

Budget Dialogue 2014

Taking Stock

REPORT ON WHAT WAS HEARD

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BUDGET DIALOGUE 2014 PROCESS

A. Context for Dialogue 2014

Budget Dialogue 2014 is the final consultation in the Minister of Finance's three-year commitment to hold public discussions about the Government of the Northwest Territories (GNWT) budget.

This fall, the Minister of Finance used Budget Dialogue 2014 as an opportunity to take stock of the accomplishments of the 17th Legislative Assembly, to discuss the GNWT fiscal situation and on-going financial management, to seek NWT residents' views on top priorities for investments, and ask residents what the GNWT can do better to manage expenditures, especially since the medium-term outlook is for slow revenue growth.

The following reports on what was heard during Budget Dialogue 2014.

B. Budget Dialogue 2014 Process

Budget Dialogue 2014 took place over two months, beginning October 8, 2014 and concluding on December 15, 2014. The process engaged Northerners through face to face regional meetings and written submissions.

Meetings in the seven regional centres were held in the evenings to maximize participation from individuals, families and businesses. In partnership with the NWT Association of Communities, community representatives were invited to attend regional meetings. Each Dialogue 2014 meeting began with opening remarks by Minister Miltenberger and a brief context-setting presentation from a Department of Finance representative. From that point, participants were invited to ask questions or provide comments.

In addition to the meetings, feedback was sought through email or mail. Supporting documentation was distributed during meetings and online (see Appendix).

Budget Dialogue 2014 was widely advertised, including advertising in seven territorial and regional newspapers, radio advertising, posters, Facebook, and the NWT Association of Communities' newsletter.

C. Budget Dialogue 2014 Discussion

The Dialogue 2014 discussions began with a presentation that reviewed the results of previous Budget Dialogues and gave a summary of the current fiscal situation and medium-term economic and fiscal outlook. The presentation described the slowdown in the NWT economy since 2008, the importance of the resource sector, the concern over current diamond mine life and uncertainty of future resource economic activity. The economic concerns, combined with flat population growth, have negative implications for the GNWT fiscal situation and medium term debt outlook.

The presentation also provided participants with information on how the GNWT is addressing challenges of the medium term fiscal outlook with investments to grow the economy, such as the Mackenzie Valley Fibre Optic Link and strategic investments to lower the cost of living through transportation investments and projects to reduce the dependence on fossil fuels for energy. However, participants were reminded that these initiatives can only be achieved through strong financial management, especially adherence to the debt management guidelines in the *Fiscal Responsibility Policy*, and tight management of expenditures.

BUDGET DIALOGUE 2014 RESULTS

Approximately 97 people participated in seven regional meetings and 11 individuals and organizations made submissions. The feedback in the following sections represents a summary of what we heard in the sessions and submissions.

Community	Date	Estimate of Participants
Fort Smith	November 12, 2014	17
Behchokò	November 13, 2014	6
Fort Simpson	November 17, 2014	5
Inuvik	November 18, 2014	20
Norman Wells	November 19, 2014	11
Yellowknife	November 20, 2014	30
Hay River	November 26, 2014	8

A. Fiscal and Debt Management

The majority of participants appeared satisfied with the GNWT's overall fiscal strategy to manage program expenditure pressures to ensure sufficient operating surpluses to finance at least 50 per cent of infrastructure investments; although there were calls for more funding to improve social conditions, even if at the expense of public infrastructure investment. However, a number of people expressed concern about the GNWT taking on more debt when the economic outlook includes slow growth and the possibility of diamond mine closures in the medium term. Several participants noted that the GNWT was currently well-run and advised against taking on large projects if uncertain about future revenues. Others cautioned that an increase to the federally-imposed borrowing limit may not be a good idea if it results in too much debt. *"We are capable of covering our costs right now and actually generating surpluses even though revenues are not growing, and the business case to me is straight-forward – let's not increase our expenditures, let's not take on more debt that saddles future generations, let's not take on large infrastructure projects given that there is not a well-spring of wealth in the foreseeable future."*

The Heritage Fund was raised in one meeting where it was suggested contributions to the Heritage Fund in the present removed resources that could be used for the vital infrastructure needed to sustain and grow the economy. While there was acknowledgement that the Heritage Fund was to ensure that there were benefits to future generations of current resource extraction, there was also the proposition that unless the infrastructure investments are made now to support the economy, there may not be future generations living in the NWT.

B. Tax and Resource Revenue

Most participants seem to embrace the GNWT's strategy to increase revenues to fund both the operating and capital budgets over the longer term through economic and population growth and there were no calls to lower taxes except for one suggestion to encourage the federal government to increase the Northern Residents' Deduction. However, there were proposals for increasing revenues through higher royalty rates. Several participants noted that resources belong to the people and advocated for a larger share of the resource through higher royalty rates. One submission called for the imposition of a resource income tax with 50 per cent of this revenue directed to the Heritage Fund and the remainder linked to specific program spending in the areas of energy investments, home retrofits, and additions programs. Requests for an informed public debate on the level and adequacy of resource revenues being collected by the GNWT was heard at several public sessions and in one submission. *"When I look at the company reports and see the millions and billions of dollars being made, it doesn't wash [...] Resource revenues belong to the NWT residents first and then the people of Canada. [] Want the multinationals to pay significantly more and don't want them to pay us off with a few jobs for 10 or 12 years."*

Although the majority of participants appeared satisfied with taxation levels, one submission called for a rebalancing of the tax structure to tax “bads” such as pollution, tobacco and liquor more and tax “goods” such as income less. Another submission called for a tobacco tax strategy that would increase all tobacco tax rates with the objective of reducing smoking rates and discouraging people, especially young people, from starting to smoke so that costs from smoking-related illnesses are reduced over the longer term.

C. Program Spending

While participants in the sessions tended to take the view that current program and service levels should be protected if possible, with a number of people citing the serious effects of budget cuts in the mid-1990s on population and the NWT economy, some participants and several submissions called for increased investment in programs to improve social conditions, even if it meant less public infrastructure investment. However, other participants proposed changing the focus to reducing expenditures given the current revenue outlook.

Another submission called for a refocus of territorial spending to improvements in human services through increased program funding and a demand that budgets not contain proposals to reduce public service employment. *“Without action to improve social conditions, scarce funds will continue to be siphoned off to paying the negative costs of social malaise, such as policing and courts, health impacts and poor economic engagement.”*

Specific proposals for additional programs included:

- A publicly-available and publicly-funded system of child care in communities, with one submission calling for early childhood development through family and community resource centres in each community;
- Maternal care services as a priority area of program development;
- Measures to promote inclusion and participation of disadvantaged persons in society and government employment;
- More education funding including improved funding for supporting students with special needs, technology and improved bandwidth and connectivity in schools;
- Add a nurse practitioner in every community;
- Develop a NWT Healthy Foods and Nutrition Strategy focused on territorial priorities to improve the nutritional health and well-being of the NWT residents, including creation of a Nutrition Services Specialist position to coordinate the demand for care and treatment of increasingly complex medical needs and coordination of services and programs for long-term care and other chronic diseases, which will improve health outcomes and be cost effective;

- Add more funds for recreation as a preventive measure to reduce other costs in the longer term; and
- Increase funding to communities so that they are adequately funded to deliver their legislated and mandated programs and index these funds. One submission noted that the way the GNWT funds communities *“stands in significant opposition to the goals and priorities set out by the GNWT. Namely, the emphasis on asset management, the desire to grow infrastructure and encourage investment and development, and position the territory to successfully mitigate climate change.”*

Education and community funding were the only programs where participants or submissions specifically identified that they did not want decreases in funding. Some participants expressed appreciation for the postponement of early kindergarten in the larger communities and accompanied this appreciation with a request that any new education initiatives come with appropriate funding and supports for schools. *“Education reform sounds good but it is all fluff which is very discouraging. We have to recognize the high number of special needs students coupled with inclusive schooling.”*

Suggestions for savings included the issue of public sector wages. Public sector wages were raised on several fronts with one proposal to institute a salary freeze. Others suggested that the entry level salaries were too high and make it difficult for the private sector to compete. Concern about the amount spent on overtime was heard in several sessions. One participant pointed out that there was no shortage of nurses in Yellowknife and yet a huge amount of overtime was being paid to nurses because other nurses were not being hired into positions. *“The GNWT is missing opportunities to hire nurses because of barriers such as the long time it takes to get back to applicants.”* Specific examples, such as applying in April and not hearing back until August, were used to describe the barriers that need to be addressed.

