

Budget Address

2013 - 2014

NORTHWEST TERRITORIES

The Honourable J. Michael Miltenberger
Minister of Finance

**Fourth Session of the
Seventeenth Legislative Assembly**

February 7, 2013

Introduction

Mr. Speaker, this Assembly started with a four year budget plan, with the first two years focusing on fiscal discipline to build our cash reserves in order that in the final two years we could have an enhanced infrastructure budget. The Budget presented today is the second budget of the 17th Legislative Assembly and represents the continued cooperative approach enabling us to meet the objectives of our four year plan.

We have been consistent in our message that the government's fiscal plan must include operating surpluses to fund infrastructure and pay down short-term debt. While we are prepared to borrow for infrastructure, we must ensure that borrowing is affordable, and that we retain the required fiscal capacity to continue to deliver high quality programs and services in future years.

Our reality is that revenue growth is slowing, making budgeting choices even more difficult. Members of this Assembly, through the various Standing Committees, have helped work through the implications of these choices and I want to thank them for their efforts and support during this process.

Last fall we brought the discussion about budgeting choices to the seven regional centres in Budget Dialogue 2012 to explain our fiscal challenges to Northerners and give people the opportunity to offer feedback on whether we are getting the choices right. Participants provided valuable ideas about ways to do better with what we have, and where any new funding should be spent. We heard that participants wanted us to address immediate needs through prevention, fix current programs by doing things better or more efficiently, put more resources into infrastructure, and take full advantage of economic opportunities in an environmentally sustainable way.

This Budget directly reflects the input we received from the Standing Committees and Budget Dialogue 2012 with investments in mental health and addictions prevention, midwifery services, support for economic development, energy efficiency, and innovation in health service delivery.

By working more efficiently and effectively we can continue to provide a high level of services and make strategic investments to achieve our vision of strong individuals, families and communities while maintaining fiscal sustainability.

Economic Outlook

This Assembly's continuing collaboration in managing expenditure growth is critical given the uncertainty still evident in the global economy. We may feel far away from the turmoil in global markets, but shifts in the global economy impact us directly and swiftly. There are many areas of concern, including the continuing European debt crisis, a fragile economic recovery in the United States, slowing growth in key developing economies such as China and India, and the accumulation of household debt in Canada. All of these situations pose risks for the NWT economy and the GNWT budget.

Here at home, there are some positive economic signs. Several key measures of economic health, including labour income, wholesale trade and retail trade have recovered to pre-recession levels. The number of Northerners working has returned to 2008 levels. Expenditures for mineral exploration grew 44 per cent in 2012.

Despite our steady economic situation, real gross domestic product growth in the territory lags other jurisdictions. This is largely because we are heavily influenced by carat production at our diamond mines, which has peaked. The forecast for 2013 is also flat. At the same time, the absence of growth in our population is affecting employers as well as government revenues.

We know we must do more to grow and diversify our economy.

We need to do what we can to support a healthy mineral exploration sector and to provide strategic investments to help create the right economic conditions for new mines to develop. We look forward to the completion of the *Mineral Development Strategy* started last year for this reason. New resource developments are critical for economic growth as our current mines begin to wind down. Pending regulatory approvals and the right economic conditions, up to seven new mines could begin production in the next five years to help keep our mining sector strong. Additionally, the socio-economic agreements negotiated with these major mining interests help ensure maximum benefits go to the people and businesses of the NWT.

Opportunities outside mining are coming from the Sahtu where companies have committed more than \$600 million in exploration over the next five years. This year, spending in the Sahtu could be over \$100 million with hundreds of associated jobs. We also celebrate the recent efforts of our Northern entrepreneurs from across the NWT who are diversifying our economy with ventures in egg production, market gardens, wood pellets, film, and diamond polishing. In the future, projects such as the Mackenzie Valley Fibre Optic Link and the continued development of the Inuvik Satellite Station Facility will provide opportunities for further diversification of the NWT economy.

Fiscal Strategy

The NWT's outlook for revenue growth over the medium-term is modest. Overall, we expect less than two per cent growth in revenues over the next three years; a fraction of the six per cent annual growth we've experienced over the past decade.

The primary reason is that Territorial Formula Financing, which is 70 per cent of our revenues, is not expected to grow over the next two years as our population growth remains stagnant and provinces reduce spending.

Slower revenue growth makes living within our means an ever greater challenge. Combining spending pressures with the need for operating surpluses to fund much-needed infrastructure reinforces the importance of keeping spending growth below revenue growth to ensure we have operating surpluses to make these projects happen. Without surpluses, every dollar spent on infrastructure is borrowed money, bringing us closer to our borrowing limit and leaving no flexibility to respond to a potential economic downturn or make strategic investments to support economic development and grow our economy.

To ensure operating surpluses, the fiscal strategy going forward will be to constrain expenditure growth in existing programs and services. This means capping forced growth at \$25 million in 2014-15 and 1.5 per cent growth thereafter. This will allow us to start addressing our growing infrastructure deficit by increasing infrastructure investment by \$50 million in 2014-15 and 2015-16. This strategy also allows us to make additional investments such as the Inuvik to Tuktoyaktuk highway and the Mackenzie Valley Fibre Optic Link.

Restrained operating expenditure growth ensures that infrastructure investment can be maintained. It will also allow us to maintain a \$100 million "emergency cushion" between our debt and the federally legislated borrowing limit of \$800 million. We currently have \$190 million in borrowing room, but without surpluses to help fund infrastructure, that borrowing room would quickly erode.

Mr. Speaker, with debt servicing costs at less than one per cent of revenues, and one of the lowest debt-to-GDP ratios in the country, we are confident in our ability to meet financial obligations without having to limit programs and services to pay for our debt. Our commitment to the *Fiscal Responsibility Policy*, which requires us to generate sufficient operating surpluses to pay for half of our capital costs and limits debt service payments to 5 per cent of revenues, is critical to keeping debt levels sustainable. Our seventh straight top-rated Aa1 credit rating from Moody's Investors Service supports this.

This government is committed to responsible management of resource revenues for the benefit of current and future generations. This means we will not use revenues from non-renewable resources to fund government programs and services. Our fiscal strategy provides for infrastructure investments, and as such, our share of resource revenues will fund additional strategic infrastructure, pay down debt and be saved in the Heritage Fund, so that future generations can share in the benefits.

Budget Highlights

Mr. Speaker, this Budget's \$113 million operating surplus demonstrates our commitment to living within our means and generates the cash required to fund half of the capital budget we approved last fall. Total budgeted expenditures will grow by \$56 million in 2013-14 over last year's budgeted amount. This includes \$42 million to address increased salary costs and other forced growth pressures for existing services, \$22 million for investments in priority initiatives and \$19 million allocated to other adjustments and amortization. These increases will be partially offset by \$27 million in sunsets.

Despite our fiscal constraints, supporting healthy and educated individuals living in safe communities continues to be a priority for the GNWT. Nearly 60 cents of every dollar is budgeted for education, health care, social services, housing, policing, and corrections programs.

The increase in our operations expenditures will be financed through an estimated \$1.6 billion in revenue, an increase of 2.6 per cent from the 2012-13 revised estimates.

Short-term debt is projected to be \$151 million at the end of 2013-14. When combined with our long-term debt, and the debt of the NWT Power Corporation, NWT Housing Corporation and other public agencies, total GNWT borrowing will be \$581 million on March 31, 2014, providing \$219 million in borrowing room.

Revenues

Mr. Speaker, we will not be asking Northerners to bear a greater tax burden and have not introduced new taxes or raised rates in this Budget. In an environment with a high cost of living and doing business, stagnant population growth, and economic uncertainty, leaving less money in the pockets of Northerners would be a deterrent to economic growth.

This Budget does continue our policy of indexing fees to inflation where possible and practical. Steady and stable indexing avoids large painful adjustments in the future.

Expenditures

Mr. Speaker, our approach to spending in this Budget reflects the discussions in this Assembly and the broad priorities we heard during Budget Dialogue 2012 sessions. First, we are targeting spending in key frontline services that emphasize prevention and a holistic approach to well-being. Second, we are targeting spending to support sustainable economic development. Understanding the pressures that slowing revenue growth will have in the future, participants advocated growing our revenue base by growing the economy, not introducing new taxes. And third, we are making investments to improve the effectiveness and efficiencies of existing programs.

Investing in Prevention for Healthier People and Communities

The saying an 'ounce of prevention is worth a pound of cure' was true when we heard it from our grandparents and parents, and it is true today.

Prevention spans a wide spectrum of how we do things, from immunizing children against disease to providing the same children with an educational foundation for a great future. Using a pro-active and preventative approach will help achieve this Assembly's vision of strong individuals, families and communities.

Dealing more effectively with mental health and addictions reduces other societal ills. Enhancing addictions treatment programs is one of the priorities of this government, and was echoed repeatedly in Budget Dialogue discussions.

This Budget responds with \$1.15 million in support of the initiatives within *A Shared Path Towards Wellness*, the mental health and addictions action plan which was launched last year. Of this, \$250,000 focuses on youth, including investments for at-risk youth, mental health and addictions integration into the school health curriculum, and development of a youth treatment model. Prevention, early intervention and education programs for our young people have the greatest potential for reducing the burden of addictions in the NWT.

As part of the \$1.15 million, we will use \$200,000 to fund work with communities to expand on-the-land addictions program options, building on recommendations from the Minister's Forum on Addictions and Wellness. The investment also covers initiatives aimed at improving collaborative case management for clients accessing services from various government departments. Frustration with duplication and poor client management across departments was repeatedly heard in our Budget Dialogue consultations, where a client-centred approach was advocated. We are working hard to address this issue. The remainder of the \$1.15 million will be targeted to developing detox program models, improving case management for people dealing with mental health issues, and ensuring that all NWT residents have access to mental health treatment and follow-up services through the use of telehealth.

Addictions have many impacts on society, not the least of which is crime. Most offenders admitted into NWT corrections facilities suffer from some sort of substance abuse problem, and the need to address addictions in the correctional system is profound. This Budget provides \$339,000 to continue the pilot Alcohol and Drug Treatment Program at the South Mackenzie Correctional Centre.

Prevention is also about getting all of our children off to the right start so that happy and healthy childhoods lay the foundation for healthy and productive adults. Every year there are over 700 births in the NWT or about two babies every day. This Budget makes several investments that will put those little ones on the best possible footing.

This year the GNWT invested over \$1 million in early childhood development. As part of this, work is underway for a renewed framework for early childhood development in the NWT, a public awareness campaign and the opening of Child and Family Resource Centres in two communities. This investment in promoting healthy childhoods will continue in 2013-14.

We know that support for mothers during pregnancy and childbirth contributes significantly to how well their children do later on. Midwifery services can be an important component of this support. This Budget invests \$449,000 as a first step to expand access to midwifery care throughout the NWT. This investment will stabilize Fort Smith's Midwifery Program, establish a set of program standards, engage communities on expanding the program further, and support planning activities for a Hay River Community Midwifery Program.

We are also investing in children by setting aside \$142,000 to expand the vaccination program for children in response to recommendations made by national expert bodies on pediatric immunization programs. Immunization is one of the most cost-effective public health programs, and universal coverage of vaccines for children and youth offers them better protection against potentially life-threatening diseases.

Investing in our children is the wisest move we can make. Last year we celebrated several important moments in supporting our children's education with the opening of Inuvik's East Three School, and the launch of the residential school curriculum, the first comprehensive teaching guide of its kind in Canada. This year, we are investing over \$150 million in K-12 education.

Just as we need to pay attention to our youth, we need to focus on our elders. Seniors are an important resource for families and communities and also the fastest growing segment of the NWT population. Investing in long-term care facilities, such as replacing the Jimmy Erasmus Seniors Centre in Behchokò with a larger facility, will ensure we have the spaces needed to meet this growing need.

But bricks and mortar only enable care, they don't provide it. Adequate staffing ensures quality care in our facilities. This Budget commits \$1.13 million to increase staffing levels at three existing long-term care facilities in Fort Smith, Fort Simpson, and Yellowknife, to provide effective, safe and culturally-appropriate care.

Mr. Speaker, this Budget also continues to invest in initiatives that implement the *Family Violence Action Plan*, including funds to complete implementation of the Program for Men Who Abuse. This is a program directed at men who use violence in their relationships and adds another essential ingredient in a holistic approach to healing from family violence.

We look forward to the completion later this year of the *Anti-Poverty Strategy*, a priority of the Legislature, and will address recommendations for new resource requirements under this *Strategy* through a supplementary appropriation. Taking action on poverty with a broad-based strategy will help us fulfill the goals of this Assembly and the people it represents.

Investing for a Sustainable Economy

Mr. Speaker, creating and taking advantage of new economic opportunities is our surest path to a prosperous NWT as long as it is done in an environmentally sustainable way.

We have an abundance of natural wealth, providing numerous economic opportunities. If we proactively support those opportunities, our revenues will continue to grow, helping pay for our critical programs. At the same time we want to make sure that we do not separate this support from our work to protect our environment.

This Budget supports building a sustainable economy with investments in tourism, maximizing opportunities from oil and gas exploration, while also investing in environmental protection, water management, and development of alternative energy. In the oil and gas sector alone, this territory's potential is pegged at 81 trillion cubic feet of natural gas and nearly seven billion barrels of oil. The Sahtu is one region where the opportunity is now. Our challenge today is developing these resources in a sustainable manner, and ensuring local residents and NWT businesses benefit as much as possible.

This Budget invests nearly \$1.2 million to help Northerners capture the benefits associated with Sahtu oil and gas exploration, and to mitigate some of the associated impacts. This will fund career development and training programs and supports for local business. We will also fund the collection of additional environmental baseline data for ground water, surface water and wildlife, environmental assessments and permitting, and increase resources for monitoring oil and gas activities. These funds also provide for additional RCMP resources and victim services programming to help frontline staff respond to additional demands, contributing to this Assembly's goal of safe communities.

Our natural wealth extends well beyond the non-renewable resources under our feet. Our water, land, animals and people are all natural endowments that can grow our economy. The range of these gifts is incredible, from tourism to food and energy production. This year's record fur sales at auction, the opening of the egg plant in Hay River, the pending opening of wood pellet manufacturing near Enterprise, and a new diamond polishing plant in Yellowknife, highlight some of what is happening now. These initiatives by Northerners should dispel the myth that 'you can't make it here' and help spur a rebound in the manufacturing industry.

As promised last year, we are investing in the development of a sustainable *Economic Opportunities Strategy* that will allow us to keep pace with the incredible opportunities and growth potential that our territory has, to ensure we are positioned to guide and manage this investment and growth, and to use it to build capacity in our communities and self-sufficiency in our people.

Supporting and encouraging local business is the path to a more stable and diversified economy. The GNWT continues to support small businesses taking the risks needed to grow our economy. We do this by providing a competitive and stable tax system, direct support through programs such as those provided through the Support to Entrepreneurs and Economic Development Policy, providing funding for traditional economy initiatives, and access to capital through the NWT Business Development and Investment Corporation.

