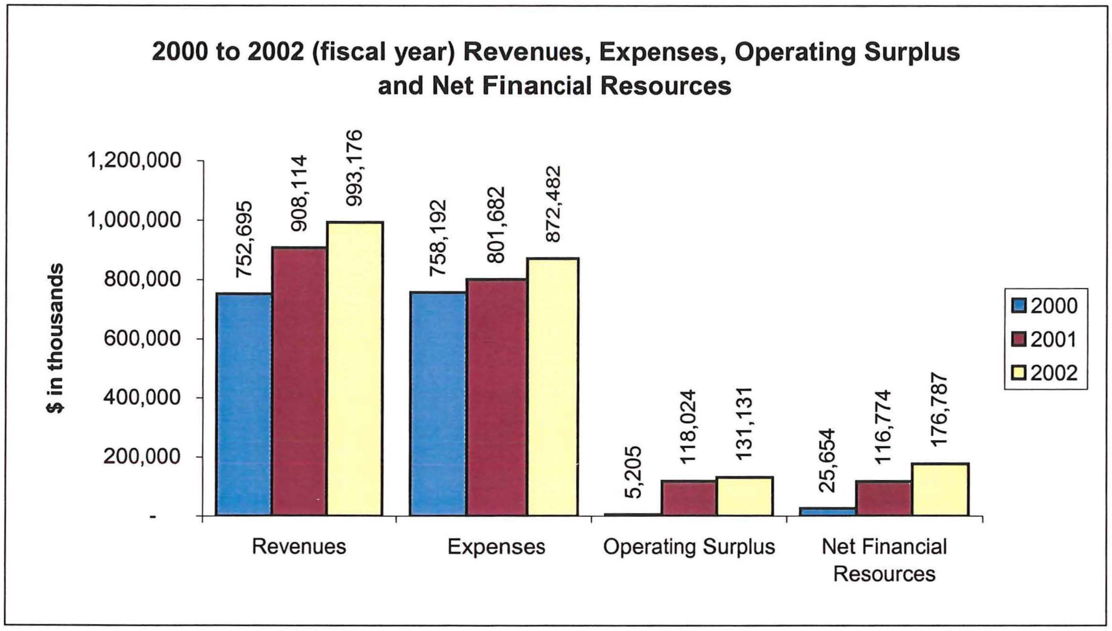


Based on population estimates of Statistics Canada as on July 1, 2001



*Northwest Territories GDP is based on a calendar year, while the balance of the information is based on amounts from March 31 fiscal year-ends.

REVENUE, EXPENSES, SURPLUS AND NET FINANCIAL RESOURCES



* Revenues depicted above exclude both recovery of prior years expenditures and revenue from the Northwest Territories Power Corporation.

The Government currently has positive net financial resources (assets), which as depicted in the following pages, translates into having more financial resources (assets) than outstanding liabilities at the fiscal year end. This important indicator shows the Government's financial position to be sustainable and allows the Government some flexibility in adapting to meet future needs.

REVENUE, EXPENSES, SURPLUS AND NET FINANCIAL RESOURCES (continued)

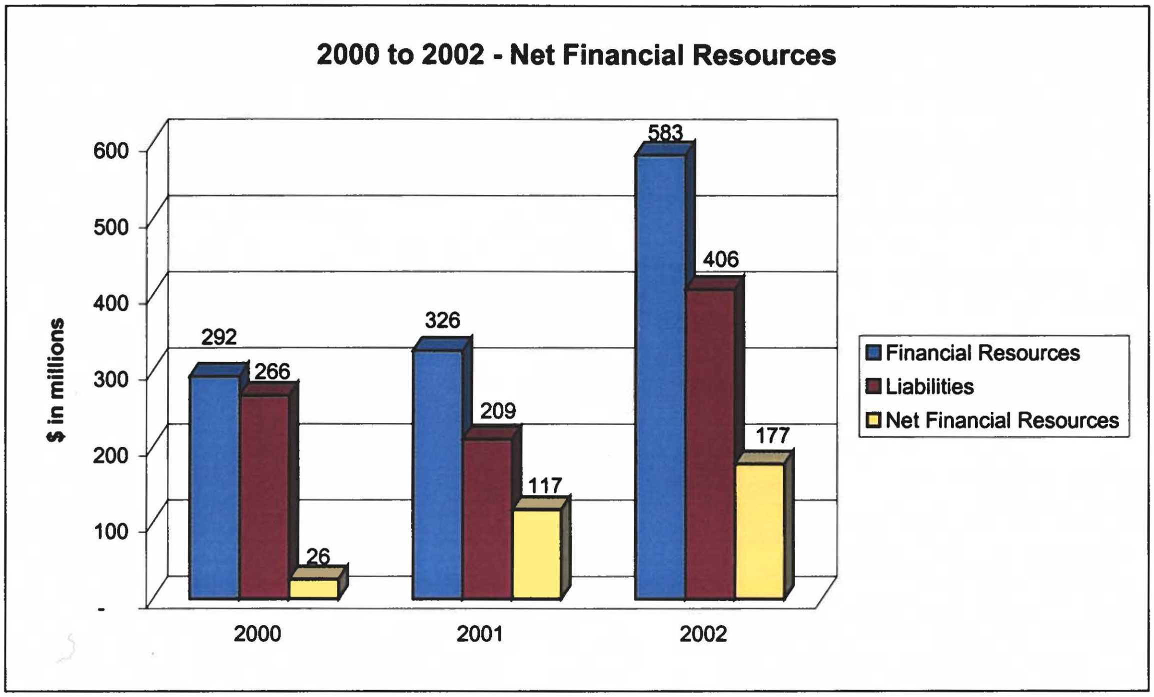
The table below illustrates, both as dollars and as a percentage, the increase in revenue and expenses for the last two fiscal years.

	2000 to 2001		2001 to 2002	
	$ Change (in thousands)	Percent Change	$ Change (in thousands)	Percent Change
Revenues	155,419	20.6%	85,062	9.4%
Expenses	43,490	5.7%	70,800	8.8%

While an increase (or decrease) maybe be significant, it is important to relate that change to the rate of change in other components. Examples of things to watch are: (1) expenses increasing at a faster rate than revenues, (2) the drawing down of net financial resources to maintain or improve services or (3) a fluctuation related to a one time event or an event that may not re-occur in the future. This information can only be reviewed on a meaningful level when consideration is given to what is the driving factor; inflation, new initiatives or other factors. These changes are important when assessing the long-term sustainability of the present level of services.