Others asked that the issue of program creep be looked at more closely. *“We get federal dollars for programs, which raises expectations and then it stops and we can’t sustain the HR costs.”*

D. Efficiency in Government

“Let’s make sure that we are not stepping over a dime to pick up a nickel.”

Participants clearly felt that expenditure management needed to come from more efficient use of resources. In several sessions, participants noted that today’s realities were reminiscent of the situation in the mid-nineties and the resulting expenditure cuts that caused a dramatic exodus of people from the NWT from which some communities 20 years later have still not recovered. The general consensus of participants appeared to be that the lesson learnt was not to reduce expenditures but to get better returns on the investments. For example, a participant suggested increased investment in trades training may provide a higher return in terms of educating a home-grown workforce than the current education spending emphasis on academics.

Frustration was expressed at the lack of cohesion between education, health and social services and felt that the issue of confidentiality between government departments was a red herring and a barrier to getting things done.

One submission called for an end to contracting out of services because contracting out services seldom decrease costs since the contractor needs to make a profit after paying wages and other expenses. Therefore contracting out of services is unlikely to lower costs but will mean that wages will decline. *“We need to keep good jobs for northerners.”*

Regulatory Red Tape– Devolution

The Minister was asked at several sessions about whether devolution was producing benefits in the area of regulating resource development, with an underlying concern that the GNWT may be *“giving away the store”*. The Minister noted that resource management in the NWT was resulting in faster decisions but that the decisions were based on the same stringent requirements. He also pointed out that systems were being converted to online to make it easier for companies to submit their applications and other paperwork.

One submission, which noted the economic challenges for the resource industry, called for implementation of the new *Mining Act*, as *“critical to attracting more investment in mineral exploration and development over the long term and restoring the N.W.T.’s reputation as one of the most attractive places on earth to explore for and discover world class mineral deposits.”*

E. Growing the Population

The GNWT’s target to add 2,000 more residents to the NWT population by 2019 received attention in almost all sessions. While in general participants linked growing the population with growing the economy, for this summary, a distinction was made between economic barriers to population growth and other barriers for recruitment to live as well as work in the NWT.

Government Recruitment

“We need to get out of our own way”.

Participants bluntly stated that the GNWT was not doing a good job recruiting people. *“We have so many conditions on job offers and unnecessary credentials. It is as simple as removing these. In the meantime, reduce the sweat equity in job competitions.”* Several bluntly said that it is hard to get ahead if not a P1. A number of sessions raised the issue of *“creeping credentialism”* where positions demanded higher skill levels than required to perform the job requirements and as a consequence positions remain unfilled. Tied to the issue of credentials was concern over inappropriate equivalencies.

Frustration was exhibited over student internships in the GNWT. It was noted that a lot of students were leaving the NWT because the only jobs they could get were internships that often do not roll over into permanent positions. A number of participants felt that the GNWT is not seen to do enough to keep these students in the NWT after graduation.

Participants also noted that lack of *“available, adequate and affordable”* housing directly affects the GNWT’s ability to recruit and retain employees and that the GNWT decentralization efforts should have to consider housing.

Two In and Four Out Phenomenon and Fly In/Out Workers

The presentation at the beginning of each session noted that there appears to be a migration pattern in the NWT where young couples come for good jobs and adventure but leave when they start having children, presumably to be closer to family. Participants in several sessions agreed that this was likely true and the question of how to counter these types of forces to retain people in the North and get fly in/out mine workers to fly in and “nest” was discussed. *“Our population is declining and we need to attract businesses and residents. If a large number of mine workers do not currently live inside the NWT, how do we have to come up with creative ways to incentivize employers and employees so that the large portion of money paid out via payroll stays in the NWT?”*

People advocated the *“need to sell the lifestyle if we’re going to get more people in the North”*, noting that if one has a decent paying job the NWT is a great place to live. *“People are here as a matter of choice.”* Others noted that one of the most important lifestyle factors encouraging young people to stay in the NWT was the quality of education systems for their children. One recruiter for the private sector noted that the big deals were the education system and lifestyle services such as whether one can get a piano teacher for the kids.

Lowering the cost of living, particularly energy costs, were also mentioned in every session as ways to encourage more people to stay in the territory. The comments made are discussed in the following section in the context of growing the economy.

F. Growing the Economy

“We have to make sure that we get a return on investment – not sure that every investment in the past has given a return.”

Discussions about growing the NWT economy were very much in the vein of learning from past mistakes. *“We been here before and remember the cuts of the 1990’s. Hope we have learnt that lesson as 20 years later. We are back where we were and are now seeing businesses closing again. And don’t cut maintenance; this is infrastructure that the GNWT has already paid for.”*

Participants who supported more infrastructure investment to grow the economy also called for this investment to offer a return.

One participant proposed the following questions to determine to test if the GNWT's economic initiatives are producing results:

- Is what we are spending on encouraging people to come and stay in the NWT?
- Is what we are investing in creating employment?
- Are there ways to increase import substitution? *“Have to find ways of making do with what we have. Hopefully by doing that we will be better off than bringing in things we don't need.”*

While the overarching theme for growing the economy centred on reducing the cost of living, to summarize the results the discussion on the economy was broken into the following:

- Energy, including the Northwest Territories Power Corporation (NTPC),
- Strategic infrastructure,
- Housing,
- Training in the trades, and
- Other barriers.

Energy, the NTPC and the Cost of Living

The high cost of energy and a frustration on the lack of speed changing from diesel fuel to alternative energy sources was heard in a number of sessions. The abandonment of the wind generator experiment at Sachs Harbor was mentioned and questions about what happened to the run of the river experiment (it turned out not to be economical because of the debris in the river). A carbon tax coupled with a decrease in income taxes was proposed to encourage faster substitution from diesel consumption. A Green Fund was also proposed to direct some of the carbon tax funds to invest in energy conservation projects, convert heating and transportation systems and convert energy generation systems from diesel to renewable or less producing sources. This was buttressed by calls for more small business grants to invest in alternative energies.

However, more individuals suggested that the cost of energy/heating already the biggest concern in a number of communities and recognizing that capital investment requirements are expensive, the best option in the short term, and the most economical, is to practice conservation. More than once, it was pointed out that there is no simple or single solution, for example, reliable wind energy is not a viable solution in southern NWT. Various individuals pointed out that government is not needed to promote conservation and changes in the types of energy consumed happen since energy costs were driving change and people were already taking action under their own initiatives.

The NTPC generated a significant amount of discussion. A clear theme was that the NWT is saddled with the mistakes of the past and the reality is that the NTPC needs to make the existing diesel generation infrastructure more efficient. Concern was expressed that as people switch to alternative energy sources, the remaining rate payers will be saddled with higher rate riders because the NTPC needs the revenue. A few participants called for putting all NTPC options on the table in order to make it more efficient.

One submission proposed that most industry players and residents support a focus on low cost energy infrastructure, noting that energy costs are a key competitive factor and the cost of power in the rest of Canada is generally a fraction of what it is in the NWT.

Strategic Infrastructure

There was a divergence of opinion on the GNWT's focus on capital investments to grow the economy. Some participants suggested that the GNWT be careful about saddling itself with debt in a slowing economy while others clearly agreed with that approach, making the pitch for specific projects such as the Mackenzie Valley highway or hospitals in regional centres.

Strategic infrastructure investments were discussed in the context of how best to invest to generate new industry, with an emphasis on ensuring that the investments generated a return. There were a number of calls to explore ways to partner with industry to build big projects when the GNWT does not have enough funds.