Tourism remains a key economic priority in both developing and diversifying our economy. Tourism is a \$100 million industry in the NWT that supports economies in all our regions. We are adding \$600,000 in this Budget for NWT marketing efforts that promote the NWT as a travel destination. This additional investment brings our total tourism marketing support to \$3.1 million per year, in addition to \$1.2 million in direct support to tourism businesses to build and diversify tourism products. Territorial parks and campgrounds are also a key component of our efforts to grow the tourism industry. This coming year, we are making capital improvements of \$2 million in NWT parks and trails.

The Deh Cho Bridge is not only on tourists' bucket list but is also a key investment for the rest of our economy by providing year-round access to the North Slave Region. We continue to reduce our infrastructure gap through the \$138 million capital investment approved last November for fiscal year 2013-14. Infrastructure investment has the dual benefit of generating jobs and training opportunities, especially in small communities where opportunities may be limited, and leaving lasting benefits in the form of roads, schools and health centres. Over the longer term, infrastructure supports our goal of creating a prosperous NWT by providing access to supplies and markets.

Mr. Speaker, our government remains committed to mitigating the high cost of energy to NWT families and businesses, as well as reducing the impacts of our energy use on the environment.

Last year we lessened the impact of the NWT Power Corporation's 2012-13 rate increase through an offset of a portion of the rate increase. In the 2013-14 Budget, we are including \$9.4 million to continue to offset a portion of the rate increase; thereby continuing this government's commitment to provide rate stability to Northerners during the Corporation's transition to higher rates.

We are also continuing our commitment to invest in long-term solutions to reduce energy consumption and costs with \$5.15 million in operating and capital initiatives for 2013-14. We have some of the world's greatest renewable energy potential, and investments in realizing that potential are critical to our long-term growth.

About \$400,000 of our investment will lower the costs to consumers, businesses and communities of new technologies through enhanced rebate programs and grants. Another \$250,000 is allocated towards the development of a regulatory application for the proposed Whatì transmission line that could transform Whatì from a diesel community to a hydro community.

We remain steadfastly committed to diversifying our energy base with investments in alternative energy, including those aligned with the *NWT Solar Energy Strategy* and the *NWT Biomass Energy Strategy*. An investment of \$250,000 will establish solar energy systems in two diesel communities, building upon our success with the recently expanded Fort Simpson solar project. Another \$100,000 will be invested in developing a community scale wind project.

Over \$2 million of our investment focuses on biomass initiatives, including the \$1.6 million supplementary approval we will be seeking to convert the Norman Wells school and airport to biomass. These two projects will be the first large-scale biomass projects outside of the North and South Slave regions and they demonstrate our

commitment to expanding the biomass supply chain to communities throughout the Mackenzie Valley. We continue work on finding long-term energy solutions in communities facing uncertainty in energy supplies, including \$100,000 to advance a liquid natural gas solution for Inuvik.

We are currently working on an overarching *Energy Plan* that builds on the input gathered from across the north. We have received many suggestions with regard to what we need to do to address the challenges and opportunities facing the territory today. It is clear that improving our economy depends on providing energy at affordable rates to industry and communities. The government looks forward to working with all Members of the Legislative Assembly to finalize the *Energy Plan* for release later this spring.

Investments in alternative energies present significant economic opportunities and improve the health of our environment. A healthy environment that sustains present and future generations is not at odds with economic growth but is a foundation for that growth. The 2013-14 Budget invests \$72 million in protecting the environment. Work continues on implementing the *Greenhouse Gas Strategy*, working collaboratively on management actions for barren-ground caribou herds, and completing a new *Wildlife Act*. This Budget includes an extra \$523,000 to support trans-boundary water negotiations as part of our efforts to implement the *NWT Water Stewardship Strategy*. Finalizing trans-boundary water management agreements is a cornerstone in ensuring the health and ecological integrity of our northern waters.

Effective and Efficient Service Delivery

One of the goals of the 17th Assembly is to continue to improve the effectiveness and efficiency of government and in the current environment of slow revenue growth, where we need to do more with less, this goal is even more pressing. As part of our efforts for continuous improvement, our Program Review Office is working closely with departments and members of the Legislative to help ensure we get the most from our limited resources.

During Budget Dialogue 2012 people discussed opportunities to improve the delivery of government programs and services by redeploying funds within programs and removing duplication and other “red tape.” We are still reviewing the suggestions but through this Budget have made several important investments to improve our current services through innovation, keeping services in the North, and energy-efficiency gains.

Mr. Speaker, the world of health care is changing, and new technology presents great opportunities to transform service delivery by bringing services directly to our residents. Electronic medical records can provide continuity of care, so that locum physicians and nurses have instant access to a patient’s history. They also provide an essential tool for chronic disease management, providing automatic reminders for scheduled treatments and allowing health care practitioners to request real-time consultations with specialists. This will ensure that all Northerners have access to a consistent level of care, often without having to travel. This Budget commits \$489,000 to support a partial deployment of the Electronic Medical Records system, providing the foundation for future territory-wide implementation.

Medical travel costs are a key consideration in the Budget and we continue to try to reduce the need for medical travel. Changes to chronic disease management so that we can treat more diseases locally reduce the need for patients to travel south for care. In 1996, we began providing dialysis services in-Territory and in this Budget we are investing an extra \$229,000 to keep these critical services in the NWT. Without this investment, the NWT would be unable to keep the dialysis units open and would spend over \$1.8 million annually to send current patients to Alberta for treatment.

Another \$472,000 will be invested in improving medevac services, ensuring all Northerners receive similar high standard levels of care. Medevac services are lifesaving essential services for all NWT communities. This initial investment supports medevac triage and coordination, ensuring life-dependent resources are available to the right patients at the right times.

Finally, the Budget includes \$550,000 to establish system-wide clinical leadership. This will help to ensure consistent levels of patient care throughout the NWT, and ensure that our system has the capacity to keep current as new standards of care are established nationally.

This Budget also continues our efforts to improve our government's overall energy efficiency. In addition to the \$1.2 million passed in October as part of the Capital Asset Retrofit Fund Program, this Budget earmarks \$700,000 for installation of energy-efficient wood pellet boilers in public housing units. Every year, we spend about \$7 million on heating fuel for the Public Housing Program. We continue to look for opportunities to increase energy and cost efficiencies of existing government assets.

Mr. Speaker, one of the priorities of the 17th Legislative Assembly is increasing employment opportunities where they are most needed. One way we can do this is by decentralizing more GNWT positions and bringing our government closer to the people it serves. We can see the importance of that in the success of the Single Window Service Centres that help residents in rural and remote communities navigate and access territorial and federal programs. In 2013-14 we will open three more Single Window Service Centres, building on the success of the 13 already in existence across the NWT.

We are not stopping there. In total, 2013-14 will see 18 decentralized positions outside Yellowknife. This is in addition to the 11 new positions proposed under various programs already outlined, including the government's response to the activity in the Sahtu. Equitable distribution of the economic benefits associated with public service employment ensures every region benefits and we will continue to work to maintain this distribution across the territory.

Looking Ahead

This is the second year of this Assembly and we have made progress on several of our priorities, including increasing our borrowing limit, implementing new public housing rent scales, and investing to address our health facilities deficit. The investments outlined in this Budget tackle many of the remaining priorities we set a year and a half ago.

Looking forward, we know that revenue growth is slowing. We have worked hard to ensure federal transfers reflect our unique circumstances, and in December the federal Finance Minister announced that Territorial Formula Financing will continue using its gap-filling formula that recognizes the increased costs of providing services in the North. This reassurance is critical for a program that makes up the majority of our revenues. Nevertheless, this reassurance does not remove the reality of very little growth in Territorial Formula Financing over the next two years, and in these fragile economic conditions growing revenues through additional taxes is not prudent, and given our small tax base would be ineffective. Instead, we intend to live within the means we have now.

We will continue to work with the federal government on a long-term plan for public infrastructure beyond the 2014 expiry of the *Building Canada Plan*. Under this plan, the NWT has benefitted from hundreds of millions of dollars in infrastructure funding. We are looking to partner with the federal government on a new plan for strategic infrastructure investments that support long-term economic growth and prosperity. Partnerships are critical for projects such as the long awaited Inuvik to Tuktoyaktuk highway.

We are moving ahead on strategic opportunities such as the Mackenzie Valley Fibre Optic Link Project. This project will provide a high-speed data link up the Valley and will have significant positive impacts for economic and community development, and the delivery of government services. This Budget commits \$7 million to continue advancing the fibre link project.

Moving forward on these opportunities is made possible through our commitment to generating operating surpluses through our fiscal strategy. We know this will be made increasingly difficult as revenue growth slows, but we have already made great progress in protecting existing programs and making priority investments, and are poised to meet the challenge by working collaboratively to manage the growth of our operating budget.

We look forward to the finalization of the Devolution Agreement in the near future. The authority and control of our resources is one of the most immediate and tangible ways we can grow our revenues and economy in the coming years. We have put ourselves on a sustainable fiscal path so that resource revenues from the Final Devolution Agreement can be used for investments in infrastructure to grow the economy, paying down our debt, and, when appropriate, saving in the Heritage Fund for future generations. To further support economic growth across the NWT and extend the benefits of devolution, we have also committed to sharing a portion of these resource revenues with participating Aboriginal governments, helping to build capacity and opportunities in regions and communities.

Conclusion

This Budget keeps us on the path we set last year to continue living within our means while allowing us to make some strategic investments in areas that need attention. Our new spending initiatives address the issues raised by Members of the Legislative Assembly and reflect concerns and ideas shared during our Budget Dialogue process.

This Budget makes investments in Caucus priorities such as prevention, early childhood development, addictions programming, and improvements and innovation in health care delivery to ensure a fair and sustainable health care system. Investments that strengthen and diversify our economy such as the Mackenzie Valley Fibre Optic Link, tourism marketing, and decentralization of positions to increase opportunities throughout the territory are critical in building a prosperous future. This Budget also devotes resources to ensuring responsible stewardship of our land and water through partnerships and continued negotiation of devolution.

Mr. Speaker, we have collectively made a conscious decision to push ourselves fiscally as a Legislature, maintaining and protecting programs and services, while at the same time investing in critical major infrastructure like the bridge and now the Inuvik to Tuktoyaktuk highway. We were able to achieve all these investments while maintaining the operating surplus needed to fund infrastructure; but our work is not done. We must stay the course and continue to control expenditure growth so that we can remain fiscally sustainable and at the same time invest in infrastructure to position us for a self-sufficient and diverse economic future.

Budget Address

2013 - 2014

NORTHWEST TERRITORIES

BUDGET PAPERS

A ♦ Economic Review

B ♦ Fiscal Review

February 7, 2013

ECONOMIC REVIEW

Outlook

The economy of the Northwest Territories (NWT) continues its struggle to recover from the global economic recession of 2008 and 2009. From 2007 to 2012 real gross domestic product (GDP) declined by 25 per cent and is forecast to increase by 0.2 per cent from 2012 to 2013. Employment has not returned to its pre-recession level and is not expected to do so in 2013.

The NWT economy depends heavily on international trade – in 2011, international exports were nearly one-third of NWT GDP, despite having declined 32 per cent from 2007 to 2011. Decreasing international exports is one of the main reasons for the decrease in real GDP. International trade is expected to remain well below pre-recession levels in 2013 and remains subject to downside risks. These risks include the ongoing economic malaise in Europe, and the volatility of global financial markets and commodity prices. As demonstrated in 2008, when NWT diamond production fell dramatically as a consequence of the financial crisis, distant events can have large impacts on the NWT economy.

The economic recovery is taking longer in the NWT than in any other Canadian province or territory, and it is likely that the NWT's real GDP will remain below its pre-recession level for some time. Real GDP is expected to increase in the short term as new mineral resource projects are constructed and become operational. Pending regulatory approval, several significant mineral resource projects are expected to be developed and become operational over the next five to ten years, and 2012 saw a substantial increase in petroleum exploration in the Sahtu region.

Economic Outlook

Indicator	2008	2009	2010	2011	2012e	2013f
Gross Domestic Product, Chained (2007\$) millions	4,280	3,637	3,711	3,521	3,529	3,535
<i>Per cent change</i>	-9.0	-15.0	2.0	-5.1	0.2	0.2
Total Investment, Chained (2007\$) millions	1,572	1,093	1,206	1,087	1,183	1,367
<i>Per cent change</i>	-20.4	-30.5	10.3	-9.9	8.9	15.5
Household Expenditure, Chained (2007\$) millions	1,298	1,288	1,307	1,323	1,302	1,308
<i>Per cent change</i>	2.4	-0.8	1.5	1.2	-1.6	0.5
Government Expenditure, Chained (2007\$) millions	1,536	1,638	1,751	1,768	1,798	1,805
<i>Per cent change</i>	0.4	6.6	6.9	1.0	1.7	0.4
Exports, Chained (2007\$) millions	2,742	2,458	2,663	2,470	2,480	2,453
<i>Per cent change</i>	-12.4	-10.4	8.3	-7.2	0.4	-1.1
Imports, Chained (2007\$) millions	2,949	2,902	3,277	3,222	3,308	3,465
<i>Per cent change</i>	-8.0	-1.6	12.9	-1.7	2.7	4.7
Employment (resident), number of persons	22,700	21,300	21,500	22,700	22,600	22,600
<i>Per cent change</i>	-3.0	-6.2	0.9	5.6	-0.4	0.0
Average Weekly Earnings, Dollars	1,090	1,145	1,191	1,245	1,295	1,332
<i>Per cent change</i>	4.0	5.0	4.1	4.5	4.0	2.9
CPI (All Items), Yellowknife, 2002=100	115.2	115.9	117.9	121.6	124.4	127.0
<i>Per cent change</i>	4.0	0.6	1.7	3.1	2.3	2.1

e: estimate

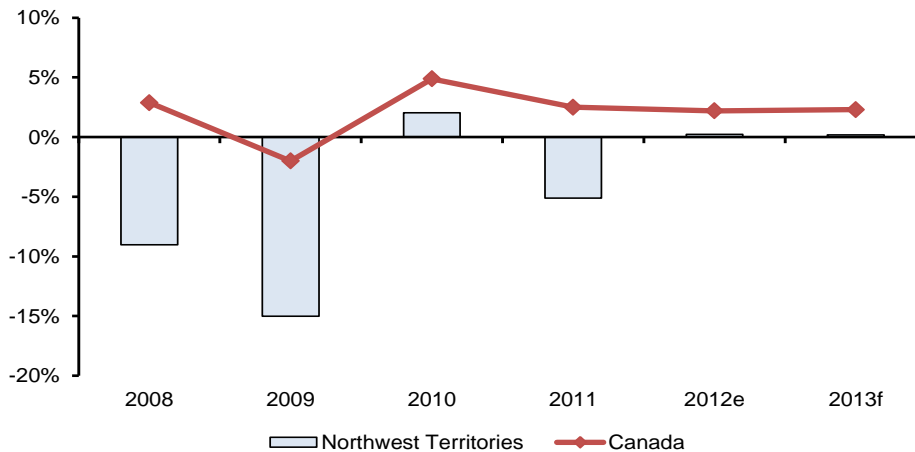
f: forecast

Source: Statistics Canada and the NWT Bureau of Statistics

2011 Economic Performance

Recovering from the global financial and economic crisis has been an ongoing challenge for the NWT economy. Real GDP (the inflation-adjusted value of all goods and services produced) is estimated to have fallen by 25.2 per cent from its pre-recession level in 2007 to 2011. Real GDP decreased by 5.1 per cent in 2011 and recent estimates indicate a modest increase of 0.2 per cent in 2012.