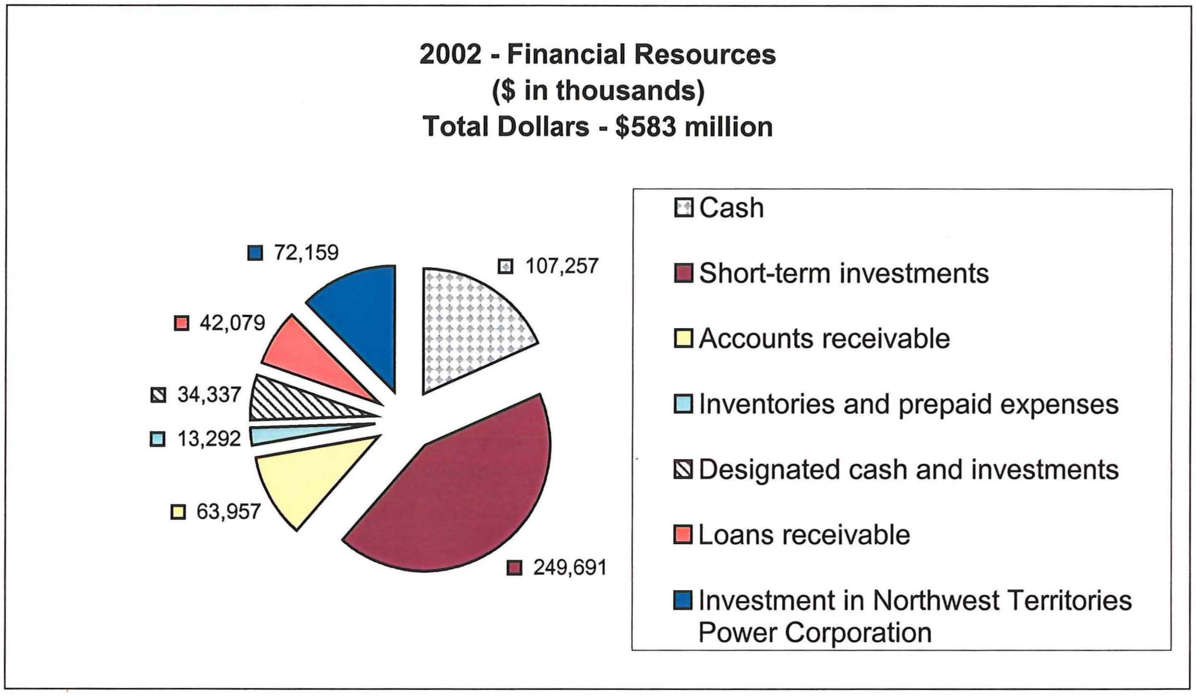
NET FINANCIAL RESOURCES

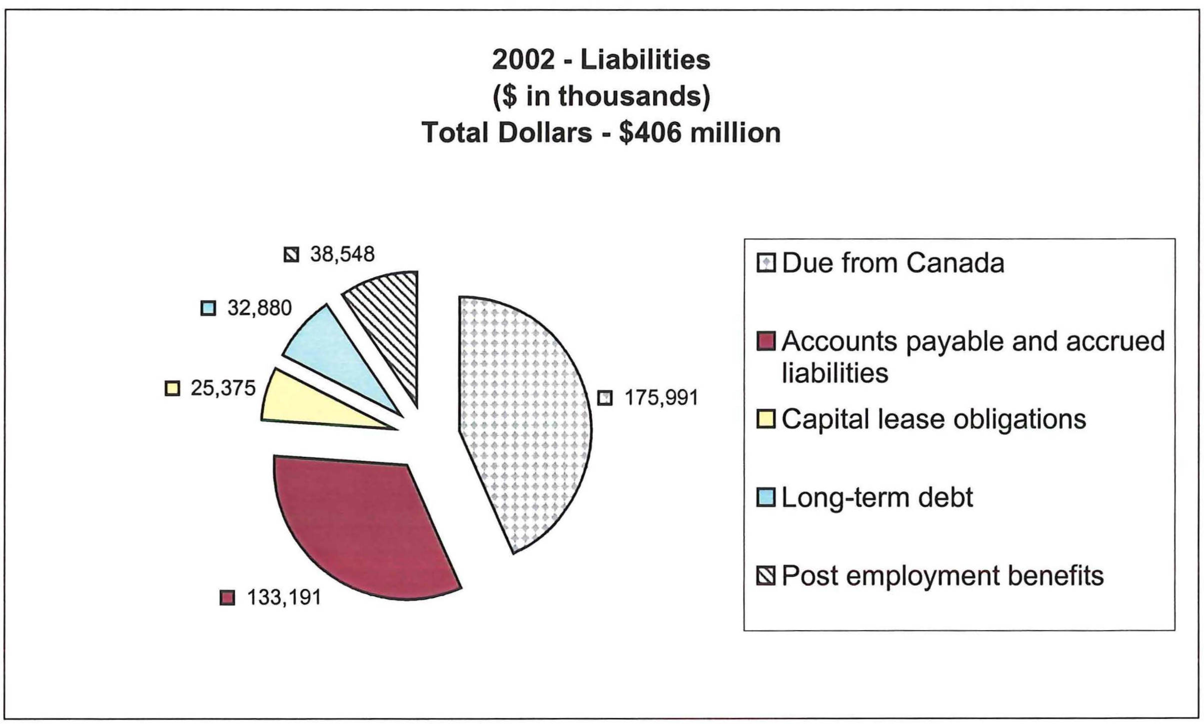
Net financial resources are the residual financial resources (as detailed on the next page) after being reduced by all financial liabilities of the government. The graph below depicts the Government's net financial resource position at the end of the fiscal year.



Net financial resources are a good indicator of a government's ability to meet its existing financial obligations. It is worth noting that the Government of the Northwest Territories is in a net financial resource position while most governments are in a net debt position.