Transportation infrastructure was consistently brought up as key to lowering the cost of living. A case was made for building the Wrigley-Norman Wells portion of the Mackenzie Valley Highway in more than just the Norman Wells meeting but the reasons were similar. Representatives from a number of different communities noted that the Norman Wells area had a lot of potential resource activity and businesses in other communities such as Hay River would also benefit from this activity by providing services such as transportation. At one session a participant pointed out that a Thchq road would open up more economic opportunities than the Inuvik-Tuk Highway. There were also requests to chip seal Highway Number 5. There was also a call for river systems to be dredged because silting is reducing river transports as boats spend more time idle or in dock for repairs caused by low water.

The Mackenzie Valley Fibre Optic Link (MVFL) was applauded by a number of participants as a very good investment that will provide a return to the NWT, noting that the closer it comes to reality the more the interest is shown by southern Canada and countries such as in Sweden. Participants pointed out that if the MVFL opens up research capabilities, then the MVFL investment provides a return and that in this case the private section is relying on the GNWT to find the funds to invest in the infrastructure to maximize the economic benefits of the MVFL project.

Housing

A number of participants and submissions stressed the lack of housing to be the main barrier to population growth and that if affordable rental units were available in every community *“more people will start calling the NWT home.”* One submission called for a “Housing First” strategy to provide *“the basis for improving social well-being, the ability of citizens to seek and hold employment, and the fuelling of economic development through infrastructure spending.”* However, in several sessions social housing was mentioned as a barrier to work and *“even seniors are taking advantage of the system”*.

One participant suggested that the private sector should be in the housing development business and will do so if there is a return and that comes if there is a need. Others were not so sure, citing the teachers with good salaries with no good housing available, noting that rental units in Fort Smith or Hay River are incredibly scarce, the quality varies widely and the price is quite expensive. *“Easy to live here if coming as a family but as a young couple starting out, the NWT is a hostile environment.”* Frustration was expressed in Behchokò where *“houses are boarded up and yet the town needs 50-60 houses.”*

Training in the Trades

“Put hammers, wrenches and screwdrivers in kids’ hands before the Gameboys.”

The shortage in trades was seen as another example of past mistakes haunting the NWT economy in the present. *“There has been a 20 year void of apprentices that we are just beginning to fix,”* noted one participant and a significant number of young men lack the skills for higher wage trade jobs. Participants expressed the view that the schools are not producing trades and technical people and although the GNWT *“is spending lots on formal education, 80 per cent of kids are not taking advantage of further education”*. *“We have to start treating our trade’s graduates better. The trades are post-secondary education but they are not given the respect they deserve.”*

Some participants felt that the focus on economic initiatives was too much on “bricks and mortar” to grow the economy and not enough focus on human resources, especially young people. *“We have to break the systemic welfare cycle through driver education, technical training, putting kids into the workday mindset at an early age.”*

One participant advocated technical trade training centres in every region for young children and better cooperation with business to get young people into apprenticeships. *“The GNWT is taking on apprenticeships again and that is good to see – when thinking constraints, don’t make the same mistake and start cutting the apprenticeships. Not asking for a whole new system but to just more emphasis on training that leads to jobs.”*

Other Barriers

Public administration growth was cited as a problem in growing the economy. Several participants proposed that government had to be considered in the context of both the GNWT and local government actions. *“If we look at what the City of Yellowknife is doing in combination with the GNWT actions, then Yellowknife is getting too costly to live which is a problem if want the population to stay.”*

Other participants called for more study on the competition between the private sector and public sector wages, with one participant noting that *“what government does has a big effect on communities with competition for employees.”*

Some business participants suggested that the GNWT needed more focus on small businesses to strengthen the economies in all communities. “The GNWT appears to be focusing on the large corporations to do business when it needs to place more emphasize on home-grown business. If the global economy warrants it, the multinationals will come and build infrastructure. So instead there is a need to focus on the local and invest in local infrastructure instead of big picture”.

Participants in several sessions proposed that the private sector would respond with home grown businesses if the big barriers to private investment were removed. They noted past success stories, such as the 16th Legislative Assembly’s *Biomass Strategy* and the resulting actions by the GNWT to invest in capital retrofits, which was then followed by business actions. Specific barriers identified included the lack of land ownership (in many cases land can be leased but cannot be owned) and the Market Distortion Policy. *“The small business mantra is diversifying the economy and the Market Distortion Policy is doing the opposite. It has stifled competition and innovation and needs to be revised or eliminated.”* Requests were made to discuss the roadblocks for resource use such as the use of wood.

Participants also pointed out that they were looking to the GNWT to help find new opportunities to entice people to come to the outlying communities, with several participants noting the need to worry about the small communities because they support the larger centres. *“We don’t want to be Yukon with the big Whitehorse and nothing else - communities are key, especially the smaller communities as the hubs feed off the smaller communities. We need to show growth in the smaller areas – real jobs.”*

BUDGET DIALOGUE 2014 NEXT STEPS

Budget Dialogue 2014 Taking Stock started out as a progress report on the 17th Legislative Assembly's fiscal performance and an opportunity for the Minister of Finance to engage residents on priorities given the overall sombre reality of slowing revenue growth and the need to do more for the economy. From the start, however, it was clear that NWT residents were already aware of the fiscal reality and the discussion evolved into a longer view into the past to note lessons learnt and optimism that there are actions possible to turn around the economic situation.

The results of this process will be used to inform Legislative Assembly discussion in its February 2015 Budget session, and beyond. Other feedback pertaining to the government's fiscal priorities and programs and services will be used in the 2015-16 Budget and will be part of the documents for transition for the 18th Legislative Assembly.

APPENDIX – MEETING MATERIALS

1. Brochure: *Budget Dialogue 2014 Taking Stock*
2. Presentation: *Dialogue 2014 Taking Stock*

BUDGET DIALOGUE 2014: TAKING STOCK

In 2012, the Minister of Finance committed to holding annual public budget consultations in 2012-13, 2013-14, and 2014-15. The Budget Dialogue 2012 process asked NWT residents for their views on spending priorities and their ideas for making the GNWT more efficient. Budget Dialogue 2013 was used to discuss how residents wanted resource revenues managed following the transfer of the responsibility for the management of NWT lands, water and non-renewable resources to the GNWT on April 1, 2014.

The 2014 Budget Dialogue is an opportunity for NWT residents to wrap up this discussion with the Finance Minister as the 17th Legislative Assembly enters its last budget cycle. These discussions on the GNWT overall fiscal situation, fiscal objectives and strategy, the treatment of resource revenues and the Heritage Fund will be part of the information provided for the transition into the 18th Legislative Assembly.

Start of the 17th Legislative Assembly

The previous government spent over \$1 billion on capital projects such as schools, highways, housing and community infrastructure to help support the NWT economy during the recession that started in 2008. This stimulus spending allowed the GNWT to build infrastructure at a lower cost than when the economy is strong and helped shore up the economy during the slowdown in the private sector. However, it was always recognized that the GNWT's decision to borrow over the short term for infrastructure investments was not sustainable.

The first 17th Legislative Assembly Budget (2012-13) started the process to restore the balance between revenues and expenditures to repay the short-term borrowing used to pay for the infrastructure investments since 2008 and start to build up cash reserves so that the GNWT could start re-investing in growing infrastructure needs by 2014-15.

Heritage Fund

The NWT Heritage Fund was established in 2012 to ensure that future generations of NWT residents benefit from the removal of the non-renewable resources in the present.

Withdrawals from the Fund can begin after 20 years and cannot exceed 5 per cent of the balance in the Fund. The principal can never be withdrawn.

Actions Taken in the 17th Legislative Assembly

The GNWT has followed the same fiscal strategy since the 2010-11 Budget, which is to manage expenditure growth below revenue growth in order to gradually increase the operating surpluses available to invest in infrastructure. An operating surplus of \$163 million was achieved in 2012-13, followed by \$96 million in 2013-14 and a revised estimate of \$148 million for 2014-15.

While protecting existing programs and services, the GNWT has managed to fund over \$75 million in new initiatives and enhancements to existing programs and services. This was accomplished through increased revenue and savings in existing programs.