Real Gross Domestic Product, Annual Change, NWT and Canada



e: estimate
f: forecast

Source: NWT Bureau of Statistics and Statistics Canada

The economic decline was led by a 40.7 per cent decline in carat production in the diamond industry from 2007 to 2011. The reduction reflects a number of factors including the move to underground operations, accessing lower grade ore consistent with mine plans, and mine management decisions, including planned and unplanned slow-downs and temporary shut-downs. A new diamond mine, Gahcho Kué, could begin production as early as 2015 or 2016. Industries linked to the diamond mines, such as transportation and wholesale industries, had large declines in their growth rates between 2007 and 2009 before stabilizing in 2010. Growth rates for service industries moderated after 2007 but continued to post small increases.

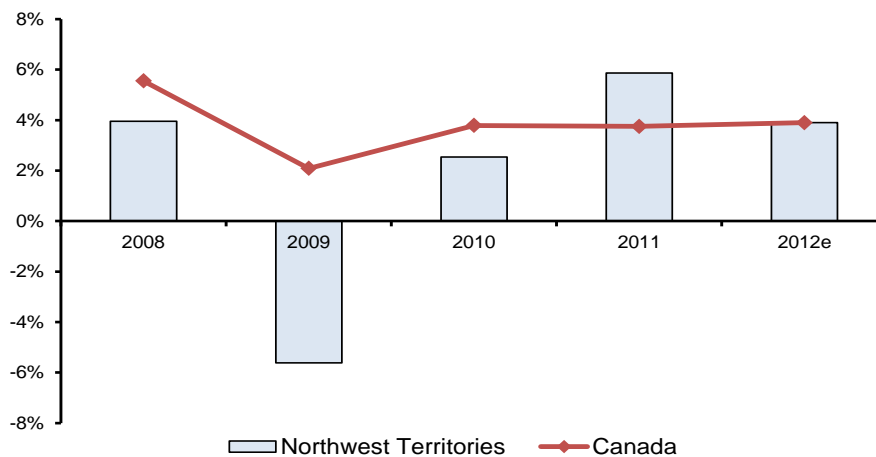
The NWT economy is integrated with the national and global economies. The largest private sector component of the territorial economy is the non-renewable resource sector where prices are established on world markets and NWT resources are shipped to global markets. The United States economy grew by an estimated 2.1 per cent in 2012 and modest growth is anticipated for 2013. Economic hardships continue in Europe, with Euro area economies having contracted by an estimated 0.5 per cent in 2012 and growth of less than 1.0 per cent anticipated for 2013. In China and India, growth has slowed somewhat more than expected in 2012, but Asia is expected to remain the growth leader, expanding over 2 percentage points faster than the rest of the world in 2013.

The Bank of Canada is projecting Canadian real GDP growth of 2.2 per cent in 2012, followed by growth of 2.3 and 2.4 per cent in 2013 and 2014, respectively. Household spending is expected to remain moderate to strong over 2012 and 2013, due in part to favourable interest rates, and Canadians will continue to carry high levels of household debt. Therefore, changes in economic variables such as increasing interest rates or a weakening housing sector could result in negative impacts on the Canadian economy. Business investment is expected to remain strong. The strong Canadian dollar will continue to dampen the balance of trade.

Personal Income

Personal disposable income is the after-tax income earned by NWT residents from all sources. It supports consumer expenditures which account for about 30 per cent of the territory's GDP. Disposable income received by residents increased 5.4 per cent from 2009 to 2010, after a 6.7 per cent decrease from 2008 to 2009. Labour income, a large component of personal income, increased 5.4 per cent in the first nine months of 2012 over the same period of 2011, indicating that personal income likely also grew in 2012. At the national level, where consumer expenditures account for over 55 per cent of GDP, personal disposable income increased 3.8 per cent in 2011.

Annual Percentage Change in Personal Disposable Income, NWT and Canada



e: estimate

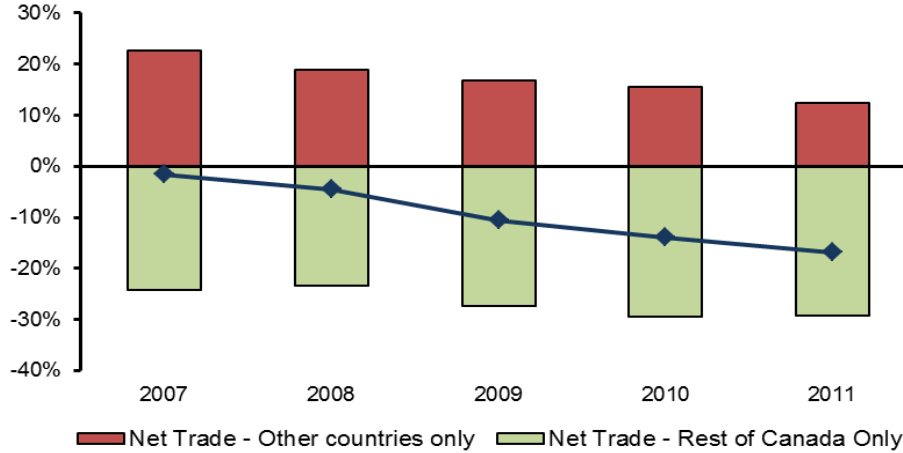
Source: Statistics Canada and NWT Finance

Trade

The NWT economy depends on trade with other countries and with the rest of Canada. The NWT exports natural resources to international markets and imports goods and services, mainly from southern Canada, to support industry and personal consumption. The trade surplus with other countries, relative to real GDP, has been declining since 2007. Over the same time the NWT's trade deficit with the rest of Canada has been growing, resulting in an increasing trade deficit. In 2007, the NWT's trade deficit was 1.6 per cent of GDP; the trade surplus to other countries was 22.7 per cent of GDP and the trade deficit with the rest of Canada was 24.3 per cent of GDP. In 2011 NWT's trade surplus with other countries had decreased by 51.9 per cent from 2007, while the NWT trade deficit with the rest of Canada had risen 5.8 per cent. The NWT's declining trade

surplus with other countries and increasing trade deficit with other Canadian provinces and territories resulted in the NWT having a net trade deficit equal to 16.9 per cent of GDP in 2011.

NWT Trade Balance, per cent of GDP



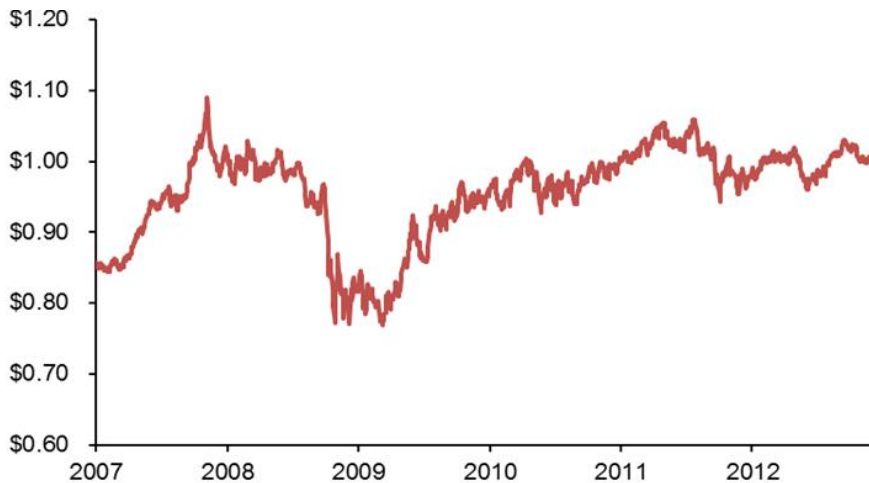
Source: Statistics Canada and NWT Finance

Exchange Rate

The value of the Canadian dollar in international exchange markets has a direct effect on the health of the NWT economy. A strengthening Canadian dollar means that territorial businesses that export their production get paid less after currency conversion. This is offset to the extent that equipment and other capital goods are imported from outside Canada. The effects are reversed when the Canadian dollar declines: businesses get paid more for their products after currency conversion while foreign imports cost more.

The Canadian dollar averaged US\$1.00 in 2012, a 1.1 per cent decrease from the 2011 average of US\$1.01.

US/Canada Exchange Rate

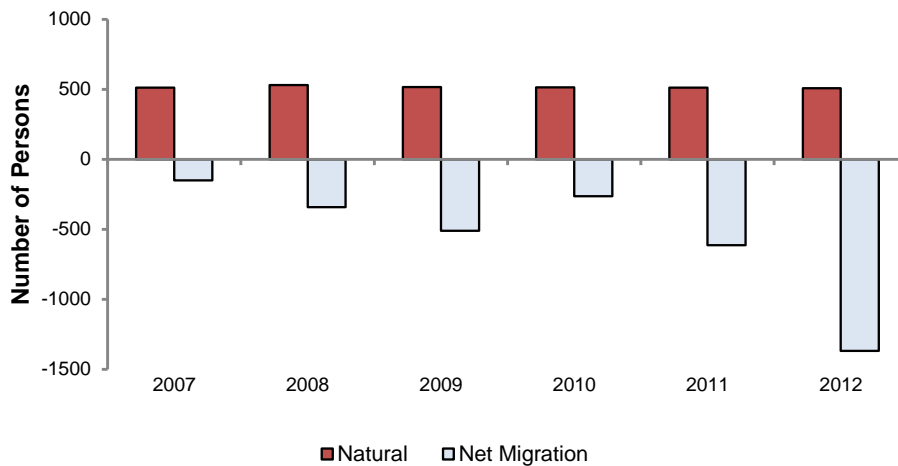


Source: Bank of Canada

Population

The NWT population was estimated to be 43,349 persons on July 1, 2012, a decrease of 863 persons, or 2.0 per cent, from July 1, 2011. Three factors account for population change: natural change, interprovincial migration and international migration. Between July 1, 2011 and July 1, 2012 natural population change consisted of 706 births and 199 deaths, resulting in a net increase of 507 persons. Inter-provincial migration accounted for 1,501 persons moving into the NWT from the rest of Canada, while 2,992 persons moved out, leaving a net loss of 1,491 persons. Internationally, there was a net in-migration of 121 persons.

Change in the NWT Population



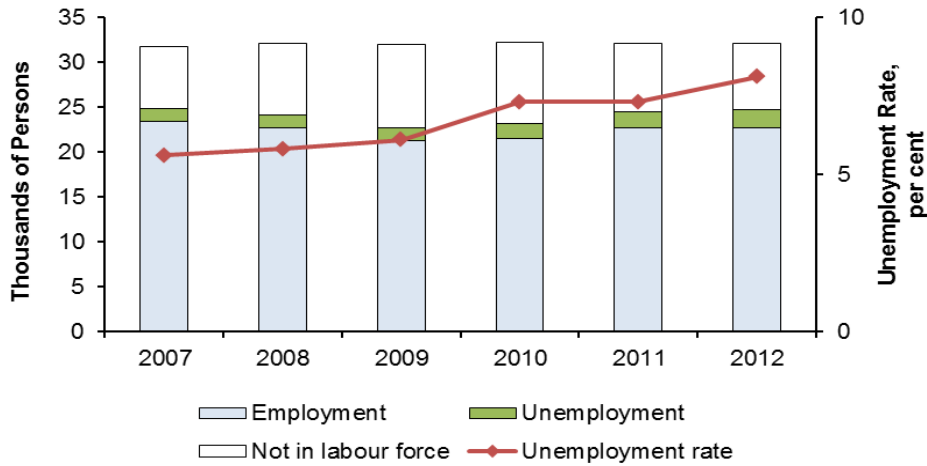
Source: NWT Bureau of Statistics

Labour

NWT employment in 2012 was 22,700 persons, unchanged from 2011, and 800 persons below the 2007 pre-recession maximum. Employment is forecast to remain unchanged in 2013. The labour force participation rate is the share of the population 15 years of age and older currently employed or actively seeking employment. In 2012 the participation rate was 76.9 per cent, an increase from 76.3 per cent in 2011 but below the 2007 participation rate of 73.8 per cent.

The increase in the participation rate from 2011 to 2012 led to a corresponding increase in the unemployment rate from 7.3 per cent in 2011 to 8.1 per cent in 2012 as more people entered the labour market than were able to secure employment. The average 2007 unemployment rate was 5.6 per cent.

NWT Labour Force Characteristics

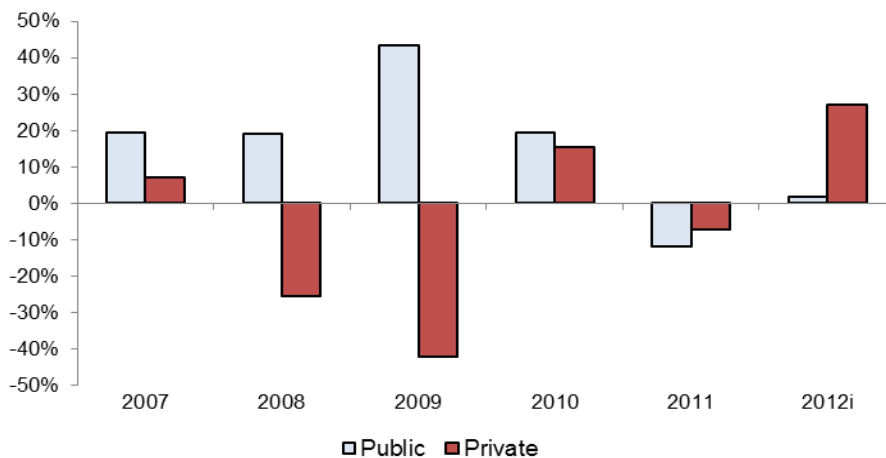


Source: Statistics Canada

Investment

Total capital expenditure intentions for 2012 are 21 per cent above estimated 2011 capital expenditures. Private sector capital expenditures are expected to increase from \$849 million in 2011 to \$1,080 million in 2012, an increase of 27.3 per cent. The main reason for the increase in private sector capital expenditures is the expected 34.4 per cent increase in mining and oil & gas extraction industries expenditures from \$587 million in 2011 to \$789 million in 2012. Capital expenditures by the public sector, having ramped up during the recession as an element of the GNWT's economic stimulus program, are estimated to have stabilized at \$299 million in 2012, an increase of 1.9 per cent from \$293 million in 2011, but below the 2010 peak of \$333 million.