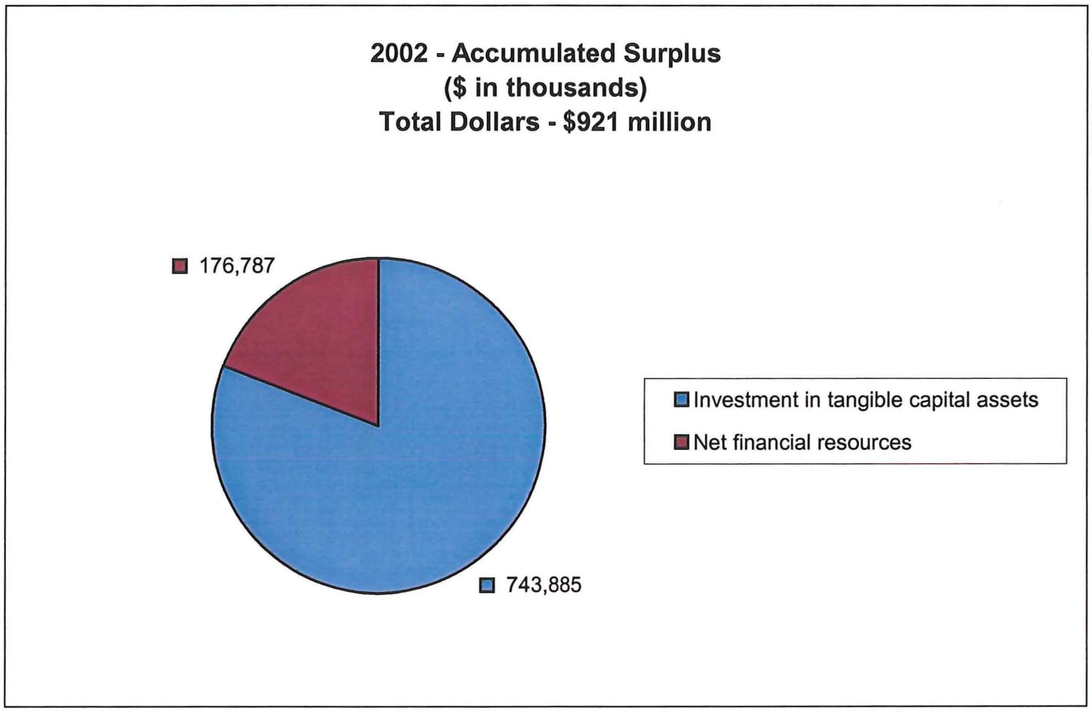
FINANCIAL POSITION





The above graphs illustrate the varied composition of the Government's financial resources and liabilities.

FINANCIAL POSITION (continued)

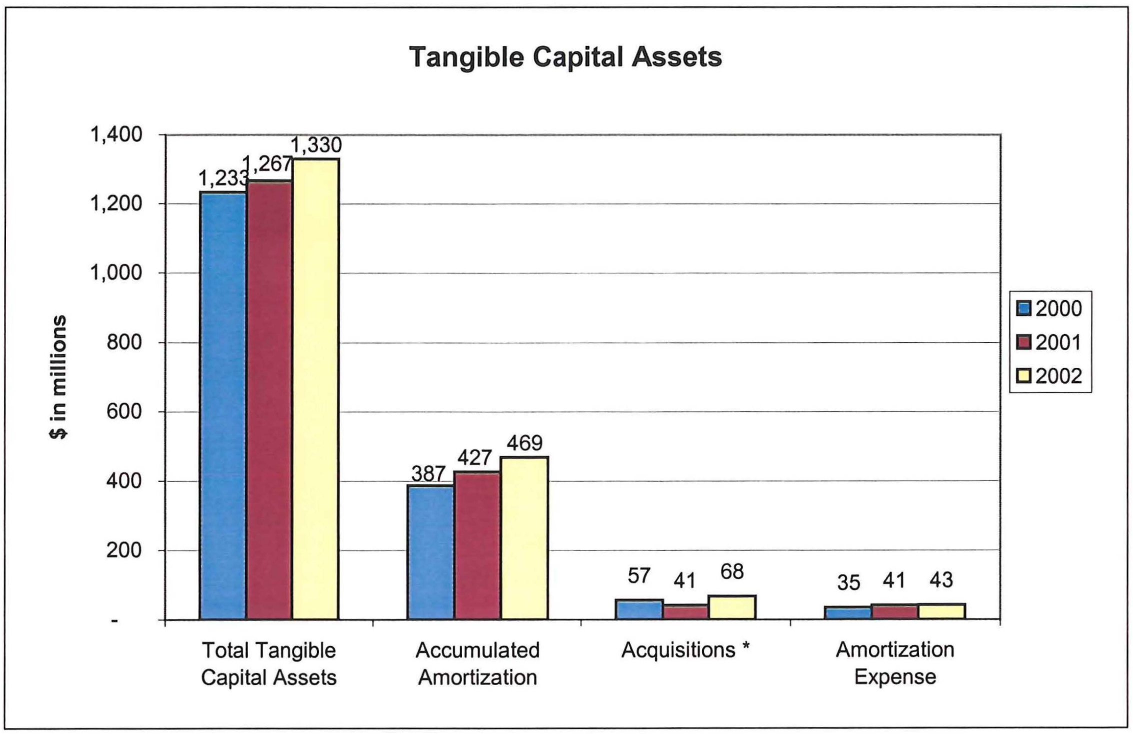


The surplus of the Government is comprised of its net financial resources and its investment in capital assets. When considering the flexibility of a Government to budget for a deficit that portion of the surplus, which is associated with, tangible capital assets must not be confused with financial assets that are available to meet current and future obligations. Nor should net financial resources be equated to available cash.

TANGIBLE CAPITAL ASSETS

Tangible capital assets include assets purchased directly by the Government and assets that were fully or partially contributed to the Government of the Northwest Territories by Canada or other parties.

In the fiscal year 2000/2001, the Government of the Northwest Territories implemented Tangible Capital Asset accounting. In order to have meaningful comparisons, the fiscal year 1999/2000 was restated to reflect this policy. In previous years all capital purchases were fully expensed in the year the purchase occurred. The existing assets are being expensed as amortization based on their average useful life in the financial statements of the Government.

