



CURRENT FISCAL FRAMEWORK

January 2016

GNWT Fiscal Framework Needs to Adhere to the the Fiscal Responsibility Policy

- In 2005, the Financial Management Board approved the Policy to provide a framework by which the Government would borrow, and manage debt levels and interest costs
- The Policy applies to GNWT, its public agencies and other reporting bodies that are part of the consolidated financial statements.
- The Policy includes specific provisions for GNWT plans for operating surpluses required to support the Assembly's goals and priorities, finance at least 50% of its infrastructure investment and ensure debt management is fiscally sustainable. These provisions include:
 1. Borrowing Purposes – allows borrowing for short term operating requirements and longer term for infrastructure investment
 2. Infrastructure Financing – requires a minimum of 50% from operating surpluses
 3. Borrowing Authorization – all borrowing approved by the FMB on the recommendation of the Minister of Finance. Tabling and approval of the annual Borrowing Plan by the Legislative Assembly
 4. Borrowing Agreements – authority to execute agreements
 5. Affordability – Debt Serving Payments cannot exceed 5% of revenues. If this provision is exceeded in any one fiscal year, the GNWT has two years to ensure sufficient operating surpluses are achieved to decrease payments to under 5% of revenues
 6. Debt Repayment – terms and source of debt repayment
 7. Performance Measures and Reporting - measures on how the GNWT is managing its debt levels to be disclosed in the Public Accounts

Fiscal Framework - Fiscal Planning Considerations

- Over the next 5 years, total revenues are forecasted to decline by 1.7% due to revisions in the TFF escalator data, decreases in corporate income tax revenues and resource royalties.
- There are limited options available to raise revenues from own sources in the short term, without impacting the cost of living and/or curtailing economic growth potential
- Over the same 5 year period, expenditures are forecasted to grow by 4.05%
- The GNWT needs to retain sufficient fiscal capacity to continue to invest in infrastructure or the infrastructure deficit will continue to grow and start to impact program delivery
- The NWT is facing a range of economic challenges which continue to impact GNWT finances. The economy is currently fragile and thus extremely susceptible to what happens outside our borders.
- Diversifying the economy is important but we have to be realistic about expectations. In the short to medium term, mining will be the mainstay of our economy.

Fiscal Framework - Planning Objectives

1. To ensure the GNWT has sufficient available borrowing authority to respond to fiscal pressures resulting from unanticipated emergencies (forest Fires, flooding, low water issues, etc...) and/or further downward revenue pressures
2. To put the GNWT on a more stable fiscal footing over the longer term

Fiscal Framework – Fiscal Planning Principles

- The *Fiscal Responsibility Policy* is based on sound fiscal planning principles – including achieving the operating surpluses necessary to fund at least 50% of its planning capital investment and ensure debt service payments do not exceed 5% of total revenues.
- The GNWT should maintain a competitive fiscal and economic environment to sustain the economy.
- 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 GNWT must not incur debt to a level where debt servicing costs are unaffordable or reduce program/service budgets.

Current Medium Term Fiscal Forecast (\$millions)

| | 2014-2015 (Actuals) | 2015-2016 (Forecast) | 2016-2017 (Forecast) | 2017-2018 (Forecast) | 2018-2019 (Forecast) | 2019-2020 (Forecast) |
|-------------------------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| OPERATING SUMMARY | | | | | | |
| Total revenues | 1,854 | 1,791 | 1,728 | 1,748 | 1,705 | 1,761 |
| Total expenditures | (1,735) | (1,722) | (1,684) | (1,703) | (1,732) | (1,793) |
| Operating surplus (deficit) | 119 | 69 | 44 | 45 | (27) | (32) |
| CAPITAL INVESTMENT | | | | | | |
| | 236 | 237 | 331 | 186 | 118 | 85 |
| TOTAL (DEBT) AT MARCH 31 | | | | | | |
| Cash Surplus (Deficit) at year end | (242) | (265) | (341) | (369) | (386) | (401) |
| Long Term Debt and Guaranteed Debt | (432) | (450) | (524) | (511) | (498) | (633) |
| Total (Debt) at March 31 | (674) | (715) | (865) | (880) | (884) | (1,034) |
| BORROWING LIMIT | | | | | | |
| | 800 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 |
| AVAILABLE BORROWING CAPACITY | | | | | | |
| | 126 | 585 | 435 | 420 | 416 | 266 |

Impact on Fiscal Forecast if TFF is Partially Restored

For illustration purposes, assume a flat \$28 million added to TFF starting in 2017-18

Medium Term Fiscal Forecast Based on Partial Restoration of TFF (\$millions)

| | 2014-2015 (Actuals) | 2015-2016 (Forecast) | 2016-2017 (Forecast) | 2017-2018 (Forecast) | 2018-2019 (Forecast) | 2019-2020 (Forecast) |
|-------------------------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| OPERATING SUMMARY | | | | | | |
| Total revenues | 1,854 | 1,791 | 1,728 | 1,776 | 1,733 | 1,789 |
| Total expenditures | (1,735) | (1,722) | (1,684) | (1,703) | (1,732) | (1,793) |
| Operating surplus (deficit) | 119 | 69 | 44 | 73 | 1 | (4) |
| CAPITAL INVESTMENT | | | | | | |
| | 236 | 237 | 331 | 186 | 118 | 85 |
| TOTAL (DEBT) AT MARCH 31 | | | | | | |
| Cash Surplus (Deficit) at year end | (242) | (265) | (341) | (341) | (330) | (317) |
| Long Term Debt and Guaranteed Debt | (432) | (450) | (524) | (511) | (498) | (633) |
| Total (Debt) at March 31 | (674) | (715) | (865) | (852) | (828) | (950) |
| BORROWING LIMIT | | | | | | |
| | 800 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 |
| AVAILABLE BORROWING CAPACITY | | | | | | |
| | 126 | 585 | 435 | 448 | 472 | 350 |

Conclusions

- Regardless of TFF discussions, the GNWT needs to link expenditure growth to TFF
- Given the fragile state of the NWT economy, the GNWT needs to return to a more stable fiscal footing
- The GNWT needs to have the fiscal flexibility to invest in strategic infrastructure to facilitate growth in the economy