New Investments in Programs and Services since the 2012-13 Budget (\$ millions)

Supporting the NWT economy	19
Investing in the well-being of residents	6
Improving housing	4
Supporting the environment and reducing fossil fuel consumption	11
Improving the efficiency and effectiveness of program delivery	14
Investing in prevention	5
Reducing the cost of living through the power subsidy	16
TOTAL	\$75

Careful management of additional spending for programs and services allowed the capital budget to be increased in 2014-15 and 2015-16 by a total of \$100 million. Capital investment is the building of roads, airports, schools, health facilities and other public buildings. The Government borrows to make capital investments using the guidelines described in the *Fiscal Responsibility Policy*, which means that at least half of the annual capital investment made in a year must be funded with cash operating surpluses. This is why the capital budget is so small relative to the \$1.8 billion operating budget.

On April 1, 2014, the GNWT started collecting all resource revenues on NWT public lands through the transfer of NWT lands, waters and non-renewable resources management from the federal government to the GNWT. The current medium term forecast includes gross resource revenues averaging \$113 million per year over the five years from 2014-15 to 2018-19; however these revenues are very volatile and the forecast ranges from a low of \$84 million to a high of \$141 million.

The new resource revenues will not change the GNWT’s fiscal strategy, mainly because the GNWT’s “net fiscal benefit” from the resource revenue sharing agreement with Canada is 50 per cent of all resource revenues. The GNWT will split the net fiscal benefit in the following ways:

What are the GNWT’s fiscal goals?

- To achieve operating surpluses each year to be able to invest in infrastructure.
- To keep a \$100 million cushion between total borrowing and the \$800 million borrowing limit.
- To become more financially independent from the federal government by increasing the amount of revenues the territorial government can earn on its own.

Fiscal Responsibility Policy

To manage its borrowing, the GNWT is committed to its *Fiscal Responsibility Policy* that describes the guidelines for how much the government may borrow, what it should borrow for, and how it will be held accountable for its borrowing decisions. Under this *Policy* the government will not borrow for operating surpluses, will fund at least half of infrastructure spending through cash generated from operating surpluses and will ensure that the annual payment of debt (principal and interest) will not exceed 5 per cent of total revenues.

- 25 per cent will be shared with Aboriginal governments;
- 18.5 per cent (25 per cent of the remainder) will be deposited into the Heritage Fund; and
- The remaining 56.5 per cent will be used to fund strategic infrastructure and/or debt repayment.

The GNWT has committed to not use resource revenues to pay for programs and services.

Heading towards 2015-16 – the picture hasn't changed

Even though the GNWT has been successful in managing expenditure growth, it still faces many challenges. Each year program and services cost millions more just because of increased costs, especially energy prices. We have to be careful that we do not spend so much that we have to borrow to pay for programs and services. The Government needs cash surpluses so that it can build roads, fix schools and invest in other important public infrastructure.

By carefully managing the growth in program and service spending and using resource revenues to fund strategic infrastructure or pay down debt, the GNWT will be able maintain a \$75 million annual capital budget from 2016-17 on and fund the Inuvik-to-Tuktoyaktuk Highway, the Stanton Territorial Hospital retrofit, and the Mackenzie Valley Fibre Link while keeping within the federally imposed borrowing limit of \$800 million.

However, under current revenue projections and capital investment plans, the GNWT will not be able to sustain the \$100 million cushion below the \$800 million borrowing limit every year. This reality stems from the fact that forecasted revenue growth over the next 5 years is less than the predicted inflation rate and small operating surpluses will mean more short-term borrowing.

Increasing our revenues is going to be challenging. The NWT economic activity is only three-quarters of what it was eight years ago because resource production is declining and business capital investment is significantly lower. The lower levels of economic activity are one important reason why the NWT population growth is flat.

The majority of our revenues come from the Territorial Formula Financing Grant, which is outside the ability of the GNWT to influence. The Grant is projected to increase just over 2 per cent annually over the next five years. This is because Territorial Formula Financing largely depends on provincial-local government spending and NWT population growth rates to determine its growth. Both the provinces' attempts to return to balanced budgets through reduced spending, and a stagnant, or declining, NWT population will slow the growth in Territorial Formula Financing and therefore total revenues.

Supporting the NWT Economy

The GNWT is meeting its economic challenges through actions under:

- *Land Use Sustainability Framework,*
- *Economic Development Strategy,*
- *Mineral Development Strategy,*
- *Energy Plan.*

We need to grow the economy to increase revenues to meet expenditure demands and infrastructure investment needs. The GNWT has put in place a number of strategies to help create the environment for a more robust and vibrant economy and has set a target to increase the NWT population by 2,000 people by the year 2019.

Part of the plan is to invest in public infrastructure – from roads and airports, to communications networks, to quality remote community housing to attract and retain skilled people and a \$75 million per year capital budget is

not enough. Under the 2015-16 to 2019-20 capital plan, \$3.8 billion in infrastructure needs will still be unfunded at the end of 2019-20.

To invest in more infrastructure while still keeping to the *Fiscal Responsibility Policy* will require larger operating surpluses to fund capital investment will require further expenditure restraint given current revenue projections.

Advice for the 18th Legislative Assembly? On the right path?

The 18th Legislative Assembly will be facing the same difficult spending decisions as this Assembly when it works to balance spending on programs and services for NWT residents with strategic investments to maintain a strong, vibrant economy that can withstand the ups and downs of its main driver - the resource sector.

If it chooses to reduce spending on programs and services, it will probably try first to minimize the impact on services to the public by looking for cuts that are only felt within the Government itself. However, it is simply not possible to reduce government spending without affecting public services.

We want to hear from you

Here are some ways to let us know what you think:

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

2. Send a letter to:

Budget Dialogue
Department of Finance
GNWT
P.O. Box 1320
Yellowknife, NT
X1A 2L9

3. Come to one of seven Budget Dialogue Meetings taking place across the NWT:

Fort Smith – Wednesday, November 12, Pelican Rapids Inn Blue Room

Behchokò – Thursday, November 13, Cultural Centre, Hall Area

Fort Simpson – Monday, November 17, Nahanni Inn Large Boardroom

Inuvik – Tuesday, November 18, Mackenzie Hotel, Permafrost Room

Norman Wells – Wednesday, November 19, Heritage Hotel Boardroom

Yellowknife – Thursday, November 20, Explorer Hotel, Janvier Room

Hay River – Wednesday, November 26, Ptarmigan Inn, Louisa Alexandra Falls Room

All meetings start at 7:30 pm.

For more details please visit: www.fin.gov.nt.ca

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

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

Budget Dialogue 2014: *Taking Stock*

Budget Dialogues 2012 and 2013

- ▶ Dialogue 2012 was about how the GNWT spends its money and resulted in 3 themes emerging:
 - ▶ Duplication: Opportunities for savings – several agencies working with the same client but never speaking to each other, and the GNWT duplicating past work in studying issues, producing strategies and other reports;
 - ▶ Redeployment of Funds within Programs: opportunities to lower costs by using existing funding within programs more effectively and efficiently;
 - ▶ Prevention: invest in prevention to save in future costs through programs including early childhood development, mental health and addictions prevention and preventative maintenance.
- ▶ Dialogue 2013 was about resource revenue management:
 - ▶ Almost all agreed that resource revenues should not be spent on day to day operations of government.
 - ▶ Opinions on how much resource revenues should be saved in the Heritage Fund ranged from 5 to 100 per cent, with the remainder for infrastructure and debt repayment.

Budget Dialogue 2014

- ▶ What are your top priorities for investment?
- ▶ What could we be doing better, especially since slower revenue growth will require more careful management of expenditure growth in the future?

GNWT's Fiscal Planning Principles

- ▶ The GNWT must maintain competitive business and responsible social environments.
- ▶ The strength of the economy will determine the level of revenues which are available for programs/services over the long term.
- ▶ The GNWT must recognize and plan for the cyclical nature of its revenues.
- ▶ The GNWT cannot afford to run operating deficits for an extended period of time.
- ▶ The *Fiscal Responsibility Policy* reflects sound fiscal planning.
- ▶ The GNWT must not incur debt to a level where debt servicing costs are unaffordable or reduce program/service budgets.
- ▶ Some debt, specifically that which supports infrastructure, may be required to promote economic growth.