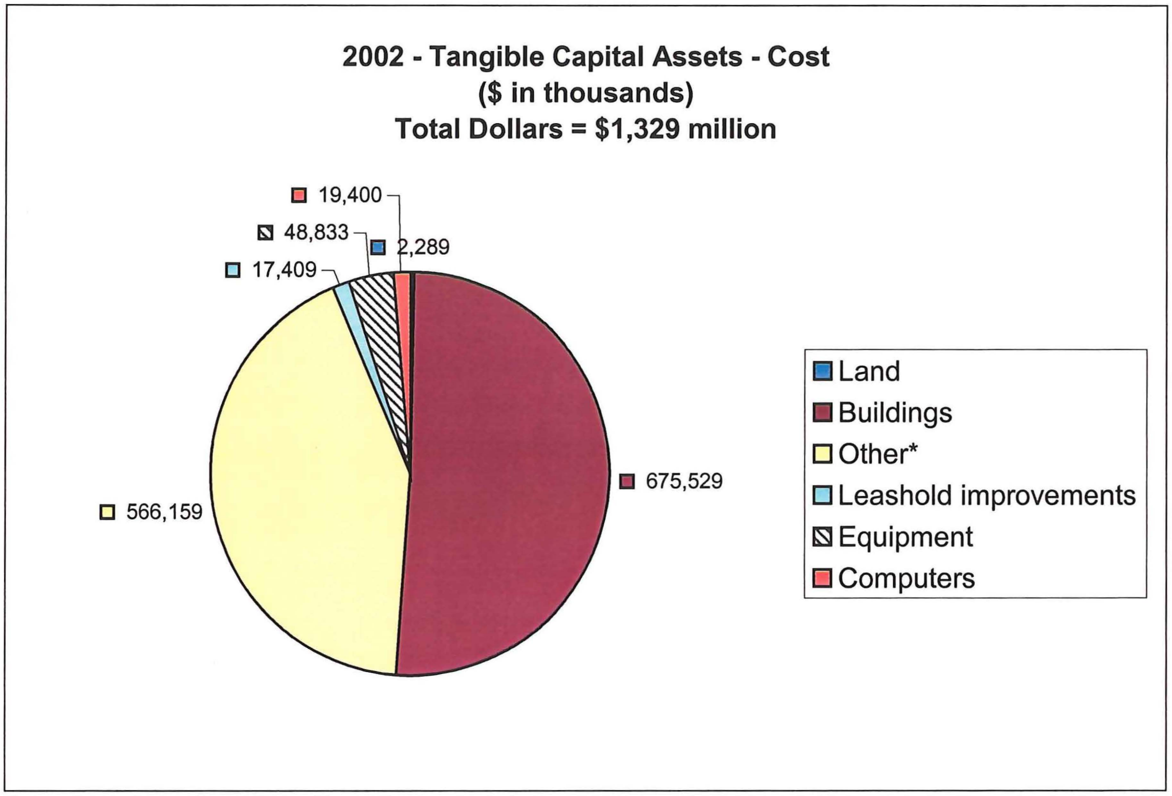


* Acquisitions do not include investments in assets that were not completed as at March 31 of any year. Such assets are recognized when completed and placed into service.

The Government must plan its capital expenditures to ensure that the existing assets are replaced and/or expanded in a timely manner and in conjunction with the Government's direction and priorities.

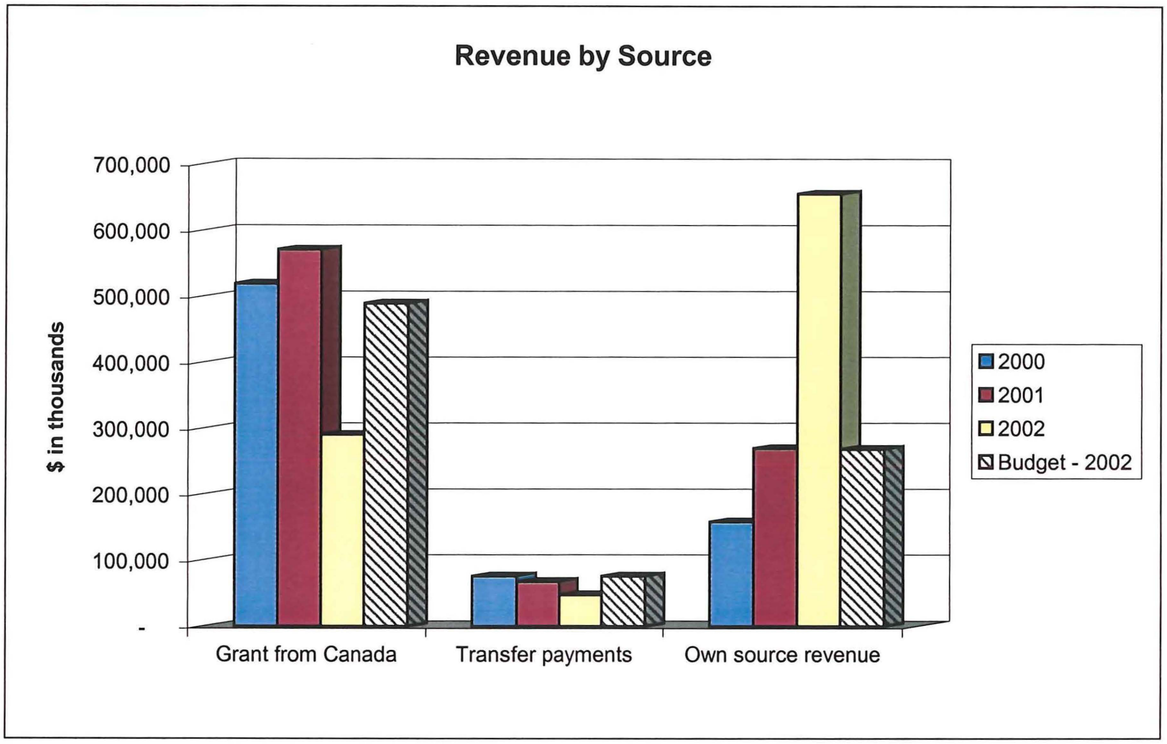
TANGIBLE CAPITAL ASSETS (continued)

The Government should continue to invest in tangible capital assets, at a rate that, over time, approximates the rate at which assets are being consumed. Capital asset replacement planning must address two essential points; (1) maintaining existing assets and (2) providing for growth.



*Includes roads, bridges, airstrips, aprons and water/sewer works

REVENUE BY SOURCE



The Government of the Northwest Territories receives between 60 to 70 percent of its revenues from the Formula Financing Grant from Canada in a normal year. Major own-source revenues, such as corporate and personal income tax, tobacco tax, fuel taxes, and payroll tax are approximately thirty percent of total revenues. Although the Northwest Territories has a vast reserve of non-renewable resources, it does not currently share in the revenue produced by those resources (royalties etc). The intended result of upcoming tri-party negotiations, amongst Canada, the Government of Northwest Territories and aboriginal groups, is the devolution and sharing of resource revenues.