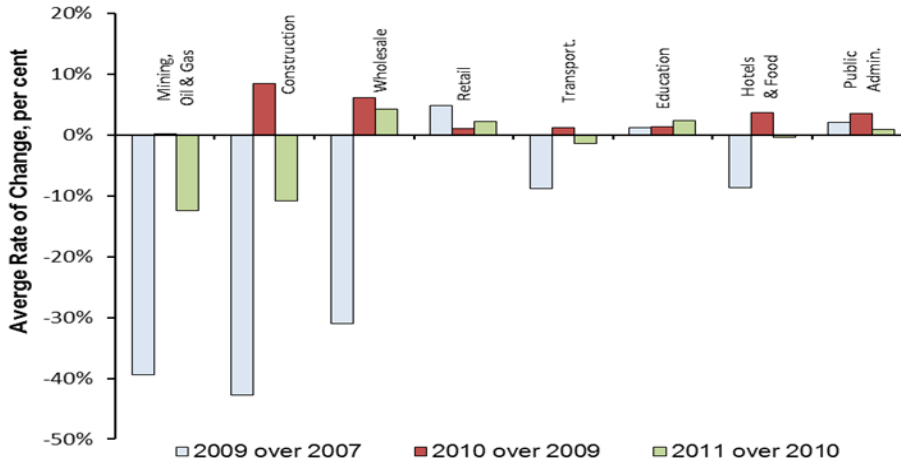
Annual Percentage Change in NWT Public and Private Capital Expenditures



i: intentions
Source: NWT Bureau of Statistics and Statistics Canada

Economic Performance by Sector

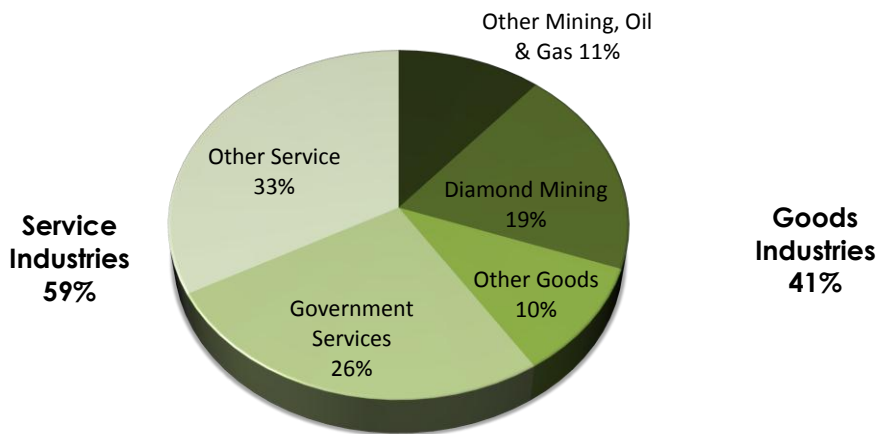
Real Growth Rates of Selected NWT Industries



Source: Statistics Canada and NWT Finance

The structure of the NWT economy changed between 2008 and 2009, shifting towards the production of services. In 2008, goods-producing industries accounted for 54 per cent of the NWT economy; by 2009 that share had fallen to 41 per cent. This reflects the slow-down in goods-producing industries, which occurred in the NWT as a result of the global economic downturn.

Structure of the NWT Economy, 2009



Source: Statistics Canada. The latest available data is 2009.

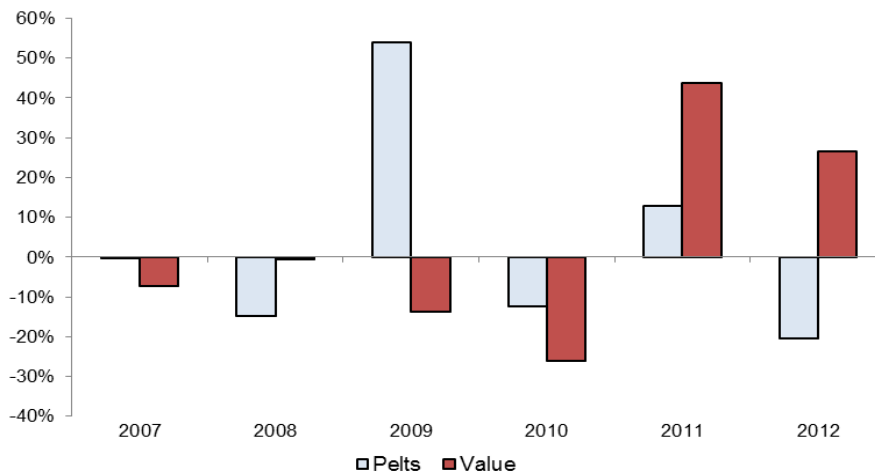
Goods-Producing Industries

The goods-producing sector accounted for 41 per cent of NWT GDP in 2009, compared to about 28 per cent of Canada’s economy. Resource extraction industries dominate the goods-producing sector in the NWT. Diamond mining was responsible for 19 per cent of 2009 GDP, while other mining, oil and gas accounted for 11 per cent. The remainder is comprised of renewable resources, construction, utilities and manufacturing activities.

Fur Harvest

Trapping remains an important source of income for many people in the NWT, especially in smaller communities. For the year ended June 30, 2012, nearly 25 thousand NWT pelts were sold, a decline of 20.4 per cent from previous year; however, the value of fur sales was \$1.51 million, an increase of 26.5 per cent from the previous year, reflecting higher prices per pelt.

Annual Percentage Change in the Number and Value of NWT Pelts



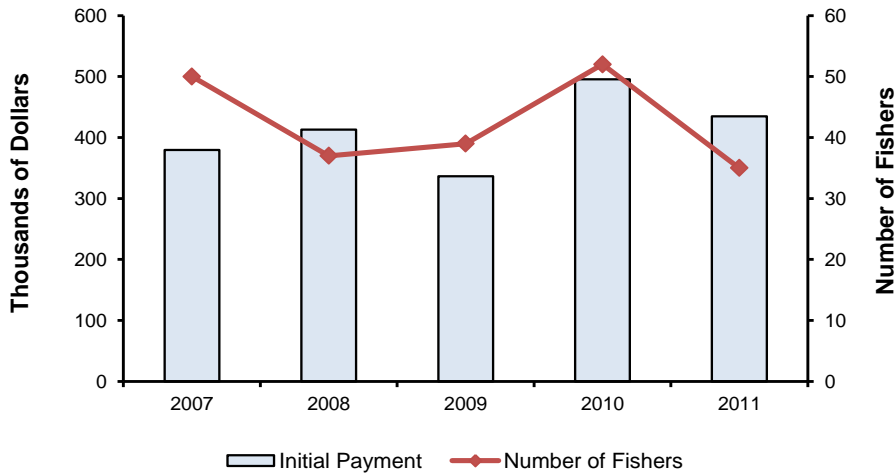
Source: NWT Bureau of Statistics

Commercial Fishing

The commercial fishery in the territory is a small but valued part of the economy. Fish exported from the NWT are marketed through the Freshwater Fish Marketing Corporation, a federal Crown corporation mandated to market fish harvested in Northwestern Ontario, the three Prairie provinces and the NWT.

Initial payments to NWT fishers – on a delivery-point, net-of-freight basis – declined 12 per cent from \$496,000 in 2010 to \$435,000 in 2011, while the weight delivered declined 6 per cent from 385,000 kilograms in 2010 to 360,000 kilograms in 2011.

NWT Export Fishery: Sales and Number of Fishers



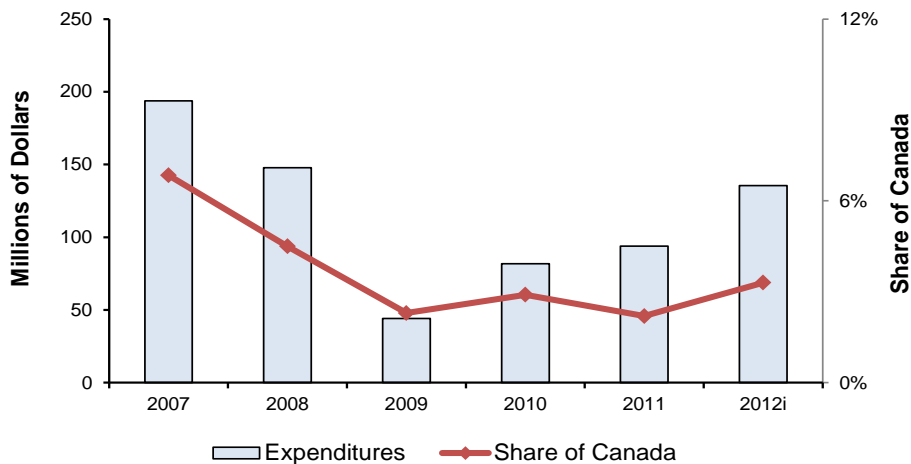
Source: Freshwater Fish Marketing Corporation

Exploration and Deposit Appraisal

Exploration expenditures include a range of mineral exploration activities, including field work, overhead costs, engineering, economic and pre-construction feasibility studies, and environmental and land access costs. Revised spending intentions for 2012 indicate that exploration and deposit appraisal expenditures increased to an estimated \$135.5 million, up 44.5 per cent from 2011. NWT 2012 exploration and deposit appraisal expenditures are estimated to have been 3.3 per cent of the Canadian total, up from 2.2 per cent in 2011.

Based on revised 2012 intentions, NWT mineral exploration and deposit appraisal expenditures have nearly recovered to 2008 levels.

NWT Mineral Exploration Expenditures



i: revised intentions

Source: Natural Resources Canada

Precious Metals and Rare Earths

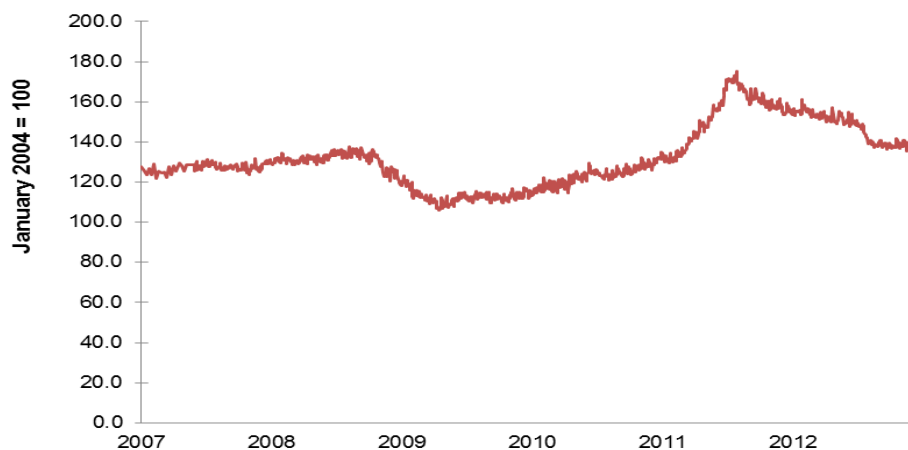
Precious metals include gold and silver. Rare earths are a group of 17 elements used in the high-tech sector, from advanced military technology to mobile phones and hybrid cars. After many decades of gold mining in the territory, the last gold mine shut down in 2004. However, increasing prices have led to new exploration activity. The global demand for rare earths has resulted in considerable new exploration activity in the NWT, including Avalon Rare Metals Inc.'s Nechalacho rare earths deposit at Thor Lake.

Diamond Mining

The main driver of the NWT economy is the diamond mining industry, with three producing diamond mines: Ekati opened in 1998; Diavik opened in 2003; and Snap Lake opened in 2008. A fourth proposed mine, Gahcho Kué, could begin production as early as 2015 or 2016.

Ownership of the NWT's diamond mines changed significantly during 2012. Anglo American finalized its acquisition of De Beers, which includes the Snap Lake mine and the proposed Gahcho Kué mine. Harry Winston announced its planned purchase of BHP Billiton's majority interest in the Ekati diamond mine and Rio Tinto, the majority owner of Diavik, continues to search for a potential buyer of Diavik. It is unclear how the changing ownership of the NWT's diamond mines may affect future operations.

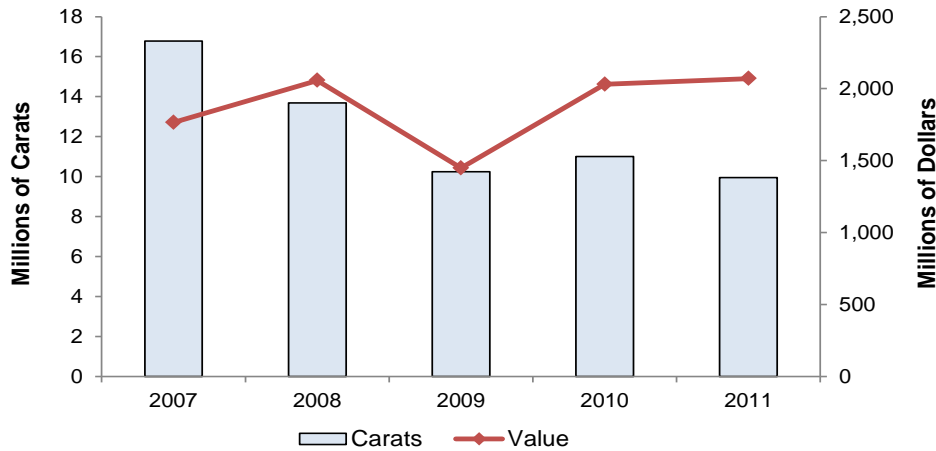
Polished Diamond Price Index



Source: PolishedPrices.com

In 2011, carat production at NWT diamond mines declined by 9.6 per cent from 2010. During the same period, the volume of ore processed declined by 1.9 per cent, reflecting a decline in ore grade consistent with the projected mine life cycles. As a result of higher prices in 2011, diamond production by value rose to \$2.07 billion from \$2.03 billion in 2010, an increase of 2.0 per cent.

NWT Diamond Shipments: Weight and Value



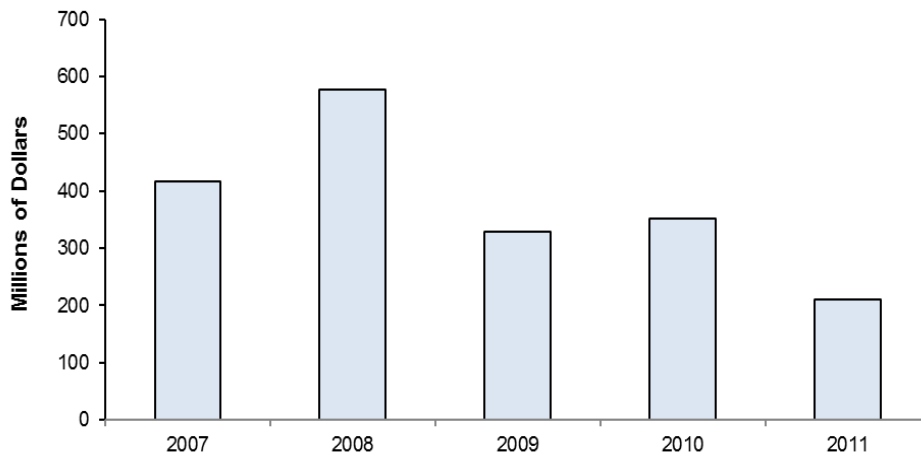
Source: NWT Bureau of Statistics and NWT Finance

Oil and Gas

Oil and gas production in the NWT is in decline due to the depletion of active reserves. Growth in production requires new discoveries and new field development. Expenditures on oil and gas activities in the NWT decreased from \$351 million in 2010 to \$210 million in 2011, a decline of 40 per cent.