The Fiscal Strategy

- ▶ Manage expenditure pressures in programs and services to ensure operating surpluses are adequate to finance infrastructure investment.
- ▶ Increase revenues over long-term through economic and population growth:
 - Slowing economic activity and declining population are affecting own-source and transfer revenues going forward.
 - Fiscal strategy responds with capital investments to grow the economy and an initiative to increase the NWT population by 2,000 people over 5 years.
- ▶ Maintain a \$100 million cushion below the federally-imposed \$800 million borrowing limit to deal with unexpected fiscal shocks.
- ▶ Borrow to fund key infrastructure investment, ensuring this is done sustainably and within the *Fiscal Responsibility Policy*:
 - Will need an increase to \$100 million cushion
 - Need money to service debt – debt servicing costs cannot exceed 5 per cent of total revenues

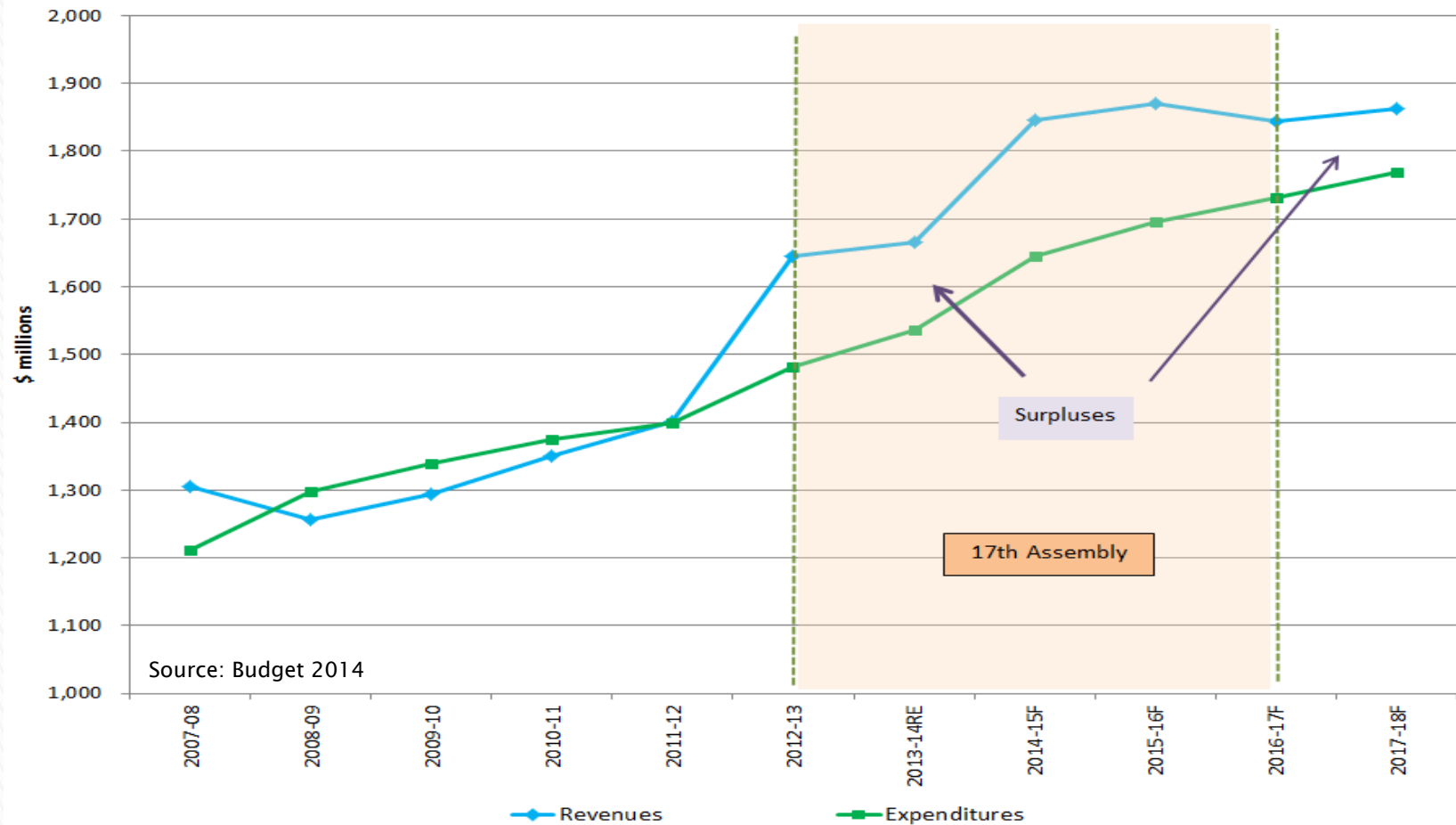
Operating and Capital Budgets

\$ millions	2011-12 Actual	17th Assembly			
		2012-13 Actual	2013-14 Actual	2014-15 Forecast	2015-16 Forecast
OPERATING SUMMARY					
Total revenues	1,401	1,645	1,632	1,846	1,870
Total expenditures	(1,400)	(1,482)	(1,537)	(1,646)	(1,671)
Operating surplus (deficit)	1	163	94	200	199
CAPITAL INVESTMENT	165	139	193	190	245

Source: Budget 2014, except actuals (public accounts)

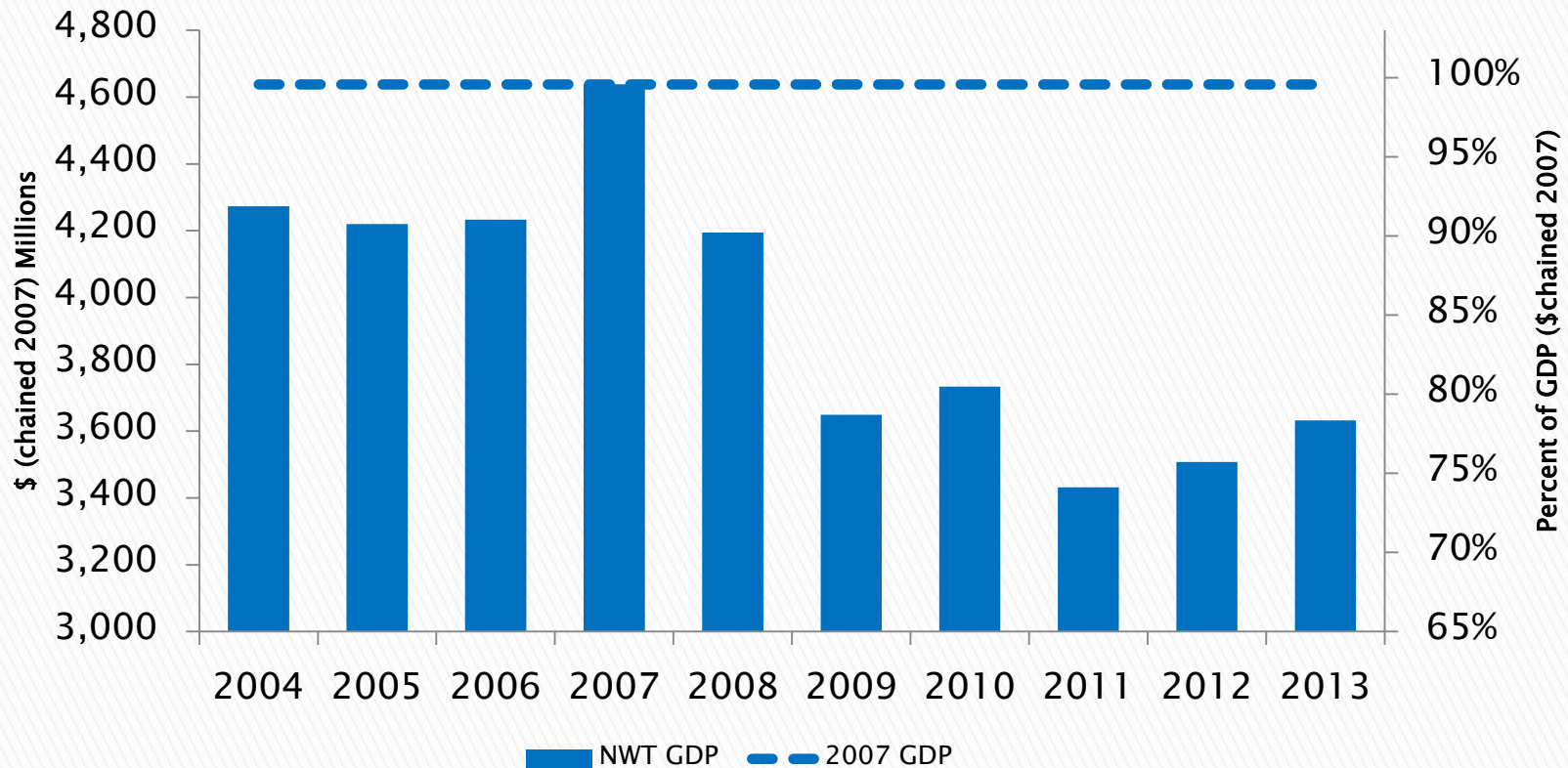
- ▶ The 17th Assembly has generated operating surpluses to pay for capital investment.