The Grant from Canada is based on a formula designed to cover the difference between expenditure needs and the Government of the Northwest Territories' revenue-raising ability. Therefore changes to the Government of Northwest Territories' own source revenue levels will change the Grant in the opposite direction. Since the revenue-raising ability measures what the Government could raise at eighty-five percent of national average tax rates in the base year, changes in own source revenue levels will not change the Grant by a corresponding amount. For example, a one-dollar decrease in personal income tax revenue will increase the Grant about 76 cents, after provision for the tax effort adjustment factors and the 20 percent economic development incentive.

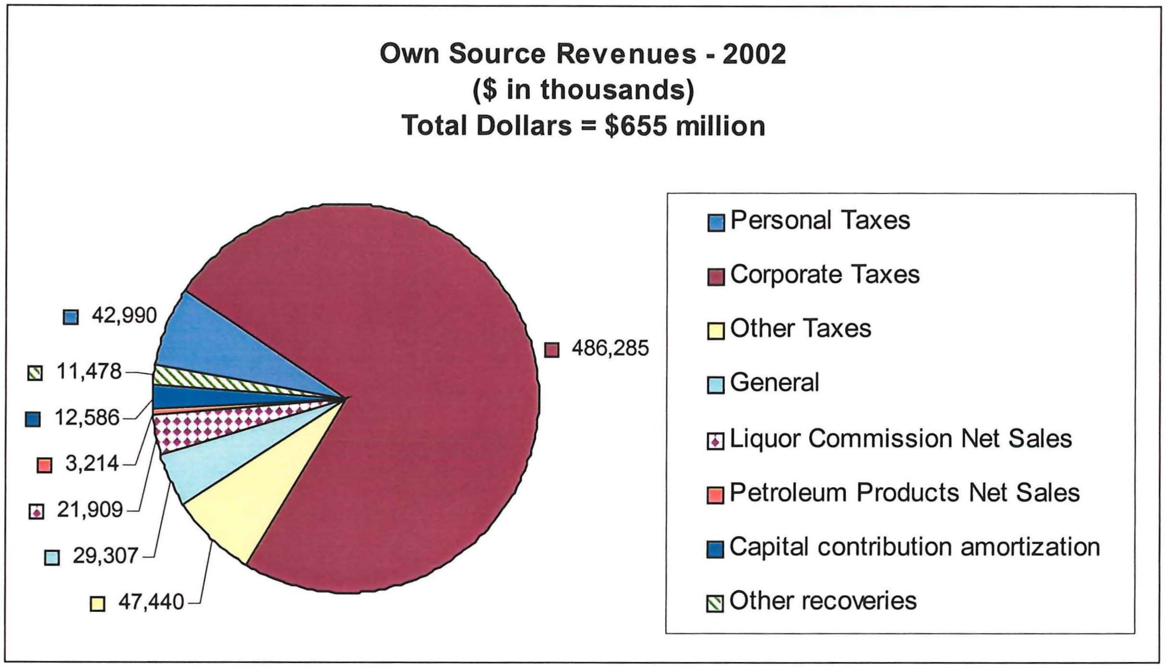
The Grant is designed to provide an incentive for the Government of the Northwest Territories to raise revenues. Therefore an increase in tax rates that provides increased tax revenues will not affect the Grant. For example, if fuel taxes are raised one cent per litre

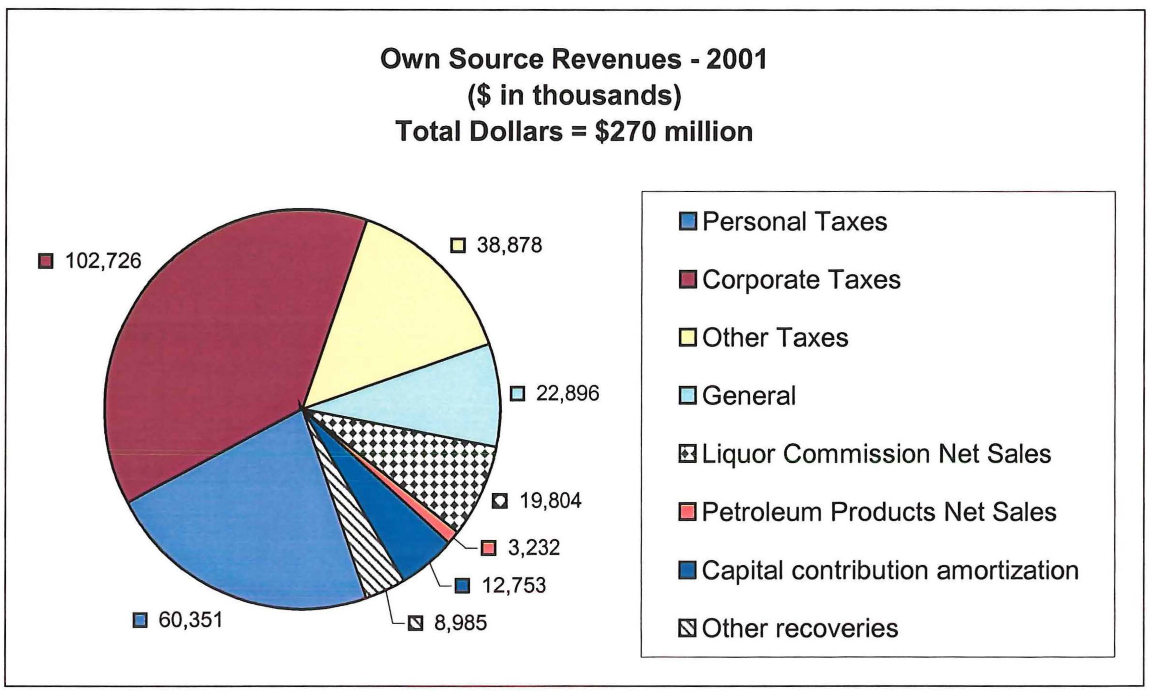
REVENUE BY SOURCE (continued)

from the base year rate, the fuel tax revenue for purposes of calculating the Grant will still be at the lower rate. Therefore, the Government of the Northwest Territories keeps the additional revenue generated by increasing the tax rate.

