

BUDGET DIALOGUE 2012:

Living within our Means

Why are we speaking with Northerners?

The Government of the Northwest Territories (GNWT) wants to hear from NWT residents and businesses about how they see the GNWT allocating future fiscal resources to make investments to grow the economy and pay for social programs. Forecasts show that the money coming in will grow slower than in the past. That means that we cannot afford to allow spending to grow at historical rates and address our infrastructure deficit at the same time. We will have to make some difficult budgeting choices in the future and we are seeking your advice on these decisions.

What is our current situation?

After four years of deficits the GNWT is projecting a much needed surplus as the first step in its 4 year fiscal strategy to keep spending growth below revenue growth, and not borrow to fund programs. By 'living within our means' we will have the operating surpluses needed to pay back the debt we took on to stimulate the economy during the global economic downturn.

While many sectors of the NWT economy have recovered, we remain exposed to the downside risks of global economic uncertainty. The stalled recovery in the U.S., economic turmoil in Europe, and slowing growth in key developing countries, all pose risks, especially to our export industries.

Our strategy will build the cash reserves needed to increase our infrastructure investments above the current 5-year capital budget by 2014-15,

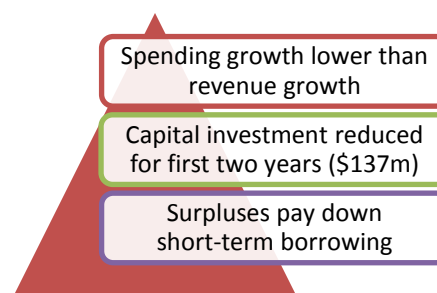
without reaching our borrowing limit. Returning to solid financial footing will help us hold on to our Aa1 credit rating from Moody's Investors Service.

'Living within our Means' going forward

We must limit annual expenditure growth to 2 per cent, not including wages, or \$28 million to live within our means. To put that into perspective, just to cover increased costs of existing programs we have spent nearly \$33 million annually over the past six years. Going forward, a target of 2 per cent means re-evaluating existing spending and making trade-offs for new priorities.

'Living within our means' has also forced us to lower capital investment levels to those of seven years ago. This level of capital spending will be strained by the ongoing requirements of existing hospitals, public housing, schools, airports and roads to prevent them going into disrepair. Without additional money, it will be difficult to find the cash or borrowing room to invest in new infrastructure initiatives to grow the economy.

GNWT's Fiscal Strategy



What is the big deal about an operating surplus?

The operating surplus is the amount of money left over after the GNWT covers the cost of day-to-day operations of programs and services such as income assistance, health care, education, community support, policing, business support programs, wildlife management, and maintenance of buildings and roads.

A. Surpluses Pay for Infrastructure

Cash from operating surpluses helps to pay for our capital spending. Building upgrades, roads equipment, new facilities, such as schools, seniors' homes, health clinics, and contributions to community governments for their capital needs, are all paid for from the GNWT's capital plans. If we can't pay for our capital through cash surpluses then the GNWT must borrow. The GNWT is guided by its *Fiscal Responsibility Policy* to prudently manage our borrowing and debt. Under this *Policy* the government is committed to fund at least half of infrastructure spending through cash generated from operating surpluses.



B. Deficits increase Debt

Without a surplus, the government has to borrow for day to day operations, increasing its debt. While sometimes deficit spending is necessary to help the economy, it is not sustainable over the medium-term as it erodes the room the GNWT has under the federally-imposed borrowing limit. In fact, if the government continued on its historical 5.8 per cent¹ spending path, in two years' time it would be above the borrowing limit. Additionally, a deficit leaves no money to pay for capital investment, meaning every dollar of capital spending would result in an extra dollar of debt.

C. Aa1 Credit Rating

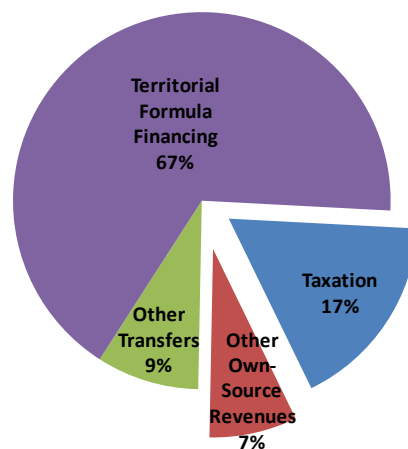
In this environment of global economic uncertainty, signalling strong financial management by returning to surplus and managing debt responsibly has never been more important. Maintaining the GNWT's second highest obtainable credit rating lowers the cost of borrowing and provides a positive signal to outside investors.

Where does the money come from?

Most of the funds the GNWT uses to pay for programs and services come from federal transfers. Since 2007-08 federal transfers make up 76 cents of every dollar the GNWT brings in. The rest of GNWT revenues come from taxes, fees, and recoveries. GNWT flexibility to increase revenues is hampered by our small tax base, stagnant population growth and heavy reliance on federal transfers.

What's the outlook for money coming in?

The government is investing in priorities that will grow revenues over the medium-term by growing our tax base. The GNWT is creating mineral and economic development strategies that will increase the number of jobs for northerners and economic opportunities for our businesses. Further, the Devolution Agreement for non-renewable resources management will provide a new revenue source within a few years of signing. Despite these measures, we will continue to rely on the Territorial Formula Financing Grant for the majority of our revenues and the Grant is expected to grow at a third of its previous growth over the next five years. That translates into growth of 2.7 per cent in total revenues (without devolution) for the life of this Assembly – less than half their growth since 1999-00.



¹ Since 1999-00 annual growth in GNWT operating expenditures has averaged 5.8 per cent.

Where does the money go?

