



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