Achievement of Budget Surpluses



- ▶ The 17th Assembly is generating surpluses; however, flattening revenues mean operating surpluses will be smaller, or become deficits, in the future if expenditures are not carefully managed.

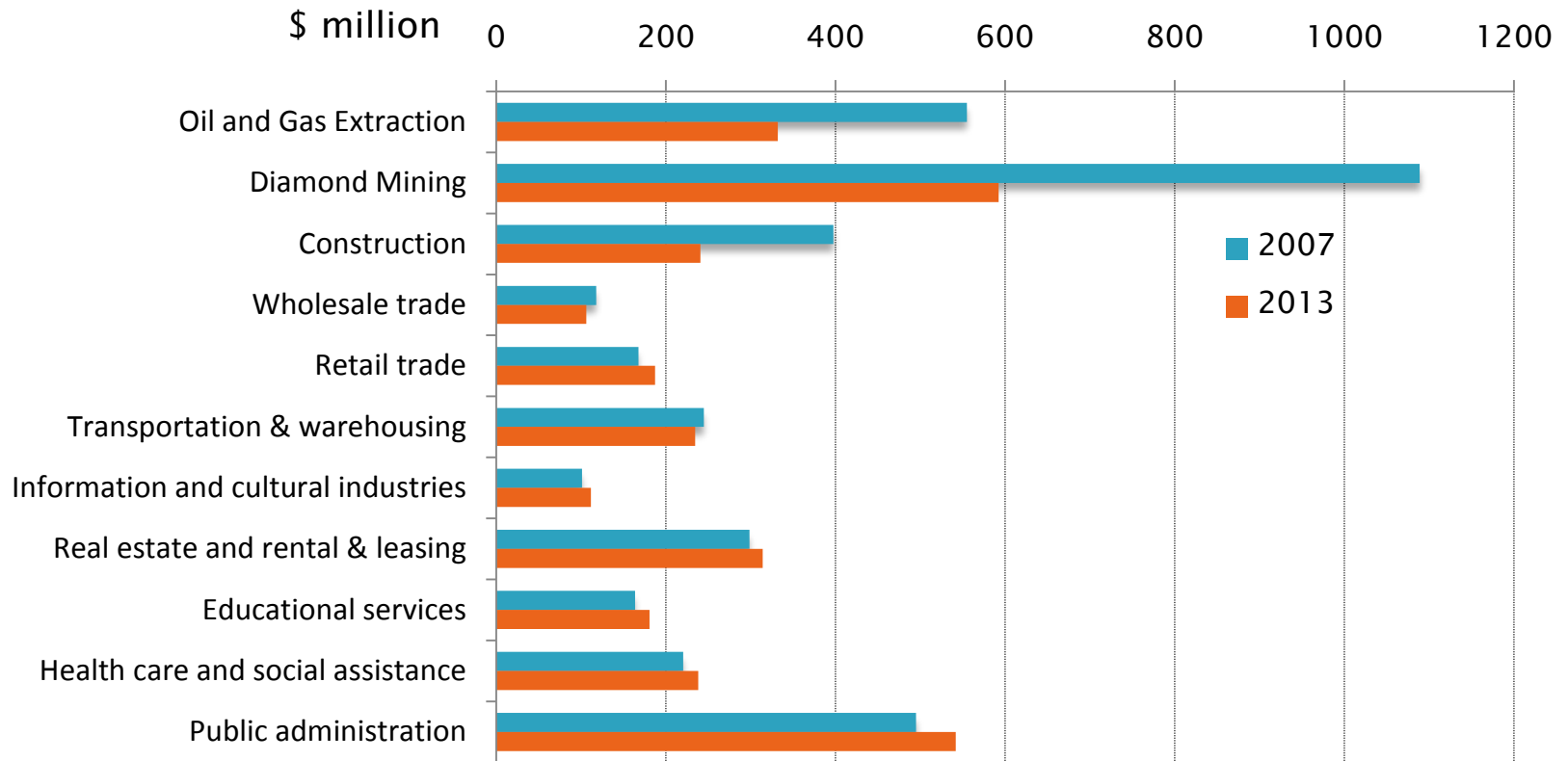
Weak Economic Performance in Last 5 Years



- ▶ The NWT's economic activity is only 4/5 of what it was 8 years ago because resource production is declining and business capital investment is significantly lower.

