

STANDING COMMITTEE ON FINANCE

MISSION STATEMENT

The Mission of the Standing Committee on Finance is to advise the Legislative Assembly, on behalf of the Public, in all areas related to financial management and the proposed expenditure of funds -- and to hold government accountable for its spending.

GUIDING PRINCIPLES

The Standing Committee on Finance will be guided by the following principles in carrying out this Mission.

1. Government spending and financial management must respond first to fundamental human needs.
2. It must be guided by a strategic framework and be based upon sound fiscal policies.
3. It must ensure equity, fairness and universality of benefit to all residents of the Northwest Territories.
4. And it must be effective, efficient, and economical.

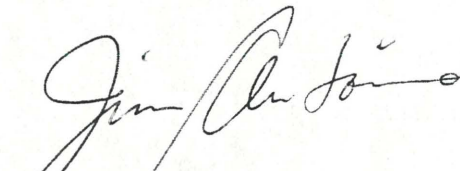


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Territories Legislative Assembly / ᓄᓇᓕᓕᓕᓕᓕ ᓕᓕᓕᓕᓕᓕᓕ
Standing Committee on Finance
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December 14, 1993

**THE HONOURABLE JEANNIE MARIE-JEWELL, M.L.A.
SPEAKER, LEGISLATIVE ASSEMBLY
NORTHWEST TERRITORIES**

The Standing Committee on Finance is pleased to submit its response to the **Options Paper on Deficit Management**, which was tabled by the Honorable John Pollard on December 13, 1993.



**JIM ANTOINE, M.L.A.
CHAIRPERSON**

STANDING COMMITTEE ON FINANCE

**REPORT ON THE
RESPONSE TO OPTIONS PAPER ON DEFICIT MANAGEMENT**

DECEMBER, 1993

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BACKGROUND

The issue of deficit management is one that has been addressed in a number of recent discussions between the Standing Committee on Finance, the Financial Management Board and the Department of Finance. The focus of these discussions has been financial management in general, the fiscal framework of the GNWT and the 1994/95 Capital Estimates. In its Report on the Review of the 1994/95 Capital Estimates, which was tabled on November 22, 1993, the Standing Committee on Finance said that:

“We must all work toward solutions {to the problem of deficit financing}, but clearly, the Minister of Finance and Cabinet must provide the **leadership** to achieve a consensus on the strategies that are required to limit spending and maintain a strong financial position.”

On December 9, 1993, the Chairman of the Financial Management Board provided the Committee with an *Options Paper on Deficit Management*.

OPTIONS PAPER ON DEFICIT MANAGEMENT

A GOOD BEGINNING

The problem addressed by this *Options Paper* is that:

“Large unanticipated expenditures and revenue declines have placed the Government of the Northwest Territories in a significant deficit position for 1993/94. This deficit may carry forward to future fiscal years unless a plan of action can be agreed upon **by the Legislative Assembly.**”

The *Options Paper* briefly outlines:

- **The Choices** - that is, the basic options that are available for any government facing ongoing deficits;
- **A Framework for Making Choices** - this section provides an illustration of how options can be evaluated based on overall government objectives and priorities; and
- **Options and Actions** - this section describes actions which could be taken within the context of the three basic options, outlined previously. The three basic options are: A) Reduce Spending, B) Increase Revenues, and C) Incur Deficits and Finance them Through Borrowing.

The *Options Paper* concludes with the following suggestion:

“The Government of the Northwest Territories faces a significant deficit which may continue and grow in future years if a deficit management plan is not agreed to.

To provide guidance in the development of a deficit management plan it is important that the government identify its fundamental objectives and priorities. Specific actions can then be selected and developed for subsequent approval and implementation.”

**OPTIONS PAPER ON DEFICIT MANAGEMENT
FINANCE COMMITTEE'S ASSESSMENT**

The Standing Committee on Finance does not feel that the time is right to introduce the *Options Paper*, in its present form, to Committee of the Whole for discussion. There are three basic reasons for this position. First, there is not enough time left in the current sitting to provide the attention that this matter requires. The options put forward in the paper are not specific enough to make discussion in Committee of the Whole really productive. Finally, because of a lack of clarity in the options presented, Members have not had an opportunity to discuss the government's fiscal position with their constituents.

Although Committee members were pleased with the framework presented in the *Options Paper*, they were, for a number of reasons, somewhat disappointed with its content. The reasons for the Committee's dissatisfaction are outlined, as follows:

- Members expected that the government would be further advanced in the process of deficit management, than what is evidenced by this document.
- Members felt that the *Options Paper* reflected a lack of preparation and planning on the part of the government.
- The paper does not clearly specify or assess the details of the various choices available to deal with or avoid deficit financing.
- Members expected the government to assume a leadership role. The government should have used the vehicle of the *Options Paper* to present their preferred option, as well as, the thinking and rationale behind that particular choice.

- The *Options Paper* does not provide a clear understanding of the potential implications of the choices presented. Ordinary Members and Members of the Standing Committee on Finance do not have the resources and operational information available to Cabinet to accurately evaluate the implications of the various options.
- The government does not appear to have any clear and concrete guiding principles steering their overall fiscal policy.