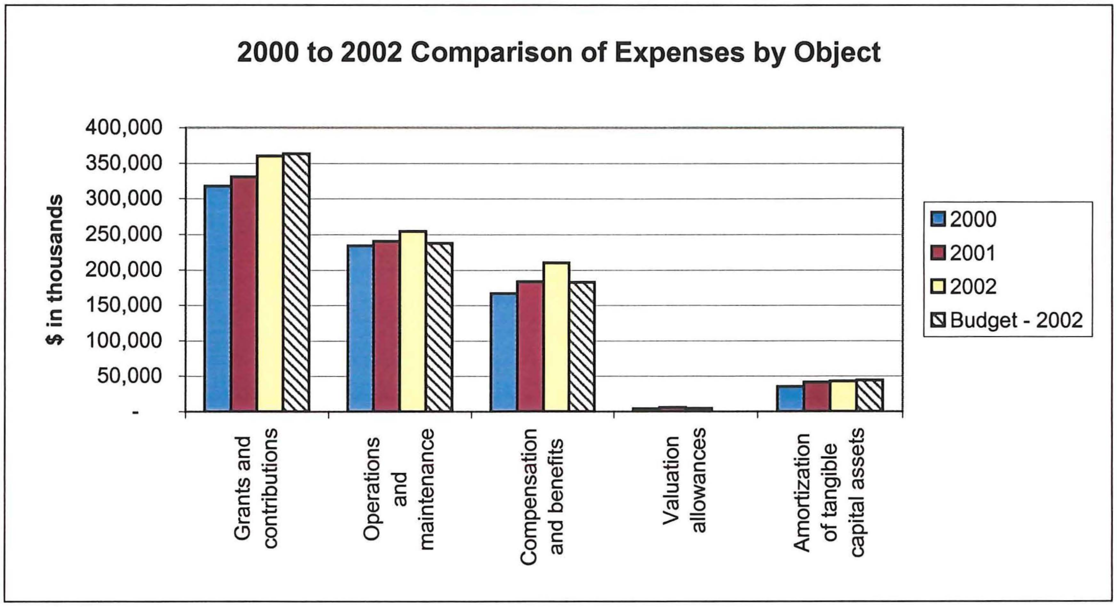
The Grant's expenditure base amount is escalated each year by the growth in provincial/local government spending and the ratio of population growth in NWT to the growth of the Canadian population. The data used to calculate these growth rates are not finalized until three years later for provincial/local government spending and five years later for population data. Therefore adjustments to the Grant for a fiscal year can occur up to five years later. Since the escalation is cumulative, adjustments for prior years can have significant effects on total revenues. Corporate and personal income taxes estimates also take three years to finalize and require adjustments to the Grant.

REVENUE BY SOURCE (continued)





EXPENSES BY OBJECT

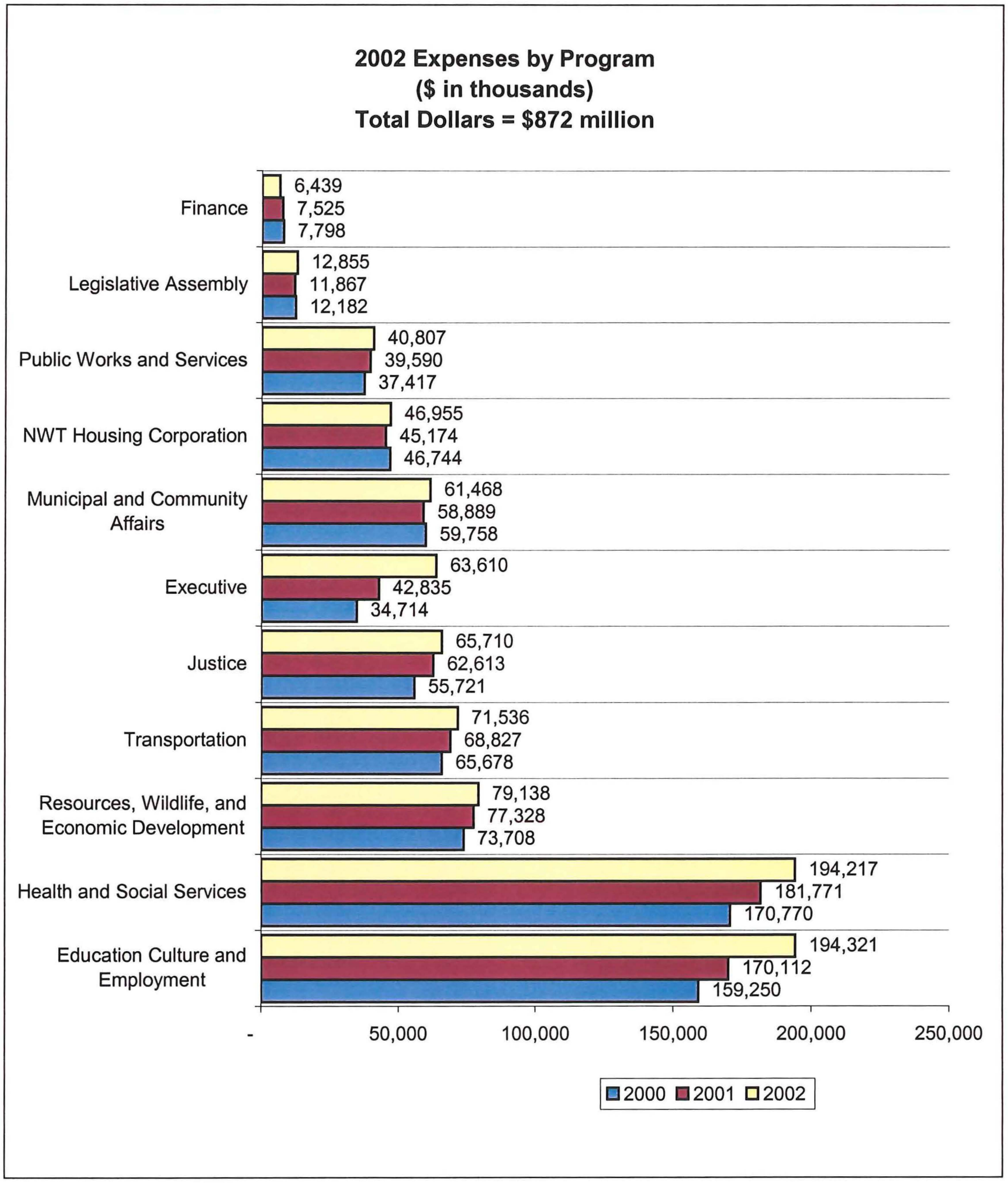


The expenses of the Government are such that a large percentage of its costs are fixed. Grants and contributions to third parties have many components that are fixed and as the major (or sole) provider of funds, the Government cannot vary the funding without affecting the level of output by these boards and agencies. Many of our social and educational programs are operated by these organizations.