Despite the recent declines in expenditures on oil and gas production, exploration activity in the NWT is expected to increase in the near-term. The Canol shale formation, in the Sahtu region, is currently under exploration by multiple energy companies and is estimated to hold more than two billion barrels of oil. This exploration is expected to be worth more than \$600 million over the next five years.

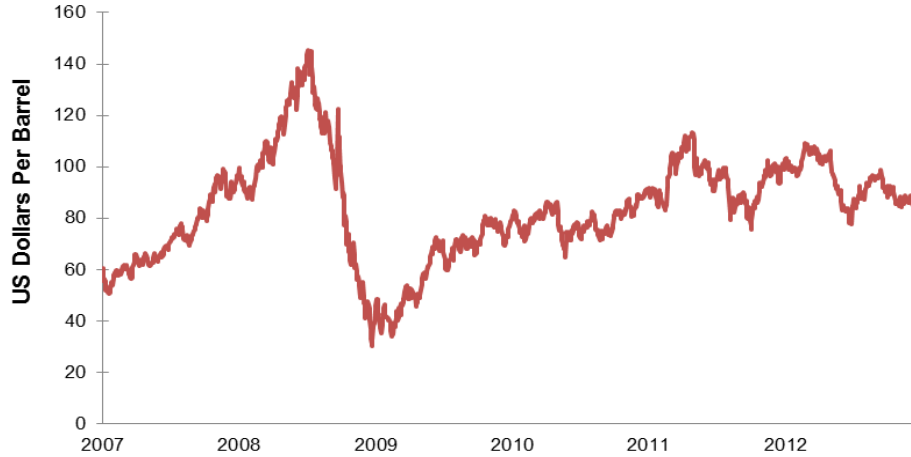
Net Cash Expenditures by the Petroleum Industry: NWT and the Arctic Islands



Source: Canadian Association of Petroleum Producers

Crude oil prices peaked on July 3, 2008 at US\$145 per barrel before collapsing to US\$40 at the beginning of 2009 but have since recovered. Oil prices were relatively stable in 2012, with the average price declining only 0.9 per cent from 2011 to 2012.

Price of Oil: US Dollars per Barrel



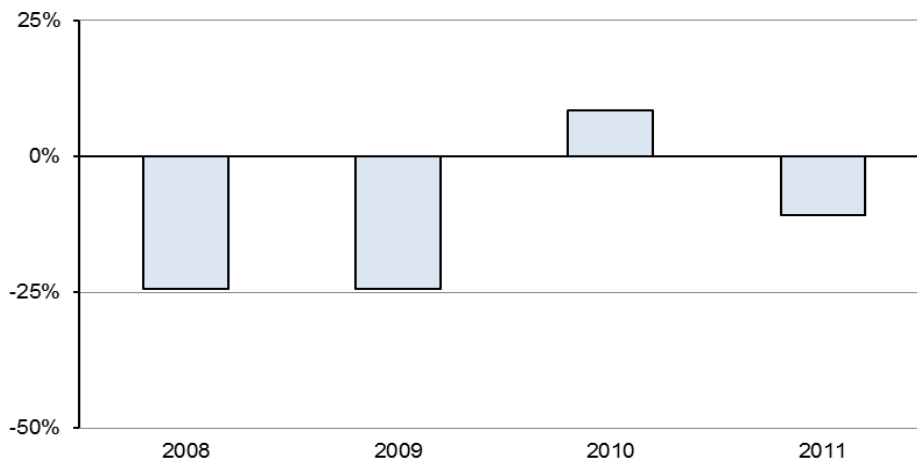
Cushing West Texas Intermediate Spot Price
Source: U.S. Energy Information Administration

Construction

The construction industry includes residential construction, non-residential construction, and engineering services. The construction sector accounted for 8.3 per cent of the territory’s 2009 GDP, the latest year for which data are available.

Construction activity decreased 10.9 per cent from 2010 to 2011; it remains 44.7 per cent below 2007 levels. From 2010 to 2011 residential construction declined 13.6 per cent, non-residential construction decreased 36.8 per cent and oil and gas engineering construction fell by 49.9 per cent.

Annual Percentage Change in the Value of Construction Activity, chained (2007) dollars

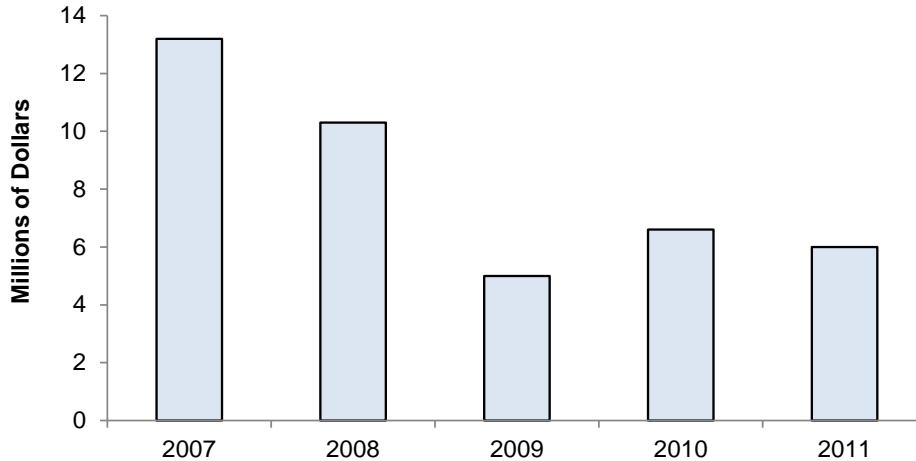


Source: NWT Bureau of Statistics and Statistics Canada

Manufacturing

The NWT manufacturing sector includes businesses such as food processors, cement and concrete producers, and jewellery artisans. The value of sales, in chained (2007) dollars, by manufacturers decreased 9.1 per cent from 2010 to 2011.

Value of NWT Shipments by Manufacturers, chained (2007) dollars



Source: NWT Bureau of Statistics

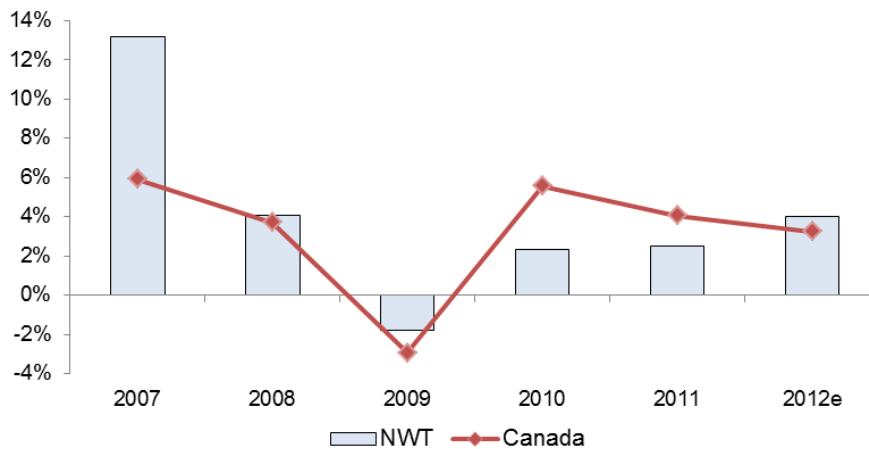
Service Industries

Service industries accounted for 59.1 per cent of NWT GDP in 2009, compared to 72.4 per cent nationally. The service sector includes industries such as wholesalers, banks, retailers, hotels and the public sector (schools, hospitals, police and fire services, federal and territorial governments, and local and Aboriginal governments).

Retail Trade

NWT retail trade sales increased by an estimated 4.0 per cent from 2011 to 2012 and estimated 2012 sales were 7.2 per cent above the 2008 pre-recession high. National retail sales increased by an estimated 3.2 per cent from 2011 to 2012 and have fully recovered from the recession, with a gain of 10.1 per cent from 2008 to 2012.

Annual Percentage Change in the Nominal Value of Retail Trade, NWT and Canada



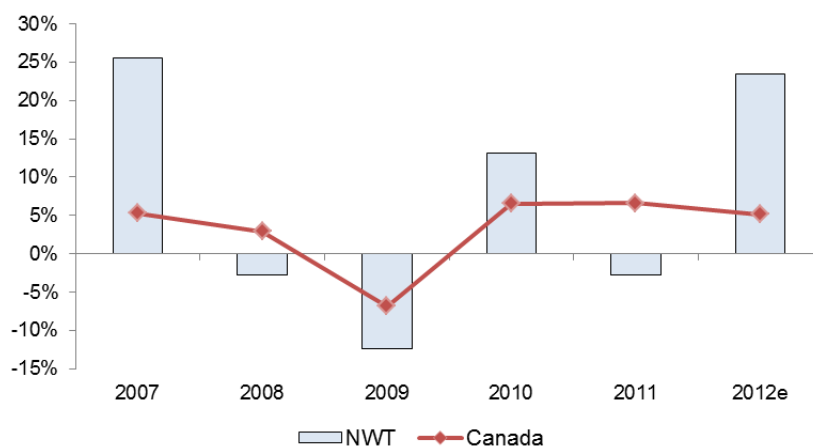
e: 2012 estimate based on January - September 2012
 Source: NWT Bureau of Statistics and Statistics Canada

Wholesale Trade

Wholesalers distribute merchandise to retailers, businesses, and institutional customers, including the supply of equipment and capital goods. The sector is strongly influenced by capital investment and business activity.

Wholesale trade in the NWT increased by an estimated 23.4 per cent from 2011 to 2012 and surpassed its 2007 pre-recession peak by 15.6 per cent. By comparison, wholesale trade in Canada increased by 5.2 per cent from 2011 to 2012.

Annual Percentage Change in the Nominal Value of Wholesale Trade, NWT and Canada



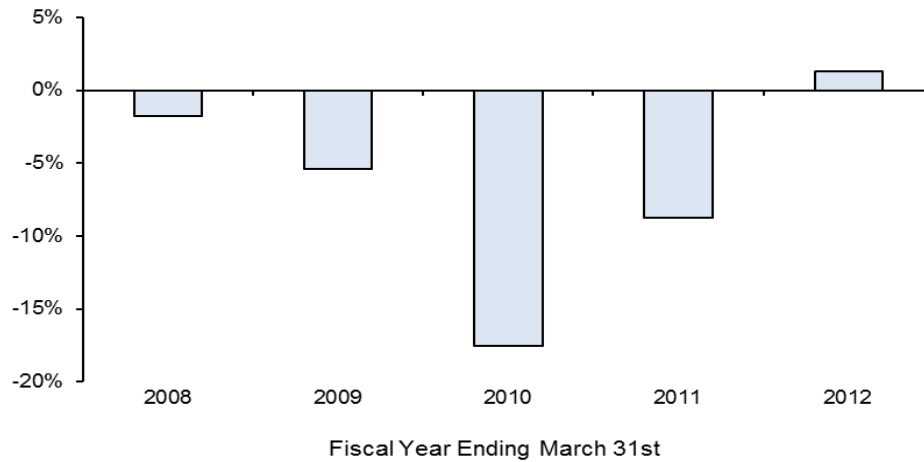
e: 2012 estimate based on January - September 2012
Source: NWT Bureau of Statistics and Statistics Canada

Tourism

Tourism is an important part of the territory's economy with large untapped potential. Total spending by visitors reached \$99.5 million during the fiscal year ended March 31, 2012, an increase of 1.3 per cent from the previous year, despite a 1.2 per cent decrease in the number of visitors. This increase follows four consecutive years of declining visitor spending, and was driven by increases in spending by hunters, anglers, those visiting for general touring, aurora viewing and those visiting family and friends. These increases were partially offset by declines in spending by visitors seeking other outdoor adventures and business travellers.

Over the period 2007-08 to 2011-12 there was a 19.1 per cent decline in the total number of visitors to the NWT, including notable declines in those visiting to hunt, fish, general touring and for business travel. However, over the same period the NWT saw increased visits by those participating in other outdoor adventures and aurora viewing and those visiting family and friends. The total effect was a decline of 27.8 per cent in visitor expenditures.

Annual Percentage Change in Total Expenditures by All Travellers to the NWT



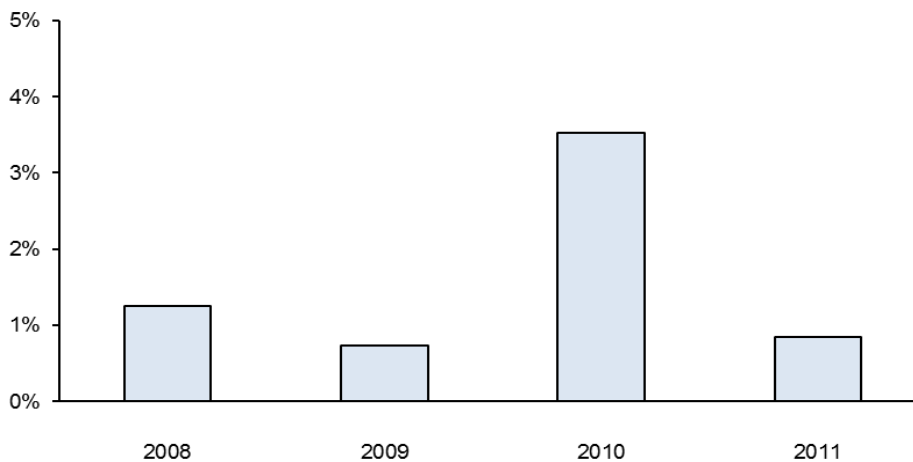
Source: NWT Industry, Tourism and Investment

Public Administration

Public administration includes all levels of government in the NWT: federal; territorial; local; and Aboriginal. This includes the courts, policing and correction services, fire protection, defence and public administration but excludes the health, social services and education sectors.

From 2010 to 2011 public administration expenditures increased by 0.8 per cent. From 2007 to 2011 public sector expenditures increased by 6.5 per cent.

Annual Percentage Change in Public Sector Expenditures, chained (2007) dollars



Source: Statistics Canada

Macroeconomic Performance Indicators

The Government of the Northwest Territories' *Macroeconomic Policy Framework*, designed to guide its investment and policy decisions, includes performance indicators that monitor the health of the economy over time. These indicators were designed to go beyond typical measurements of economic performance or growth by capturing broader measures of economic well-being such as improvements in the quality of life, the capacity of communities, and the protection of the environment.

The performance indicators are intended to be measured against a baseline value, which is the average value of the indicator from 2005 to 2007. However, due to revisions made to Statistics Canada data, some pre-2007 data is not currently available; therefore, the majority of performance indicators are being measured against 2007 rather than baseline average for the years 2005 to 2007. These differences are noted.