Operating Budget

The operating budget covers the day to day expenses that allow the GNWT to run programs and services. It includes funding for agencies and non-government or other organizations. In 2012-13, the operating budget was \$1.4 billion.

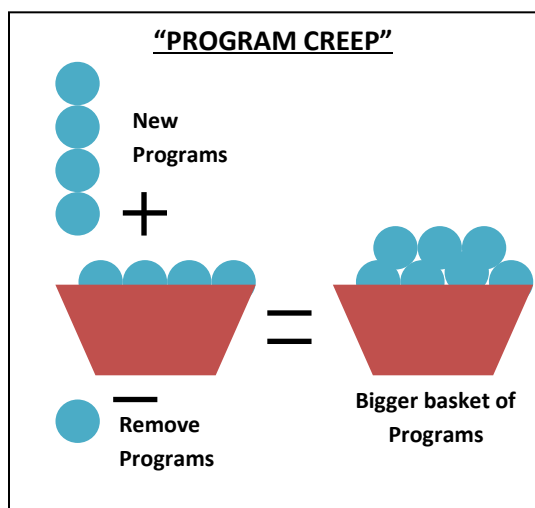
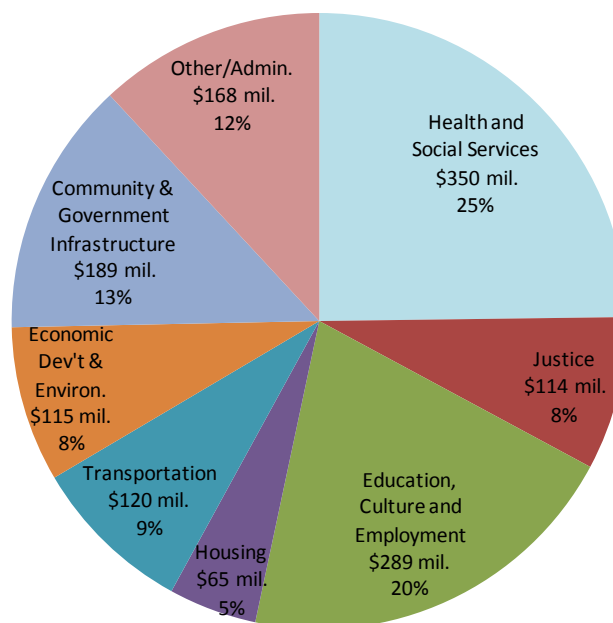
Nearly 60 per cent of the GNWT's operating budget is spent on education, health care, social services, housing, policing and corrections. Another 13 per cent is spent on municipal and government infrastructure, 9 per cent on transportation, and 8 per cent on economic development and protection of the environment.

Sources of growth in spending are usually two-fold: a) growth in existing programs due to price or demand pressures; or b) growth in the nature or number of programs. While price and demand pressures are often out of our control, we can take steps to find savings such as use of wood pellet boilers to reduce fuel costs.

Growth in the nature or number of programs takes place because of expanding needs of the population or to take advantage of opportunities or new priorities. However, 'program creep' can take place when new programs are introduced with no corresponding efforts to remove programs that are no longer required. What results is an ever growing basket of programs and services that is not only confusing to those they are intended to serve but is also expensive and hard to manage for a small population base.

Capital Budget

While day to day expenses are covered by the operating budget, the GNWT's capital budget covers infrastructure investment. The 2012-13 capital budget is \$137 million, including contributions to community infrastructure and housing. That's the lowest capital investment the GNWT has made since 2005-06. This level of investment does not address our \$3 billion infrastructure deficit. However, by sticking to the fiscal strategy, the expectation is that the GNWT can start to pay down some of its debt and increase its infrastructure investments in 2014-15. Further into the future, it is expected that at least some of the resource revenues we will receive following implementation of the final Devolution Agreement will be used to invest in the infrastructure needs of NWT communities.



What is the outlook for spending?

In its simplest terms, the outlook for spending is what we make it. Generally, government is constrained by what it can afford to spend. Government spending is a shared responsibility that is decided collectively by elected officials. The tougher task is deciding how to spend within those constraints (or within our means).

In the 2012-13 Budget, the GNWT made a commitment to constrain expenditure growth below revenue growth to generate surpluses. That translates into a spending cap of 2 per cent annual growth, or \$28 million in a \$1.4 billion budget. This leaves no room for new programs or services, will make funding price pressures in existing programs and services difficult, and signals a need for change so we stay in surplus and avoid borrowing for day to day operations.

We need creative solutions to ensure our ongoing expenditures are as efficient as possible so that we can meet our needs for existing programs and services and still be able to make investments in infrastructure and new priorities. The GNWT needs to understand what programs are important to Northerners, which could be delivered more efficiently and which programs the GNWT should not be offering.

What are your priorities?

The GNWT is committed to its fiscal plan. But we also know that generating surpluses in the face of smaller revenue growth without devolution will be difficult. When considering the way forward, it's important we understand your views:

- Is protecting existing programs and services a high priority?
- Are all GNWT programs and services still needed, are there any that can be cut or scaled back?
- If we want new programs but have limited resources, what do we stop doing?
- If the program is necessary, can it be delivered more efficiently?
- What is the right balance of investment in infrastructure vs. spending on supporting residents and businesses through programs and services?

WE'RE LOOKING FOR YOUR IDEAS AND FEEDBACK!!

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:
Inuvik – September 17, 2012
Norman Wells – September 18, 2012
Fort Simpson – September 19, 2012
Fort Smith – September 24, 2012
Hay River – September 25, 2012
Yellowknife – October 23, 2012
Behchokò – October 24, 2012

For up to date times and location details, visit: www.fin.gov.nt.ca