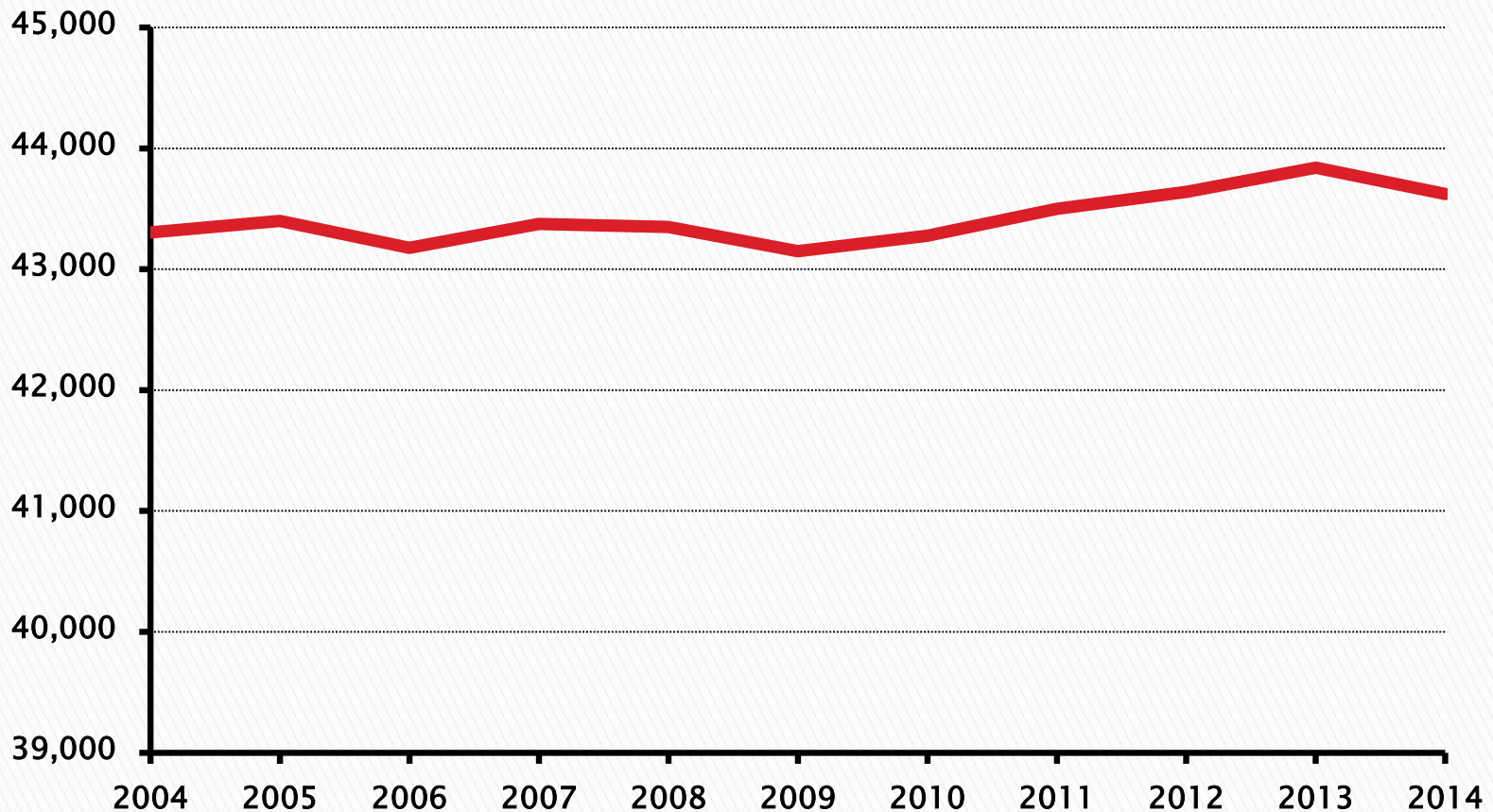
NWT GDP by Industry: 2007 & 2013

(\$chained 2007)



- ▶ While diamond mining remains the largest contributor to the NWT's GDP, its contribution has decreased significantly from its peak in 2007.

NWT Population is Stagnant since 2004

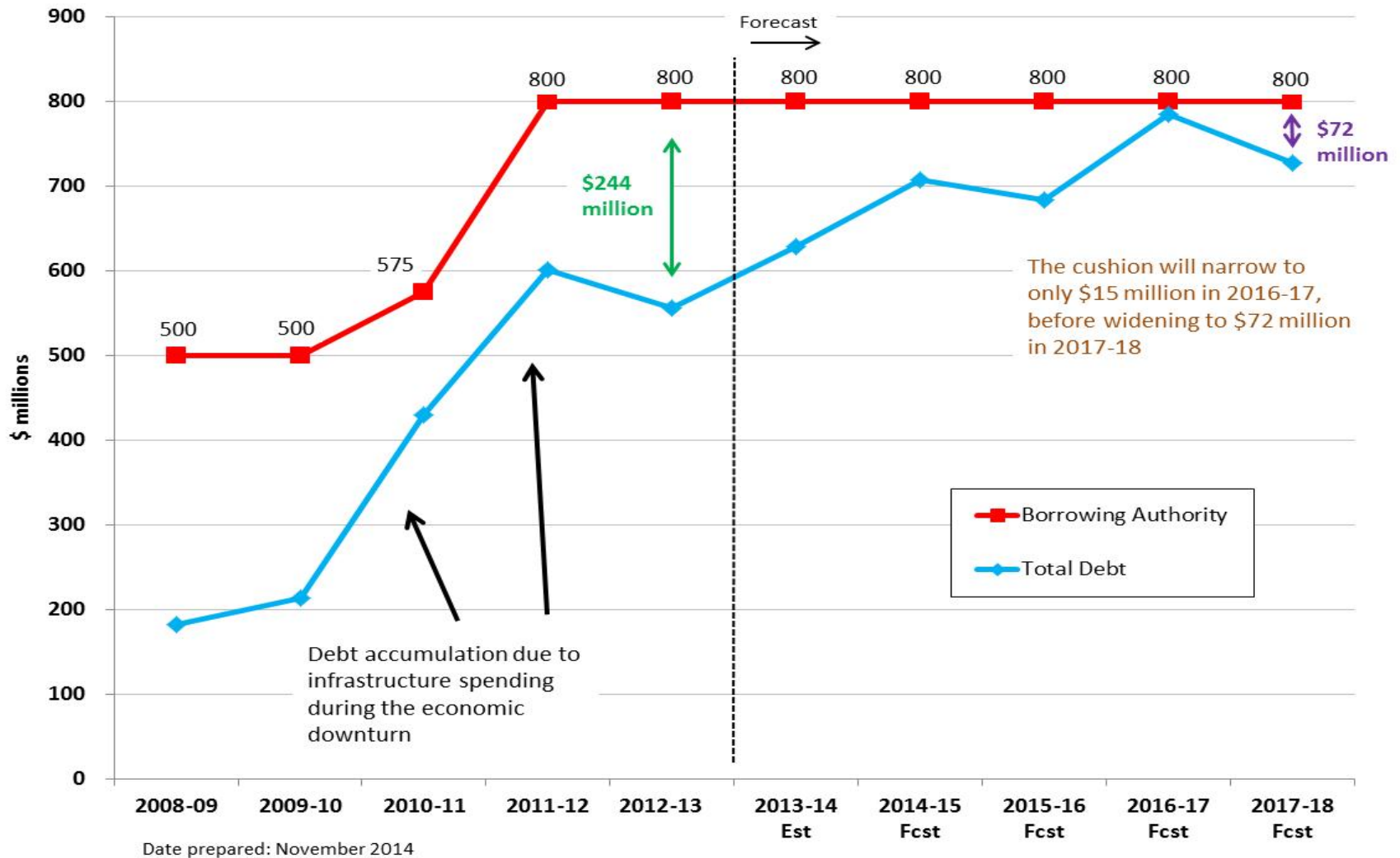


- ▶ The NWT's population has been basically flat since 2004 because of persistent annual out-migration which has offset the natural increase.

Medium-Term Economic Challenges

- ▶ Possible mine closures in next several years:
 - Diavik is slated to close by 2022 according to mine plan;
 - Ekati slated to close 2019 but new kimberlite pipe(s) may extend mine life;
 - Significant contribution to the NWT's GDP would be lost with mine closures.
- ▶ Potential new mines, including the Gahcho Kue diamond mine, are smaller than existing mines.
- ▶ Oil exploration activity is slowing.
- ▶ The scope and timing of resource projects is uncertain (lack of financing, unpredictable drilling results, operational issues, commodity prices).
- ▶ Resources prices are volatile and have fallen recently.

Medium-Term Debt Outlook



Date prepared: November 2014

Note: Some of the debt increase from 2010-11 to 2011-12 reflects the change in definition of borrowing as part of the increase in the NWT borrowing limit to \$800 million.