Additional fixed costs are long-term, such as lease and other commitments as disclosed in the note 20 to the Consolidated Public Accounts. Principal payment of long-term debt (including capital leases) is not included in a department's operational expenses, yet fixed cash payments are required.

As well the Government is also vulnerable to inflation as it is an important factor when negotiating compensation and benefits. Not only are the direct wages of the Government vulnerable to this but wages make up a significant portion of the grants and contributions given to third parties.

EXPENSES BY PROGRAM

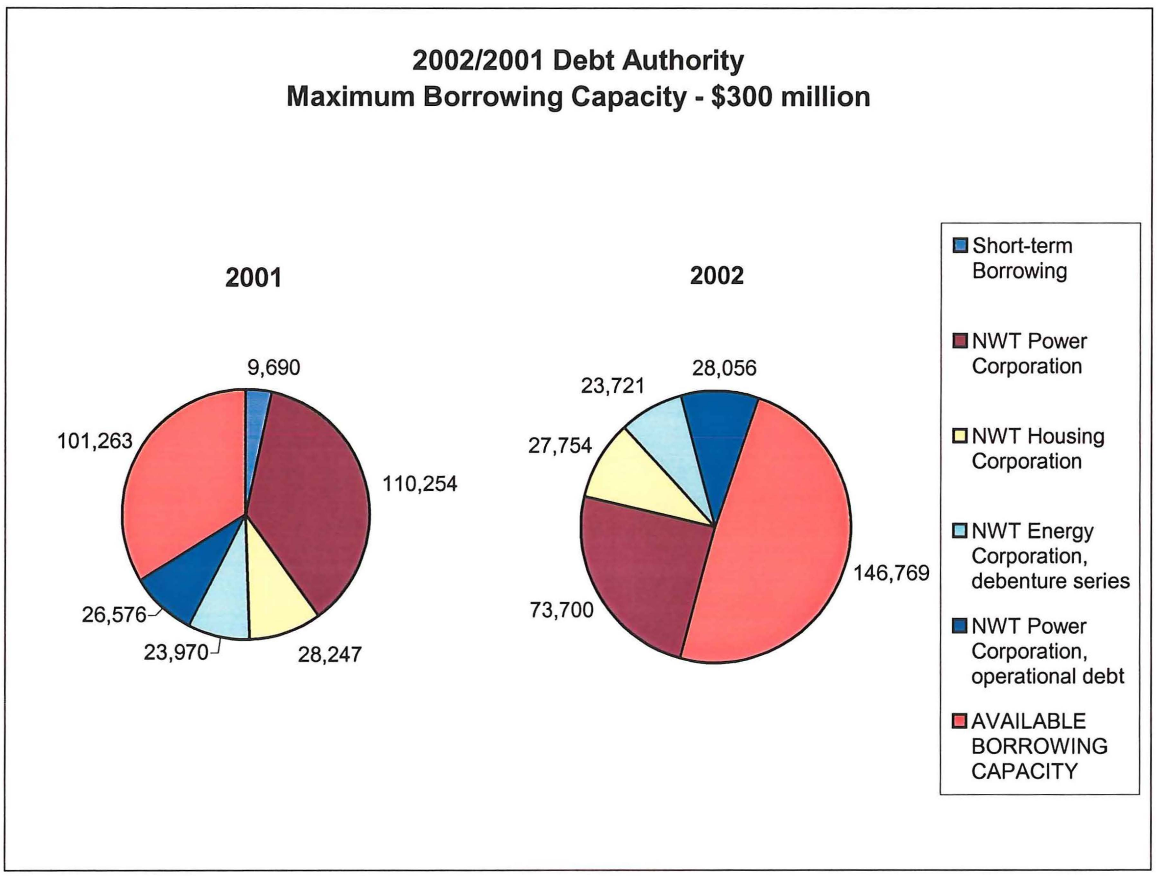


In the 2001-2002 fiscal year, the Government spent 60% (unchanged from 2001) of its total budget on social programs (education, health, justice and housing). Most of the remaining budget is allocated to infrastructure, natural resources and economic development. Any additional resources to improve a service often have to be made at the expense of other important needs. Balancing a budget entails not only controlling expenses but also finding the most effective and efficient mix of programs.

LONG-TERM DEBT BORROWING CAPACITY

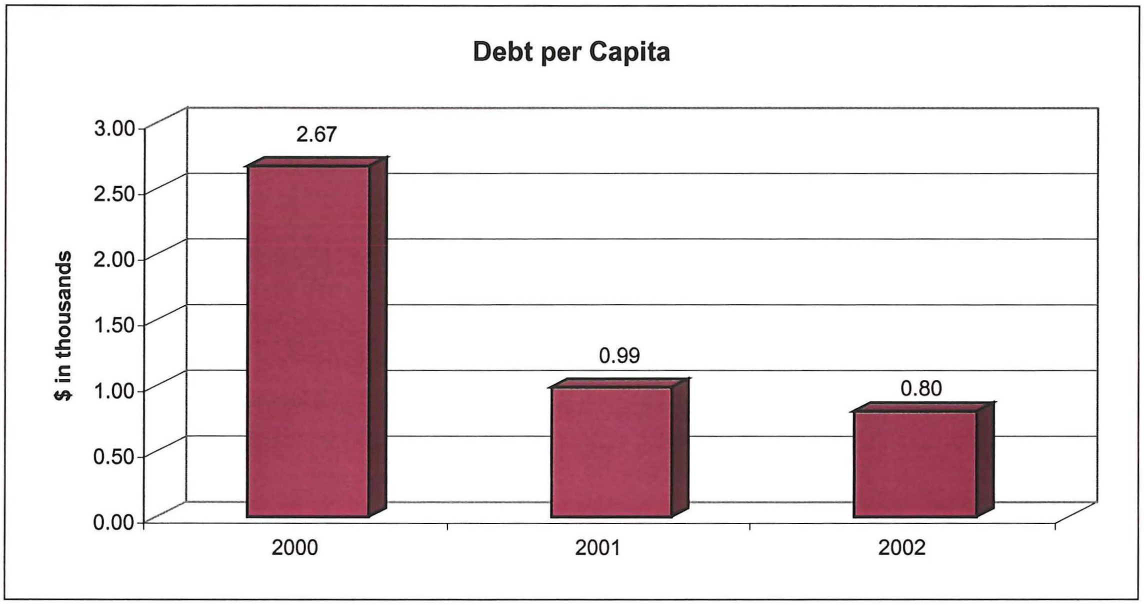
Canada, pursuant to subsection 20(2) of the *Northwest Territories Act,* has approved Government borrowing up to $300 million. This includes all debt of the various Government entities' that are consolidated. These entities include the Northwest Territories Housing Corporation and the Northwest Territories Power Corporation. If future monetary requirements should require borrowing in excess of the approved amount a review of the overall borrowing capacity with Canada would be required.