After the development of the framework, the global economy underwent the most intense financial and economic shock since the Great Depression. The NWT economy, with its critical linkages to the world trade system, was particularly vulnerable to the global economic downturn. The NWT economic recovery has been unbalanced and sluggish, as measured by the performance indicators.

Indicator 1 – The size and growth of the total economy

Real GDP is the most comprehensive measure of the economy. However, it does not measure the non-money economy and cannot measure social well-being.

In 2011 NWT real GDP was 25.2 per cent below its 2007 level.

Indicator 2 – Productivity

Productivity is a key performance measure. It is related to increased profitability, lower costs and sustained competitiveness. Increasing productivity can promote economic growth. Productivity can be increased through labour force training, technological change and changing the labour/capital mix. Higher levels of productivity can provide higher wages and salaries and higher profits.

In 2011 productivity was 24.0 per cent below its 2007 value.

Indicator 3 – New investment

New investment is a leading indicator of economic growth that measures how well the economy can be expected to do in the future. New investment undertaken by the private sector focuses on direct spending on buildings, equipment and machinery with the expectation of a positive return on the investment. Public sector investment largely focuses on health, education and infrastructure; these investments seek to achieve beneficial social and economic outcomes.

In 2011 new investment was 45.0 per cent below its 2007 value.

Indicator 4 – Income

Income growth provides evidence that people are benefitting from economic growth and is an important element in realizing the vision of self-reliant people in the NWT. Two similar, but distinct measures of income are identified for measurement:

Indicator 4a – Employment income

Employment income measures the sum of all income earned through employment by NWT residents and is directly tied to jobs.

In 2011 employment income was 9.7 per cent above its 2007 value.

Indicator 4b – Average household income

Average household income provides information about the quality and distribution of jobs among Northerners. In 2009, average household income was 5.5 per cent above its 2005-2007 average value.

Indicator 5 – Employment rate

The employment rate measures the extent to which NWT residents are directly participating and benefiting from economic growth. It measures the share of people 15 years of age and older who are employed.

In 2012 the employment rate, at 70.7 per cent, was below its 2005-2007 average value of 73.5 per cent.

Indicator 6 – Population growth

Population growth measures a response to economic growth and provides a base for further growth through diversification. Population changes reflect the health of the population, the robustness of the medical support system, and the economic or lifestyle incentives for people to immigrate to the NWT or to emigrate from the NWT. A growing population serves as a growing consumer market for local businesses.

The NWT's 2012 population was 0.7 per cent below its 2007 value.

Indicator 7 – Economic Linkages

Developing linkages between different industries contributes to economic growth and diversification. Four measures of strength of economic linkages are considered.

Indicator 7a – Level of imports

Imports of goods and services reflect the size of existing NWT markets for inputs that already exist based on the established economic base.

In 2011 the inflation-adjusted value of imports was 0.5 per cent above its 2007 value.

Indicator 7b – Wholesale and retail sales

Wholesale sales are an indicator of linkages at the production level, where producers purchase inputs from NWT suppliers or where they purchase post-production services such as transportation and communication services from NWT companies. Higher retail sales can support linkages to higher construction and transportation activity and create opportunities for more retail businesses.

The estimated value of 2012 wholesale sales, in nominal dollars, was 32.9 per cent above its 2005-2007 average value.

The estimated value of 2012 retail sales, in nominal dollars, was 22.5 per cent above its 2005-2007 average value.

Indicator 7c – Fly-in/Fly-out labour

Measuring the dependence on fly-in labour highlights the capacity of the NWT resident labour force to meet the demand for workers. It depends on whether there are sufficient workers with the required skills available at the employment location. It also represents a leakage of potential consumer expenditures from the NWT economy.

In 2010 non-resident NWT labour earnings rose from an average of \$319 million from 2005 to 2007 to \$362 million, which represents an increased loss to the NWT economy of \$43 million, less the \$860,000 retained in payroll tax.

Indicator 7d – Growth of resource sector service industries

Specialized service sectors providing support to NWT resource industries are a principal engine of growth and diversification for the economy. Two service industries are measured.

Support activities for agriculture and forestry: in 2011 the value of support activities for agriculture and forestry was 33.9 per cent above its 2007 value.

Oil & gas engineering construction: in 2011 the value of oil & gas engineering construction was 42.7 per cent below its 2008 value (2007 data are suppressed by Statistics Canada to meet the confidentiality requirements of the *Statistics Act*).

Indicator 8 – Diversification

Diversification of the economy can be measured by GDP by industry, growth by sector and employment by industry. Data to support this measure are collected through the Census of Population. The most recently available employment data from the 2006 Census is for 2005. This indicator will be calculated when the full results of the 2011 census are released in 2013.

Indicator 9 – Environmental status and trends

See the *NWT State of the Environment Report*.

Summary of Findings

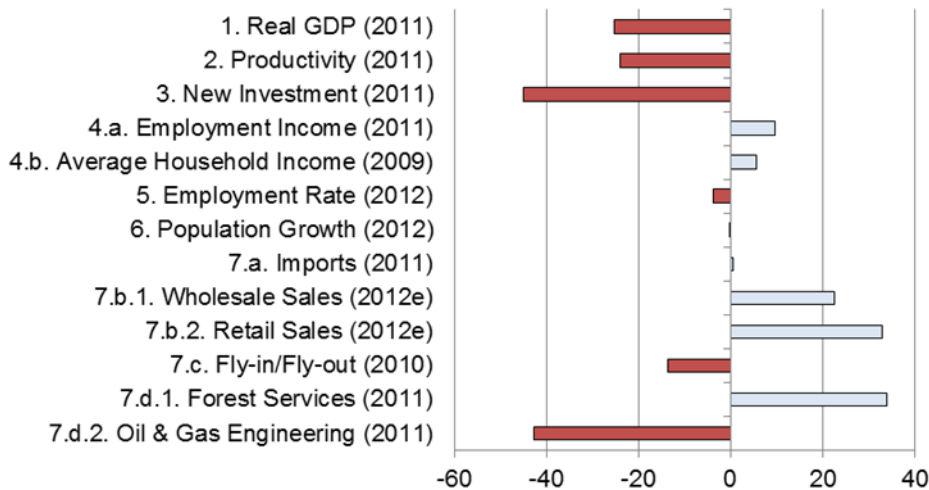
The NWT economy has been particularly hit hard by the financial and economic downturn of 2008 and 2009. Of the thirteen primary and sub-indicators measured currently, seven indicators increased in value, while the remaining six have decreased.

Separating the effects of the 2008 global recession from general trends in the overall NWT economy is impossible. However, the NWT economy has demonstrated a low level of resiliency in responding to the recession given that many indicators have not yet returned to their pre-recession levels and the pace of recovery has been slower than in other provinces and territories.

One contributing factor to the low level of resiliency is the composition and openness of the NWT economy, with people and capital free to move to more favourable provinces when faced with economic challenges at home.

The challenge for the GNWT is to identify and advance investment opportunities that will generate sustainable benefits in the context of the global economic environment in which NWT businesses compete.

Macroeconomic Indicators of Progress, per cent change from 2007 to most recent year



e: estimated

Source: Statistics Canada, NWT Bureau of Statistics and NWT Finance

FISCAL REVIEW

An operating surplus in 2011-12, and projected surpluses for 2012-13 and 2013-14, have created room for the GNWT to make some infrastructure investments. However, slow revenue growth forecasts, combined with ever-increasing pressures for social program spending and a huge infrastructure deficit, mean that the fiscal situation is still fragile.

Although revenues are expected to grow modestly in 2013-14, future growth in revenues is projected to be a third of its historical average. With a small tax base and heavy reliance on federal transfers, the GNWT is committed to living within its means by ensuring expenditure growth does not exceed revenue growth. A fiscal strategy centred on restraining expenditure growth within what is affordable is necessary to ensure the GNWT avoids borrowing to finance day-to-day operations and continues to adhere to its *Fiscal Responsibility Policy*.

2011-12 Final Results

The small operating surplus of \$1.3 million in 2011-12 was a strong improvement from the \$23 million deficit of the previous year, and the first surplus since 2007-08. Year over year growth of 3.5 per cent in operating expenditures to \$1.399 billion was more than offset by 5.6 per cent growth in revenues to \$1.401 billion. Revenues were \$42 million higher than 2011-12 Revised Estimates largely due to higher than forecast corporate income tax, fuel tax, recoveries of prior years' expenses, and other general revenues. Actual expenditures were \$31 million higher than 2011-12 Revised Estimates.

2012-13 Revised Estimates

The operating surplus for 2012-13 is projected to be \$99 million after adjustments, \$25 million higher than projected in the 2012-13 Main Estimates. Higher than forecast expenditures, due mostly to extraordinary expenses, were offset by higher revenues, particularly taxes.

The revised 2012-13 revenue forecast is \$45 million higher than the 2012-13 Main Estimates, having increased from \$1.524 billion to \$1.569 billion. The increase is due primarily to an extra \$31 million in prior year adjustments for corporate income tax.

Operating expenditure estimates are \$20 million higher than budgeted in the 2012-13 Main Estimates, having increased to \$1.47 billion. Increased expenditures resulted mainly from a severe fire suppression season and an emergency anthrax response.

Capital investment expenditures in 2012-13 are expected to be \$240 million, nearly double what was projected in the 2012-13 Main Estimates. Most of the increase was due to capital carry-overs from 2011-12. Total debt at March 31, 2013 is estimated to be \$561 million. Taking into account other borrowing instruments for purposes of the federally imposed borrowing limit, total GNWT borrowing at March 31, 2013 is projected to be \$609 million, leaving \$191 million in borrowing room.

2013-14 Budget

The 2013-14 Budget continues the work of the first Budget of the 17th Legislative Assembly to restore and maintain fiscal balance while protecting existing programs and services. The Budget ensures operating expenditures are affordable within existing revenues, generating a surplus to repay some short-term borrowing and funding at least half of capital expenditures.

The 2013-14 Budget proposes operating expenditures of \$1.467 billion and forecasts revenues of \$1.609 billion. After taking into account infrastructure contributions and supplementary reserve requirements, an operating surplus of \$113 million is projected.

Infrastructure investments for 2013-14, approved in November 2012, are budgeted to be \$123 million. The cash generated from operations will more than cover the capital investments planned for 2013-14, resulting in a slight decrease in GNWT short-term debt to \$143 million at March 31, 2014.

Direct long-term debt is estimated to be \$182 million, while debt of public agencies such as the NWT Power Corporation, the NWT Housing Corporation, and the Yellowknife Catholic Schools will total \$211 million. After adding the projected \$51 million in other instruments included under the definition of borrowing for the purposes of the territorial borrowing limit such as capital lease obligations and loan guarantees, net of \$7 million in sinking funds, available borrowing room is expected to be \$219 million at March 31, 2014.

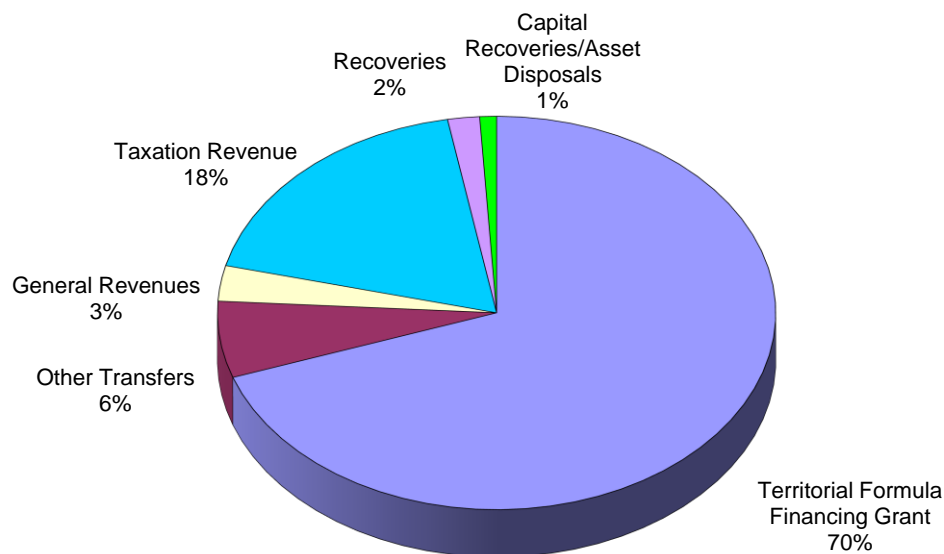
Revenues

Total revenues are forecast to increase by \$40 million to \$1.609 billion in 2013-14. This represents growth of 2.6 per cent over 2012-13 estimated revenues of \$1.569 billion. The majority of the growth is attributable to the Territorial Formula Financing Grant, which will grow by \$51 million from 2012-13 to 2013-14. The growth in the Grant will be partly offset by lower corporate income tax revenues in 2013-14 due to a large prior year adjustment increasing revenues in 2012-13.

The Territorial Formula Financing Grant continues to make up the majority of GNWT revenues, forecasted to be 70 per cent in 2013-14. GNWT own-source revenues are expected to account for 24 per cent of total revenues in 2013-14.

The 2013-14 Budget does not include any new taxes. Effective April 1, 2013, property tax mill rates and a number of fees will be adjusted for inflation. This is in line with the commitment made in the 2010-11 Budget that, where practicable, tobacco and property tax rates, liquor mark-ups, and fees would be adjusted each year by the rate of inflation.

2013-14 GNWT Revenues by Source

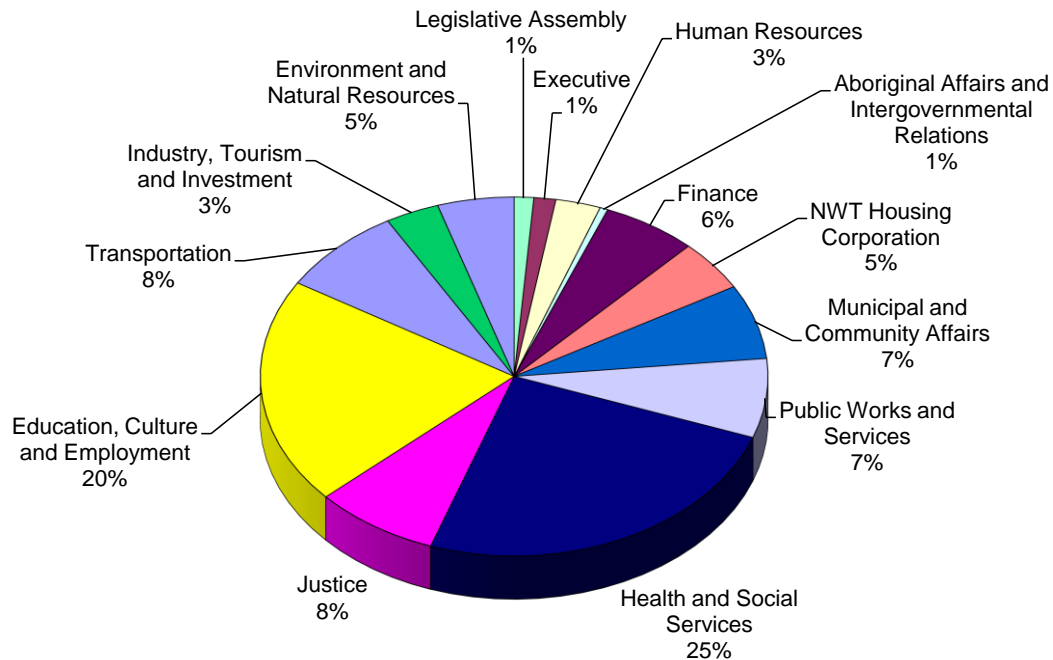


Operating Expenditures

The 2013-14 Budget proposes \$1.467 billion in operating expenditures, of which \$848 million is budgeted for social programs such as education, health care, social services, housing, policing and corrections.

