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 The principal can never be withdrawn.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 surpluses 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.

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.

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:

- 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.

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.

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
   Behchokǫ̀ – 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.

Northwest Territories Finance