The Standing Committee is left with two major concerns. The first issue is short term. The government does not appear to have a comprehensive set of priorities to guide its budgeting process. The second concern is longer term. The government does not have a comprehensive strategy which specifies and ties together, for the next ten years, various high priority issues such as:

- housing,
- health,
- the formula financing agreement with the federal government,
- education and training,
- land claims,
- official languages,
- transportation infrastructure,
- forestry and mining,
- the northern accord, and
- the incremental costs of Division of the Northwest Territories

ISSUES AND RECOMMENDATIONS

Although spending priorities were presented with the 1994/95 Capital Estimates, these were neither clear nor detailed enough to adequately guide the capital planning process. Furthermore, the detail of the Capital Estimates did not necessarily reflect the priorities as they were outlined by the government.

Committee Members are very concerned about the upcoming review of the 1994/95 Operations and Maintenance Estimates. Members believe that the government must establish spending priorities which accurately reflect the current political realities of all Members of the Legislative Assembly and citizens of the Northwest Territories. Further, the 1994/95 Operations and Maintenance budget presented to the Standing Committee on Finance must clearly reflect these priorities. Finally, it is critical that strategies be developed to avoid deficit financing in the short and long term.

Therefore, the Committee recommends:

RECOMMENDATION # 1

THAT THE DEPARTMENT OF FINANCE AND THE FINANCIAL MANAGEMENT BOARD DEVELOP A SHORT TERM STRATEGY, AIMED AT AVOIDING DEFICIT FINANCING, TO GUIDE FISCAL MANAGEMENT FOR THE 1994/95 FISCAL YEAR. THIS SHORT TERM STRATEGY SHOULD BE PRESENTED TO THE STANDING COMMITTEE ON FINANCE AT THE COMMENCEMENT OF THE COMMITTEE'S MEETINGS ON JANUARY 10, 1994 AND SHOULD INCLUDE THE FOLLOWING:

- **A DISCUSSION OF THE UNDERLYING PRINCIPLES, PRIORITIES AND OBJECTIVES;**
- **A DISCUSSION AND ASSESSMENT OF DEFICIT REDUCTION OPTIONS;**
- **A DETAILED DEFICIT REDUCTION PLAN FOR 1994/95; AND**
- **DETAILS OF ANY FEDERAL/PROVINCIAL /TERRITORIAL PLANS FOR DEFICIT REDUCTION.**

In the longer term, Committee members are very concerned by the fact that the Government of the Northwest Territories does not have a comprehensive strategic plan and fiscal policy in place to deal with high priority political issues. Further, Members feel that there is an urgency associated with the development and implementation of a long term fiscal strategy and that it is essential that such a strategy be in place to ensure successful negotiations with the federal government who are also facing an ever worsening fiscal situation. The "window of opportunity" is very narrow and must not be missed.

Therefore, the Committee recommends:

RECOMMENDATION # 2

THAT THE FINANCIAL MANAGEMENT BOARD DEVELOP AN INTEGRATED PLAN AND POLITICAL STRATEGY THAT BRINGS TOGETHER THE MAJOR FINANCIAL ISSUES FACING THE G.N.W.T. THERE SHOULD BE ONE PACKAGE PRESENTED TO THE FEDERAL GOVERNMENT THAT INCORPORATES SUCH ISSUES AS HEALTH BILLINGS, FOREST FIRE SUPPRESSION COSTS, FORMULA FINANCING AGREEMENT, AND INCREMENTAL ADDED COSTS FOR DIVISION, LAND CLAIMS IMPLEMENTATION AND OTHERS. IT SHOULD INCLUDE REVENUE PRODUCING RESPONSIBILITIES SUCH AS THE NORTHERN ACCORD AND A MINING ACCORD. THE FINANCIAL MANAGEMENT BOARD SHOULD DEVELOP POSSIBLE COMPROMISES AND TRADEOFFS AMONG THESE ISSUES AND DEVELOP THE POLITICAL STRATEGY TO ACHIEVE THE FOLLOWING RESULTS.

- CERTAINTY OF ADEQUATE FUNDING TO CREATE AND SUSTAIN TWO NEW TERRITORIES WITH NO DIMISHED LEVEL OF SERVICE.**

- EACH TERRITORY TO BE GIVEN THE ECONOMIC TOOLS NECESSARY TO LESSEN THEIR DEPENDENCE ON THE FEDERAL GOVERNMENT - EG., NORTHERN ACCORD, MINING ACCORD.
- A 10 YEAR FINANCIAL AGREEMENT WITH THE FEDERAL GOVERNMENT TO PROVIDE A BASIS OF FISCAL STABILITY IN ORDER TO FACILITATE THE ORDERLY CONSTITUTIONAL EVOLUTION OF TWO NEW TERRITORIES.

THE PLAN AND THE POLITICAL STRATEGY SHOULD BE AVAILABLE TO THE STANDING COMMITTEE ON FINANCE FOR REVIEW IN FEBRUARY, 1994.