Operating expenditures are forecast to increase \$56 million from 2012-13 Main Estimates. This growth primarily consists of increasing costs of existing programs and services, amounting to \$42 million, as well as \$22 million in strategic and corporate initiatives. Amortization and other adjustments contribute another \$19 million. These increases are partly offset by \$27 million in sunsetted programs.

2013-14 Operations Expenditures by Department



Initiatives

In the fall of 2012, the Minister of Finance travelled to seven regional centres to explain the fiscal choices facing the GNWT, emphasizing the importance of maintaining expenditure growth below revenue growth. The 2013-14 Budget invests in initiatives that address some of the shortfalls and priorities that Northerners voiced in the Budget Dialogue 2012 process.

Prevention and Well-Being

Investments in prevention not only improve the health and well-being of Northerners, they can yield efficiencies through decreased program demand and costs in the future.

The 2013-14 Budget provides \$3.3 million in funding for actions that support prevention and improve well-being. These investments span a wide spectrum of programming such as mental health and addictions, midwifery services, and long-term care.

- \$1.15 million funding for mental health and addictions prevention and promotion initiatives, focusing on youth, on-the-land programs, and improvements in case management for people dealing with mental health issues.
- \$449,000 to expand the Midwifery Program to improve client access throughout the NWT to midwifery care.

- \$142,000 to deliver routine vaccination programs for children in the NWT, in line with recommendations made by national expert bodies on pediatric immunization programs.
- \$1.13 million to increase staffing levels at three existing long-term care facilities, to provide effective, safe and culturally-appropriate care.
- \$229,000 to ensure dialysis services continue to be provided in the NWT with support from the Northern Alberta Renal Program.
- \$157,000 to fund the GNWT's share of costs for one RCMP constable to serve in Tulita.
- \$90,000 to establish a Victim Services program in Tulita.

2013-14 Investments in Prevention and Well-Being (thousands of dollars)

Investing in Prevention

Mental Health and Addictions Prevention and Promotion	\$ 1,145
Midwifery Program Expansion	449
Vaccination Program for Children	142
	\$ 1,736

Investing in Well-Being

Long-term Care Facility Staffing Increase	\$ 1,129
Dialysis Services - Northern Alberta Renal Program	229
RCMP and Victims Services Program Funding in Tulita	247
	\$ 1,605
	\$ 3,341

Sustainable Economic Development

Strengthening and diversifying the NWT economy is one of the GNWT's five key priorities. In 2013-14, over \$16 million in investments will be made to enable the growth of a strong and diversified economy. These investments are focused on creating the right environment for economic growth and at reducing reliance on non-renewable sources of energy.

- \$6.1 million for costs associated with implementing the Devolution Final Agreement.
- \$7.0 million to continue advancing the Mackenzie Valley Fibre Optic Link project, a high-speed data link that will dramatically improve internet connectivity and provide opportunities for entry into other knowledge-based industries.

- \$600,000 to increase tourism marketing to protect the NWT's share of the aurora viewing market and to take advantage of new markets and opportunities.
- \$200,000 to continue support to NWT businesses in implementing energy conservation and efficiency measures that address the high cost of energy through the Commercial Energy Conservation and Efficiency Program.
- \$700,000 to fund NT Energy Corp.'s development of NWT hydroelectric resources and analysis of alternative energy opportunities such as biomass, geothermal and solar.
- \$100,000 to support communities, businesses and residents in converting to renewable energy sources through the Alternative Energy Technologies Program.
- \$100,000 to assist homeowners and consumers in purchasing new energy efficient models of home appliances and other equipment through the Energy Efficiency Incentive Program.

2013-14 Investments in Sustainable Economic Development (thousands of dollars)

Supporting Economic Diversification & Growth

Devolution Implementation Activities	\$ 6,071
Mackenzie Valley Fibre Optic Link Project (Capital Contribution)	7,000
Increased Tourism Industry Marketing Contribution	600
	<u>\$ 13,671</u>

Energy Conservation and Diversification

NT Energy Core Funding	\$ 700
Alternative Energy Technology Program	100
Commercial Energy Conservation and Efficiency Program	200
Energy Efficiency Incentive Program	100
Regional Energy Advisors	125
<i>Greenhouse Gas Strategy</i>	200
Liquid Natural Gas Solutions for Inuvik	100
Whati Connection to Hydro: Completion of Regulatory Application	250
Water Monitoring for Hydro Potential	50
<i>NWT Biomass Energy Strategy</i> Initiatives	400
Expansion of Solar Electricity Systems	250
Community Scale Wind Demonstration Project	100
Smart Microgrid Project	125
	<u>\$ 2,700</u>
	<u>\$ 16,371</u>

- \$125,000 to support the work of Arctic Energy Alliance in promoting energy efficiency and conservation throughout the NWT, including conducting home energy audits.
- \$200,000 to support the delivery of the *Greenhouse Gas Strategy* and to maintain and report emission inventories to the Climate Registry.
- \$100,000 for the examination of liquid natural gas solutions for electricity and heating supply in Inuvik.
- \$50,000 for water monitoring on the Kakisa River to increase understanding of the NWT's hydro potential in support of the *NWT Hydro Strategy*.
- \$250,000 towards the development of a regulatory application for the proposed 65 km transmission line that would connect Whatì to the Snare hydro system.
- \$400,000 for initiatives in support of the *NWT Biomass Energy Strategy*.
- \$250,000 to add solar electricity systems to two diesel community grids, adding up to 40kW of installed capacity.
- \$100,000 to advance work on a small-scale community wind energy project through community consultation and site selection.
- \$125,000 to establish a remote smart microgrid community project in collaboration with Natural Resources Canada, which has the potential to reduce diesel consumption.

Government Efficiency and Effectiveness

In a fiscal environment of slow revenue growth and increasing cost pressures, the impetus for increased government efficiency is greater than ever. A total of \$2.3 million will be invested in initiatives that will yield internal efficiencies or improve the effectiveness of existing programs and services.

- \$489,000 to fund human resources required for a phased roll out of the Electronic Medical Records system.
- \$700,000 to install high energy-efficient wood pellet boilers in multi-unit public housing complexes.
- \$550,000 to build capacity in clinical governance, including resources to provide needed medical clinical leadership and developing, monitoring and auditing clinical practice guidelines, standards and protocols.
- \$472,000 to fund the first step in the establishment of a full Territorial Support Network to improve medevac services, ensuring all Northerners receive similar high standard levels of care.
- \$100,000 to develop an Investment Decision Framework that will incorporate decision-making best practices into the energy planning budget process.

2013-14 Investments in Efficient and Effective Government (thousands of dollars)
Improvements in Efficiency

Electronic Medical Records Implementation	\$ 489
Energy Efficiency in Public Housing Units	700
	\$ 1,189

Improvements in Effectiveness

Building Clinical Governance Capacity	\$ 550
Territorial Support Network for Medical Evacuations and Travel	472
Development of Energy Investment Decision Framework	100
	\$ 1,122
	\$ 2,311

Infrastructure

The 2013-14 capital budget, approved November 6, 2012, provides for investments of \$93 million in infrastructure and \$30 million in infrastructure contributions, including:

- \$28 million in Formula Funding for community infrastructure;
- \$35.4 million for health facility replacements and renovations, including \$18.3 million for the H.H. Williams Memorial Hospital in Hay River and \$5.2 million for the replacement of the Jimmy Erasmus Seniors Centre in Behchokò with a larger facility;
- \$23.5 million for highways and winter roads across the NWT;
- \$2.1 million for school replacements and renovations, including \$1.1 million for the construction of the Children's First Centre in Inuvik;
- \$2.1 million for capital improvements in NWT trails and parks;
- \$12 million for small capital projects across all departments;
- \$5 million for the deferred maintenance program; and
- \$1.2 million to continue the Capital Asset Retrofit Fund Program for energy efficiency upgrades to existing GNWT buildings.

Included in the 2013-14 Main Estimates is \$15 million in housing investments to be delivered through the 2013-14 Capital Plan of the NWT Housing Corporation. Including the proposed NWT Housing Corporation investment, total planned infrastructure investment in 2013-14 is \$138.6 million.

Fiscal Strategy

The GNWT's fiscal strategy takes a medium-term view of revenue and expenditure trends and plans for continued surpluses to help fund at least half of infrastructure investment and ensures resources are available to respond to economic shocks and to support economic development.

Fiscal Environment and Outlook

The GNWT operates in a fiscal environment characterized by heavy reliance on federal transfers, a limited tax base to raise revenues, and expenditure challenges associated with geographic remoteness and small and dispersed population centres.

Approximately three-quarters of GNWT revenues come from federal transfers, and total revenues are heavily influenced by changes in transfers. The Territorial Formula Financing Grant is the largest of the federal transfers, making up 70 per cent of total GNWT revenues. The GNWT has been working collaboratively with the federal government and the other territories on the technical work supporting the legislative renewal of Territorial Formula Financing on April 1, 2014. At the December 2012 Finance Ministers Meeting, federal Finance Minister Flaherty announced that the current gap-filling formula of the Grant will continue until at least 2018-19.

Nevertheless, certainty in the Territorial Formula Financing formula does not change the fact that the NWT's slow population growth, and the curbing of spending by other governments, will mean slower growth in entitlements over the next few years because the Grant calculation uses these variables to derive its escalator. Following 4.8 per cent growth in 2013-14, the Territorial Formula Financing Grant is forecast to remain flat in 2014-15 and 2015-16. As a result, growth in total revenues will slow to less than 1 per cent in each of 2014-15 and 2015-16, compared to 2.6 per cent in 2013-14.

Slower revenue growth will make it increasingly challenging to generate surpluses going forward. Expenditure pressures due to price increases, such as rising fuel prices, or increased demands for programs and services driven by such factors as an aging population, continue to strain the sustainability of the GNWT's fiscal plan.

The GNWT, restrained by a small tax base and a federally imposed borrowing limit, must be vigilant in ensuring expenditure growth is affordable within revenue growth. If revenues do not keep pace with the cost of government operations, capital investment will have to be reduced; otherwise, the GNWT would be in violation of its *Fiscal Responsibility Policy*.

Fiscal Responsibility Policy

The GNWT **WILL** borrow for capital infrastructure; self-liquidating investments; and repayable loan programs.

The GNWT will **NOT** borrow for operating expenses.

Investment in infrastructure will be financed with **minimum 50% from cash** generated from operating surpluses.

"Affordable debt" is debt where annual debt servicing payments do not exceed 5% of total annual revenues.

The GNWT's *Fiscal Responsibility Policy*, together with its relatively low level of debt, contribute to its success in maintaining an Aa1 credit rating from Moody's Investors Service for the past seven years.

Fiscal Strategy

The GNWT remains committed to a fiscal strategy of managing expenditure growth in line with revenue growth and adhering to the *Fiscal Responsibility Policy*. The fiscal strategy calls for surpluses that can be used to pay down short-term borrowing, while providing the necessary funds to invest in future infrastructure projects.

To ensure these operating surpluses, the fiscal strategy going forward will be to restrain the growth of existing programs and services to \$25 million in 2014-15, and 1.5 per cent growth thereafter. This will allow the GNWT to start addressing the growing infrastructure deficit by increasing infrastructure investment by \$50 million in 2014-15 and 2015-16 and make additional investments such as the Inuvik to Tuktoyaktuk highway and the Mackenzie Valley Fibre Optic Link. The fiscal strategy ensures that these infrastructure investments can be made while keeping the GNWT within the federally legislated borrowing limit of \$800 million.

The following table shows the GNWT's medium-term outlook given current fiscal projections. The outlook includes all components of the fiscal strategy, including the rebuilding of cash through operating surpluses in the short-term and additional strategic infrastructure investment in 2014-15 and 2015-16. The outlook does not take into account any resource revenues that may accrue to the GNWT following the implementation of a Final Devolution Agreement.

The signing of a Final Devolution Agreement will not change the fiscal strategy targets for operating expenditures. Resource revenues accruing from devolution will be used to fund strategic infrastructure, pay down debt and be saved in the Heritage Fund. The GNWT is committed to responsibly managing its share of revenues from non-renewable resources by not spending such revenues on the day-to-day operations of government.

Medium-Term Outlook (\$ millions)

	2011-12 Actuals	2012-13 Revised Estimates	2013-14 Main Estimates	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
Revenues	1,401	1,569	1,609	1,619	1,635	1,665
Expenditures	(1,400)	(1,470)	(1,496)	(1,536)	(1,566)	(1,607)
Operating Surplus (Deficit)	1	99	113	83	69	58
Capital Investment Requirements	145	132	134	168	161	140
Accumulated Cash Surplus (Deficit) as of March 31 st	(164)	(164)	(143)	(191)	(209)	(219)
Total Guaranteed Debt ¹	(250)	(258)	(251)	(239)	(241)	(245)
Other Debt ²	(187)	(188)	(187)	(187)	(187)	(228)
Total Debt	(601)	(609)	(581)	(617)	(637)	(692)
Total Borrowing Authority	800	800	800	800	800	800
Available Borrowing Authority	199	191	219	183	163	108

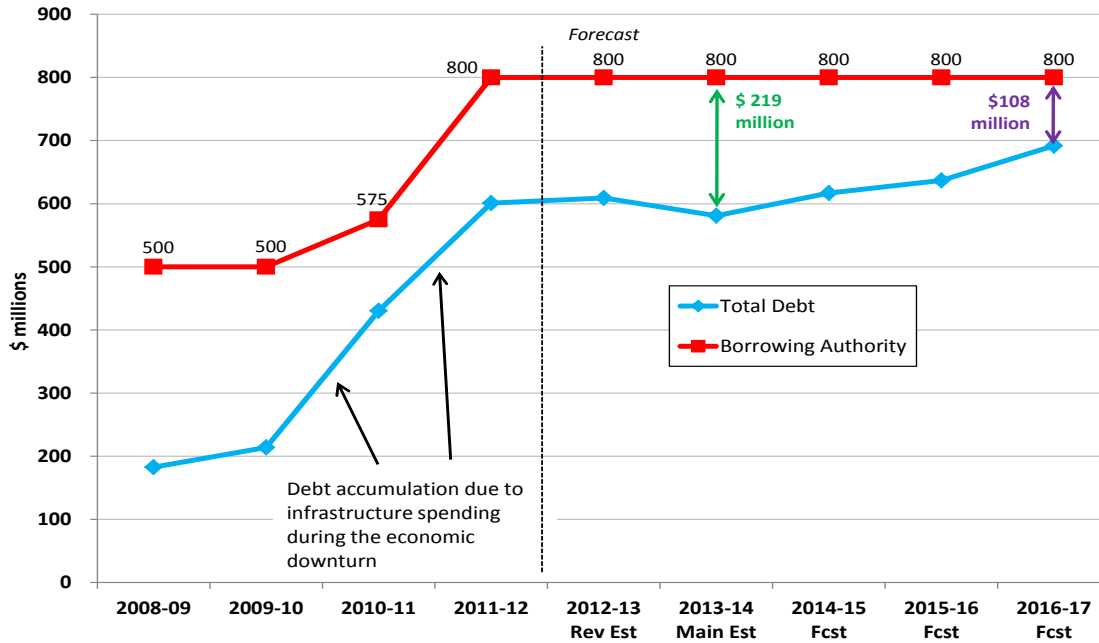
¹ Includes debt of the NWT Power Corp., NWT Energy Corp. and NWT Housing Corp.