The borrowings of the Northwest Territories Power Corporation (NTPC) and the Northwest Territories Energy Corporation are serviced through revenues generated by the NTPC and Northwest Territories Energy Corporation, and as such, do not require the Government fund the related interest expense or principal repayment.



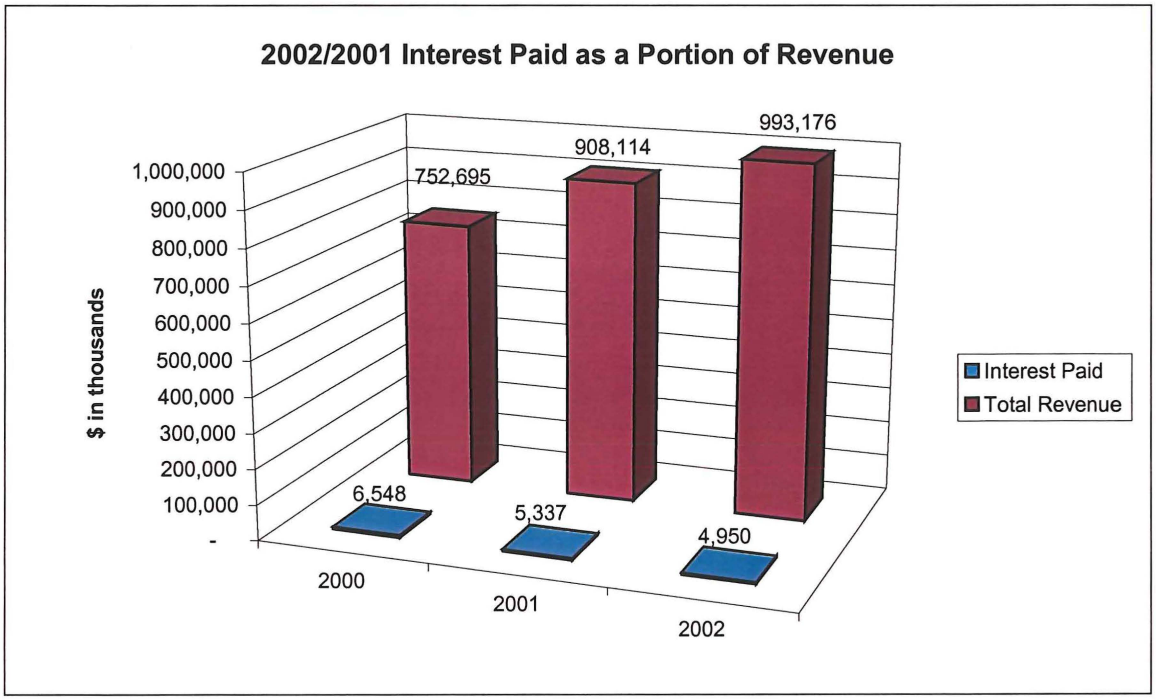
DEBT PER CAPITA

The following chart depicts the debt per capita with respect to the entire debt load that the Government of the Northwest Territories is directly responsible for. This debt is defined as short and long-term borrowing. At March 31, 2002 the long-term debt was $33 million, with no short-term borrowings.



Based on Statistics Canada population as at July 1, 2002

INTEREST



The Government of the Northwest Territories is in the enviable position of having less than 1% of its total revenues expended to service its debt load.

CONCLUSION

As described in the Introduction, the CICA has suggested that a government's financial health should be measured in terms of sustainability, flexibility and vulnerability. The preceding measures have attempted to illustrate how the Government of the Northwest Territories' fiscal health measures up from this standpoint. The following conclusions are suggested:

Sustainability – at the end of the 2001-02 fiscal year the Government of the Northwest Territories enjoyed a surplus of financial assets over financial liabilities of $177 million. These net financial resources were equal to about 20% of the year's expenses, or 11.3 weeks of operations. The Government's long-term debt was $33 million or 3% of the Government revenues for that year and only 1% of the Northwest Territories Gross Domestic Product. These measures suggest that the Government of the Northwest Territories can maintain current programs without increasing the debt burden on the economy, at least for the short-term.

Flexibility – this pertains to the Government's ability to increase its financial resources. The Government of the Northwest Territories raised 65% of its 2001-02 revenues (28% in 2000-2001) from its own sources. While at first glance it may appear that our revenue sources have dramatically improved, closer inspection shows a sharp increase in corporate income tax as the major contributor. This tax filing by large corporations with large one time capital gains, taking advantage of favourable corporate income tax rates cannot be guaranteed in the future, nor should the effect of such an income tax windfall be ignored for its affect on the grant (as noted on page 11). The balance of revenues came largely through the formula financing agreement with the federal government. The Government does not have access to resource royalty revenues as the federal government continues to control all Northwest Territories subsurface resources. The Government of the Northwest Territories has a federally imposed limit on its borrowing of $300 million, and although it is currently under its limit, $300 million represents only 34% of 2001-02 expenses or 19 weeks of operations. The Government of the Northwest Territories' flexibility is severely constrained by these factors.

Vulnerability – this is a measure of how dependent a government is on sources of funding outside its control or influence. To assess the Government of the Northwest Territories vulnerability it is not necessary to look further than the Government's limited own source revenues, their volatility related to corporate income tax and their effect on the Formula Financing Agreement. This agreement is renewed every five years at which time it is subject to negotiated or federally imposed changes. The current agreement expires March 31, 2004.

In summary, the Government of the Northwest Territories is financially healthy at this point in time but it has limited flexibility to raise new revenues or incur debt and it is very vulnerable to federal changes to its future revenues.

ADDITIONAL SOURCES OF INFORMATION

The Government of the Northwest Territories produces several other documents and web sites that may be referenced for additional information.

Sources include:

- Government of the Northwest Territories Web Site at www.gov.nt.ca
- Government of the Northwest Territories Public Accounts
  - Section I – Consolidated Financial Statements
  - Section II – Non-Consolidated Financial Statements
  - Section III – Supplementary Financial Statements
- Government of the Northwest Territories Main Estimates
- Business Plans
- Geographic Tracking Report
- Results Report