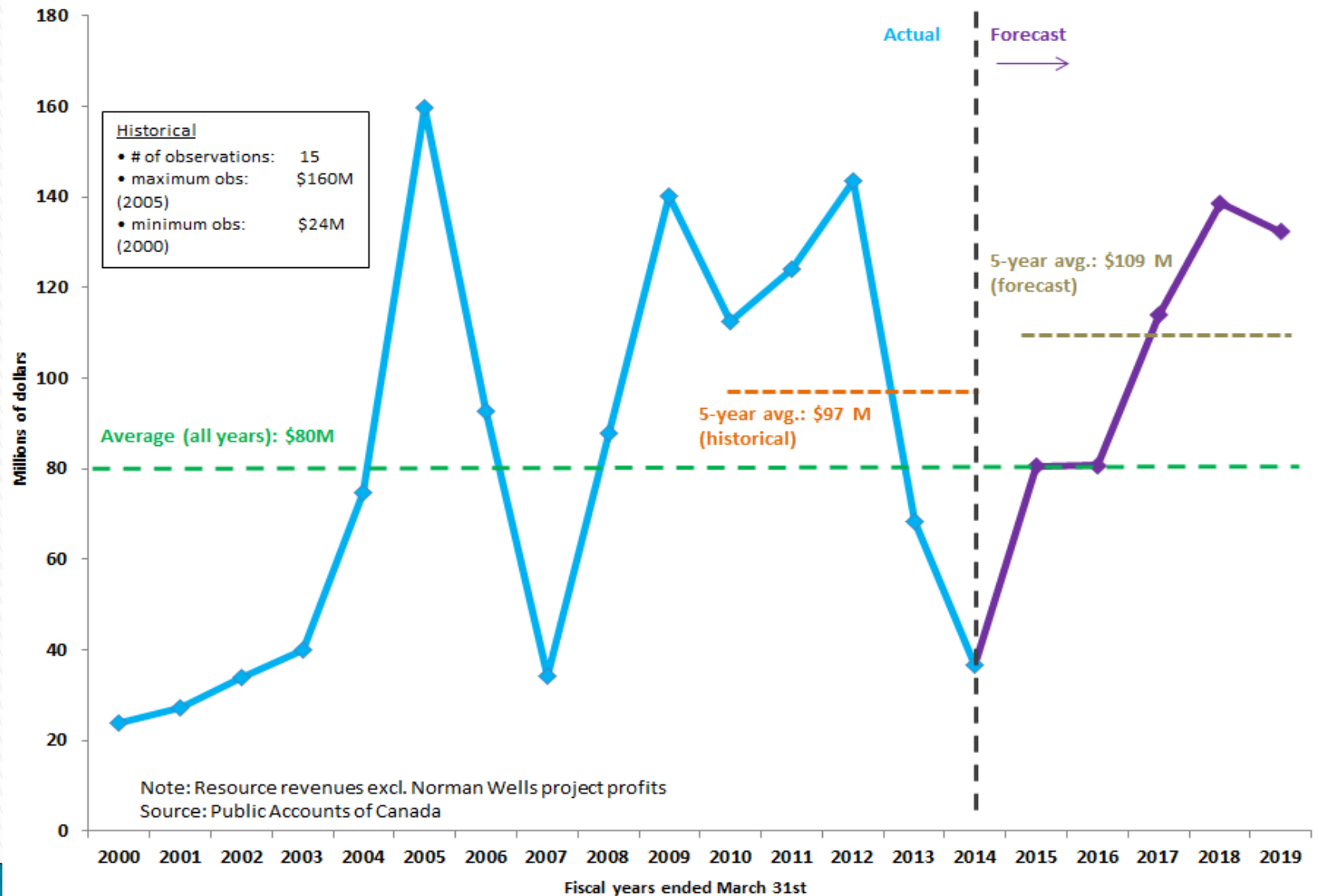
Revenue Outlook

- Growth in transfers revenue (74% of all revenues) is decreasing because of declining population growth and restraint in provincial government spending.
- Territorial Formula Financing forecast shows 2% growth for next 5 years compared to previous 5 year average of 5.7%.
- Own-source revenue showing indication of downward trend due to declining population and slower economic activity. Lower than forecast tax revenues since 2013-14, and reduced tax forecasts going forward.
- Corporate income tax and resource revenues are volatile.

Resource Revenues

- ▶ Under Resource Revenue Sharing agreement the GNWT collects and retains all resource revenues. However, Territorial Formula Financing offsets mean that the net fiscal benefit (NFB) is 50% of gross revenues with a cap of about \$75 million.
- ▶ 25% of the NFB will be shared with NWT Aboriginal governments under legislation.
- ▶ GNWT's portion of the NFB will not be used for operating expenditures but instead for:
 - ▶ Capital investment;
 - ▶ Debt repayment; and
 - ▶ NWT Heritage Fund (25%)

Resource Revenues in the NWT



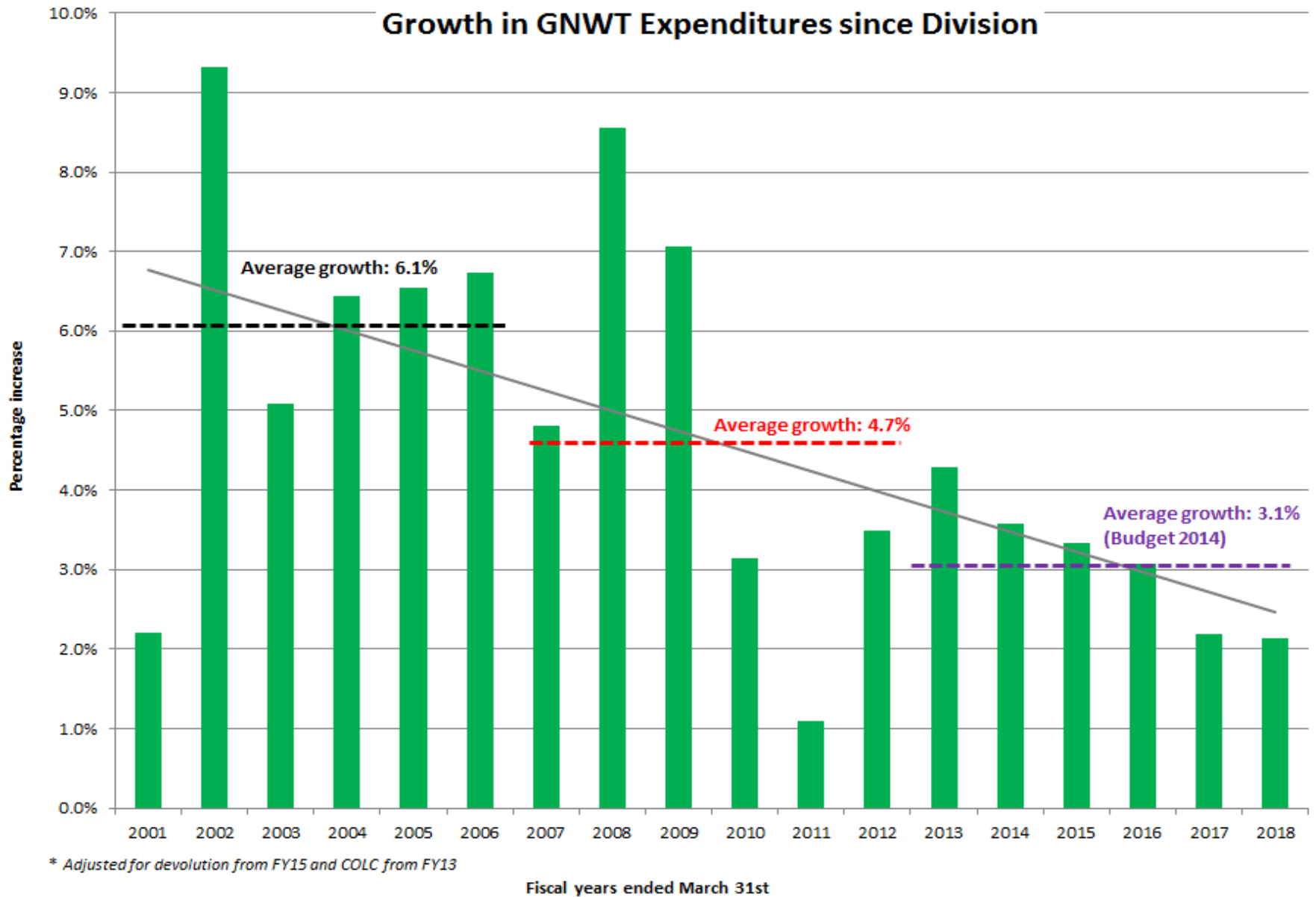
Unexpected 2014-15 Expenditures

- ▶ Severe forest fire season in 2014 forest fire season resulted in \$55 million in expenditures or about 3% of revenues and increased short-term borrowing requirements.
- ▶ The GNWT will be providing \$20 million one-time transfer to NTPC to subsidize diesel use resulting from low water levels at the Snare and Bluefish hydro dams.

Expenditure Outlook

- ▶ Given the outlook for revenues, expenditure growth will have to be moderated to maintain fiscal sustainability.
- ▶ Expenditure pressures: price changes, increasing senior population, deferred maintenance, climate change.
- ▶ The GNWT is responding to slower revenue growth through:
 - Measures to tackle the cost of living;
 - Capital investments to grow the economy; and
 - Initiative to increase the NWT's population by 2,000 people over the next 5 years.
- ▶ However, the resources available for these initiatives are limited because of the fiscal pressures and borrowing constraints.

Growth in GNWT Expenditures since Division



Conclusion

- ▶ Even with a conservative expenditure growth target, the GNWT's operating budget is not sustainable over the long term without an increase in revenues.
- ▶ In the absence of revenue growth, the GNWT will require a realignment/reduction of current operating/infrastructure budgets.