² Includes debt to finance the construction of the Deh Cho Bridge, and debt of the Yellowknife Public Denominational District Educational Authority.

Total may not equal sum of individual figures due to rounding.

Beyond 2015-16, the enhanced infrastructure plan is not sustainable without increased revenues. At March 31, 2014 the GNWT is forecast to have \$219 million in borrowing room under the territorial borrowing limit. With the increased infrastructure investment in the following two years, that room will be reduced to \$108 million by March 31, 2016. Infrastructure investment will have to be reduced in 2016-17 in order to ensure \$108 million in borrowing authority by the end of 2016-17.

Total Debt and Borrowing Authority (\$ millions)



Note: Some of the debt increase from 2010-11 to 2011-12 reflects the change in the definition of borrowing that was part of the increase in the NWT borrowing limit to \$800 million on March 8, 2012.

Risks to Outlook

There are risks to the medium-term outlook on both the revenue and expenditure sides. Since the Territorial Formula Financing represents about 70 per cent of total GNWT revenues, its responsiveness to changes in the GNWT’s fiscal circumstances is crucial to overall revenue stability. A further 6 per cent of GNWT revenues are composed of other federal transfers, which do not vary significantly. However, own-source revenues, which represent about 24 per cent of total revenues, are subject to differing degrees of variability. Revenues from personal income tax, payroll tax and fuel tax tend to decrease during an economic downturn; however, corporate income tax can fluctuate significantly, with little connection to the underlying economic situation. Although Territorial Formula Financing does respond in time to changes in own-source revenues, the response is not immediate and does not cover the entire change in own-source revenues.

Over the longer term, continued stagnant growth in NWT population or reductions in provincial and local government spending pose risks to the growth in the Territorial Formula Financing Grant, which is forecast to increase slightly in 2016-17.

Short-term expenditure shocks are usually caused by natural disasters, such as flooding or fire, or shocks to prices of inputs such as diesel. The GNWT monitors historical trends in expenditures and adjusts allocations where appropriate in order to improve expenditure planning. For example, \$2.5 million was added to the fire suppression budget beginning in 2013-14 following a review of historical fire suppression expenditures against the budget amounts, which revealed consistent budget shortfalls.

Upward pressures on expenditures over the long term are primarily associated with an aging population, reliance on non-renewable resources for energy and heating, and expectations of enhanced program and service standards.

Summary of Operations

	(thousands of dollars)			
	2013/2014 Main Estimates	2012/2013 Revised Estimates	2012/2013 Main Estimates	2011/2012 Actuals
REVENUES	1,609,354	1,569,067	1,524,382	1,401,411
OPERATIONS EXPENSE				
Compensation and Benefits	306,660	301,318	294,183	295,300
Grants and Contributions	703,743	689,211	682,561	640,109
Other Expenses	374,896	381,505	361,761	363,201
Amortization	81,525	74,107	72,676	66,976
TOTAL OPERATIONS EXPENSE TO BE VOTED	1,466,824	1,446,141	1,411,181	1,365,586
OPERATING SURPLUS (DEFICIT) PRIOR TO ADJUSTMENTS	142,530	122,926	113,201	35,825
INFRASTRUCTURE CONTRIBUTIONS	(29,931)	(38,866)	(28,852)	(34,226)
Petroleum Products Stabilization Fund net profit	-	-	-	(281)
SUPPLEMENTARY RESERVE	(20,000)	-	(20,000)	-
ESTIMATED APPROPRIATION LAPSES	20,000	15,000	10,000	-
WORK PERFORMED ON BEHALF OF OTHERS				
Recoveries	60,025	65,310	58,839	67,825
Expenditures	(60,025)	(65,310)	(58,839)	(67,825)
OPERATING SURPLUS (DEFICIT) FOR THE YEAR	112,599	99,060	74,349	1,318
ACCUMULATED SURPLUS AT THE BEGINNING OF THE YEAR	877,342	778,282	743,280	776,964
ACCUMULATED SURPLUS AT THE END OF THE YEAR	989,941	877,342	817,629	778,282

Summary of Revenues

	(thousands of dollars)			
	2013/2014 Main Estimates	2012/2013 Revised Estimates	2012/2013 Main Estimates	2011/2012 Actuals
GRANT FROM CANADA	1,121,244	1,070,023	1,070,023	996,143
TRANSFER PAYMENTS	101,000	95,128	96,854	101,952
TAXATION REVENUE				
Personal Income Tax	98,107	100,812	90,441	72,505
Corporate Income Tax	88,034	105,868	74,976	22,660
Tobacco Tax	16,591	16,686	17,326	17,108
Fuel Tax	18,456	18,348	16,586	18,851
Payroll Tax	43,180	41,345	41,488	39,662
Property Tax and School Levies	25,953	25,476	25,440	24,738
Insurance Taxes	4,445	4,400	4,400	4,505
	294,766	312,935	270,657	200,029
GENERAL REVENUES				
Revolving Funds Net Revenue	25,226	25,082	24,896	24,626
Regulatory Revenues	20,583	17,272	15,976	16,401
Investment Income	1,123	2,183	2,219	2,536
	46,932	44,537	43,091	43,563
OTHER RECOVERIES				
Lease	3,724	3,599	3,599	4,046
Service	256	443	443	633
Program	21,591	22,549	19,911	29,508
Commodity, asset sales and other	589	610	610	2,323
Recovery of Prior Years' Expenditures	3,000	3,000	3,000	7,483
	29,160	30,201	27,563	43,993
GRANTS IN KIND	593	635	635	762
AMORTIZATION OF CAPITAL CONTRIBUTIONS	15,659	15,608	15,559	14,969
TOTAL REVENUES	1,609,354	1,569,067	1,524,382	1,401,411

Summary of Operations Expenditures by Department

	(thousands of dollars)			
	2013/2014 Main Estimates	2012/2013 Revised Estimates	2012/2013 Main Estimates	2011/2012 Actuals
Legislative Assembly	18,239	18,549	18,508	19,265
Executive	20,464	22,961	22,862	14,578
Human Resources	42,099	42,994	42,796	42,123
Aboriginal Affairs and Intergovernmental Relations	7,416	7,354	7,304	7,395
Finance	156,278	143,988	142,121	107,218
Municipal and Community Affairs	98,786	95,826	95,533	91,842
Public Works and Services	104,505	97,767	93,682	93,531
Health and Social Services	363,856	355,794	349,926	360,217
Justice	116,759	114,534	113,674	106,736
Education, Culture and Employment	299,611	290,209	289,107	288,409
Transportation	117,011	120,641	120,415	111,922
Industry, Tourism and Investment	50,235	50,134	49,560	50,308
Environment and Natural Resources	71,565	85,390	65,693	72,042
TOTAL OPERATIONS EXPENDITURES	1,466,824	1,446,141	1,411,181	1,365,586

Summary of Infrastructure Investment by Department

	(thousands of dollars)			
	2013/2014 Main Estimates	2012/2013 Revised Estimates	2012/2013 Main Estimates	2011/2012 Actuals
Tangible Capital Assets				
Legislative Assembly	-	728	640	109
Human Resources	300	300	300	923
Finance	-	1,674	1,008	542
Municipal and Community Affairs	-	-	-	-
Public Works and Services	24,536	17,870	11,241	13,032
Health and Social Services	36,381	48,313	36,189	15,947
Justice	799	1,679	702	991
Education, Culture and Employment	1,276	24,750	12,895	43,424
Transportation	26,250	101,728	29,625	87,429
Industry, Tourism and Investment	2,060	1,305	1,241	1,033
Environment and Natural Resources	1,861	2,763	1,524	1,608
Total Tangible Capital Assets	93,463	201,110	95,365	165,038
Infrastructure Contributions				
Municipal and Community Affairs	28,002	37,869	28,002	33,513
Health and Social Services	-	-	-	-
Education, Culture and Employment	1,929	997	850	713
Transportation	-	-	-	-
Infrastructure Contributions	29,931	38,866	28,852	34,226
TOTAL INFRASTRUCTURE INVESTMENT	123,394	239,976	124,217	199,264

Summary of Cash Flows

	(thousands of dollars)			
	2013/2014 Main Estimates	2012/2013 Revised Estimates	2012/2013 Main Estimates	2011/2012 Actuals
OPERATING TRANSACTIONS				
Cash Received From:				
Canada	1,213,273	1,159,280	1,163,056	1,098,095
Other Revenues	366,040	387,651	326,982	303,316
	1,579,313	1,546,931	1,490,038	1,401,411
Cash Paid For:				
Operations Expenses	(1,414,420)	(1,393,258)	(1,376,467)	(1,432,562)
Projects Performed for Others	(2,000)	(13,000)	(13,000)	81,684
Cash Provided By (Used for) Operating Transactions	162,893	140,673	100,572	50,533
CAPITAL TRANSACTIONS				
Capital Investment (current year)	(128,829)	(125,367)	(125,861)	(165,261)
Capital Investment (prior year)	(5,483)	(7,006)	(7,050)	-
Proceeds from Disposal of Capital Assets	-	-	-	-
Capital Contributions Received and Deferred	-	-	-	17,316
Cash Provided By (Used for) Capital Transactions	(134,312)	(132,373)	(132,911)	(147,945)
INVESTING TRANSACTIONS	(4,200)	(4,200)	(4,200)	(506)
FINANCING TRANSACTIONS	(3,547)	(3,390)	(1,000)	63
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	20,834	710	(37,539)	(97,855)
Cash and Cash Equivalents, Beginning of Year	(163,625)	(164,335)	(178,237)	(66,480)
CASH AND CASH EQUIVALENTS, END OF YEAR	(142,791)	(163,625)	(215,776)	(164,335)

Summary of Debt and Estimated Borrowing Capacity

	(thousands of dollars)			
	2013/2014 Main Estimates	2012/2013 Revised Estimates	2012/2013 Main Estimates	2011/2012 Actuals
SHORT TERM DEBT				
GNWT	142,791	163,625	215,776	164,335
NWT Hydro Corporation	8,000	9,000	3,000	16,351
	150,791	172,625	218,776	180,686
GNWT LONG TERM DEBT				
Deh Cho Bridge - Real Return Bonds	181,600	180,556	179,129	179,613
Canada Mortgage and Housing Corporation	802	867	867	930
PUBLIC AGENCY DEBT				
NWT Hydro Corporation	188,821	191,135	191,434	189,305
NWT Housing Corporation	11,525	12,245	12,358	12,875
Yellowknife Catholic Schools	2,979	3,609	4,992	4,230
TOTAL DEBT	536,518	561,037	607,556	567,639
OBLIGATIONS UNDER CAPITAL LEASES				
GNWT	1,915	2,238	2,119	2,815
NWT Housing Corporation	2,755	3,729	3,729	4,667
NWT Hydro Corporation	19,226	19,631	19,472	20,003
LOAN GUARANTEES				
NWT Housing Corporation	27,550	29,406	28,321	31,105
TOTAL GROSS BORROWING PER BORROWING REGULATIONS	587,964	616,041	661,197	626,229
LESS:				
EXTERNALLY RESTRICTED SINKING FUNDS				
NWT Power Corporation	(7,199)	(6,592)	(6,592)	(25,052)
TERRITORIAL BORROWING	580,765	609,449	654,605	601,177
TERRITORIAL BORROWING LIMIT	800,000	800,000	800,000	800,000
AVAILABLE BORROWING AUTHORITY FOR FISCAL PLANNING PURPOSES	219,235	190,551	145,395	198,823

PROVINCIAL/TERRITORIAL TAX RATES AS OF JANUARY 1, 2013

	Combined Top Marginal Personal Income Tax Rate ^(a) (%)	Retail Sales Tax (%)	Fuel tax ^(b)		Tobacco Tax ^(c) (\$/carton)	Payroll Tax ^(d) (%)	Corporate Income Tax		Capital Tax on Financial Institutions (%)
			Gasoline (¢/litre)	Diesel (¢/litre)			Small (%)	Large (%)	
Northwest Territories	43.05	-	10.70	9.10	57.20	2.00	4.0	11.5	-
Nunavut	40.50	-	6.40	9.10	50.00	2.00	4.0	12.0	-
Yukon	42.40	-	6.20	7.20	42.00	-	4.0	15.0	-
British Columbia	43.70	7.0	21.17	22.67	37.00	-	2.5	10.0	-
Alberta	39.00	0.0	9.00	9.00	40.00	-	3.0	10.0	-
Saskatchewan	44.00	5.0	15.00	15.00	42.00	-	2.0	12.0	3.25
Manitoba	46.40	7.0	14.00	14.00	50.00	2.15	0.0	12.0	3.0
Ontario	49.53	8.0	14.70	14.30	24.70	1.95	4.5	11.5	-
Quebec	48.22	9.5	18.20	19.20	25.80	4.26	8.0	11.9	-
New Brunswick	43.30	8.0	13.60	19.20	34.00	-	4.5	10.0	4.0
Nova Scotia	50.00	10.0	15.50	15.40	43.04	-	3.5	16.0	4.0
Prince Edward Island	47.37	10.0	15.80	20.20	50.80	-	1.0	16.0	5.0
Newfoundland & Labrador	42.30	8.0	16.50	16.50	38.00	2.00	4.0	14.0	4.0
Weighted average ^(e)	46.74	7.2	15.72	16.14	30.83	1.85	4.6	11.4	0.5

Notes:

(a) Combined federal-provincial/ territorial highest 2013 personal income tax rates and surtaxes.

(b) The NWT's off-highway gasoline tax rate is 6.4 cents/litre. British Columbia fuel tax rates include carbon tax, and are applicable in regions outside Victoria and the Lower Mainland. In British Columbia, carbon tax rates are uniform across the province; however, there are different fuel tax rates for different regions. Quebec fuel tax rates also vary regionally.

(c) British Columbia, Manitoba, New Brunswick, Newfoundland, Nova Scotia, Ontario and Saskatchewan apply sales tax to sales of tobacco.

(d) NWT and Nunavut levy payroll taxes on employees. Other provinces that levy payroll taxes provide exemptions for small business and/or rates vary depending on payroll size.

(e) Average weighted by provincial/ territorial populations at July 1, 2012.
