

Budget ADDRESS

NORTHWEST TERRITORIES 2005 - 2006

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Minister of Finance

**Third Session
of the
Fifteenth Legislative Assembly
of the
Northwest Territories**

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INTRODUCTION

Mr. Speaker, Members of the Legislative Assembly, people of the Northwest Territories, as I deliver my second Budget Address, I am pleased to advise this House that the fiscal circumstances of the Government of the Northwest Territories are much more positive than when this Legislature met last year.

A year ago, as a new government, we faced serious and pressing challenges. We faced significant pressures on government programs and services, resulting partially from the impacts of resource development and economic growth. While this growth provided much needed jobs and investment, it also put significant strains on our infrastructure, on our communities, and on our social fabric in general. At that time, we did not have the fiscal flexibility to make the strategic investments to respond to those challenges.

Our first order of business was to put our fiscal house in order. The second was to consult with Northerners so we could set our course for the term of the 15th Assembly. We have done both.

We are now better able to focus on what we want to accomplish as a territory – “Self-reliant individuals and families sharing the rewards and responsibilities of healthy communities and a prosperous and unified Northwest Territories”.

This vision, Mr. Speaker, was developed last May by this Assembly, working in partnership with Aboriginal and community leaders. In turn, the Government has responded with a long-term *Strategic Plan* that sets out the priorities and actions that support the vision and goals of the Assembly.

The Budget passed by this Legislative Assembly last year was an important first step in our plan to restore our fiscal sustainability. We limited our spending growth and increased our tax revenues. We were successful in negotiating additional funding for two years under our Formula Financing arrangements and these negotiations are on-going for the longer term. We have also been able to secure funding for other priority areas such as health care and infrastructure development.

Today's Budget has two objectives. First, we must make strategic investments in the Northwest Territories and its people. Second, we must continue the critical work of ensuring our long-term fiscal sustainability. We cannot achieve one without the other.

This Budget supports the work of the Members of this Legislative Assembly towards accomplishing our vision. It also sets out the steps we must take to ensure we do not end up back where we started financially. Fiscal responsibility must be more than just words. Our spending must be responsive to the needs of our residents, but we, as a government, must also spend responsibly.

Mr. Speaker, during the course of developing this Budget, I have received many comments and suggestions from Members of this Legislative Assembly. We have also received recommendations from the Committees of this Assembly, which have significantly strengthened the Budget I present today. I want to thank Members for their constructive comments and input, both individually and through the committee process. It is by working together that we can stay focused on our vision of a self-reliant, prosperous and unified Northwest Territories.

ECONOMIC REVIEW AND OUTLOOK

Mr. Speaker, our economic growth continues unabated. Fuelled by non-renewable resource development, the Northwest Territories real Gross Domestic Product (GDP) is estimated to have grown 79 per cent from 1999 to 2004. To put this in perspective, the comparable number for Canada is about 16 per cent. We are forecasting that it will grow by a further 10.1 per cent in 2005.

This growth is driven mainly by diamond exports, and non-renewable resource development is expected to continue to drive strong economic growth for the foreseeable future. We have come a long way from 1998 when the opening of the Ekati diamond mine started the Canadian diamond mining industry. The Northwest Territories is now the world's third largest supplier of rough diamonds by value. Production from the Ekati and Diavik diamond mines was worth \$1.7 billion in 2003 and is estimated to have grown to \$2.1 billion in 2004. The Snap Lake project received final approval last May to become the Northwest Territories third diamond mine. Construction will begin this year and full production is scheduled for 2007.

Mr. Speaker, this government continues to support the development of a Mackenzie Valley natural gas pipeline. We continue to work with Aboriginal leaders as we proceed into the next phase of the pipeline development process.

Pre-construction work for the Mackenzie Gas Project is expected to start in 2006 with pipeline construction scheduled over the period 2007 to 2010. If the

Mackenzie Gas Project is approved, and this work schedule holds, natural gas will begin flowing south from the Mackenzie Delta by the end of this decade.

Other sectors of the economy are also growing, spurred by the various non-renewable resource development projects. Retail trade has increased over \$150 million, or 41 per cent, since 1999. Wholesale trade increased 20 per cent from 1999 to 2004. Manufacturing shipments have grown from \$22 million in 1999 to an estimated \$63 million in 2004.

Mr. Speaker, the tourism industry is an important part of our renewable resource sector. Tourism, and particularly Aurora tourism, is rebounding from the setbacks caused by the terrorist attacks on the United States and the SARS outbreak. Aurora lights tours have completely recovered and are continuing to grow. Tourists and business visitors contribute \$90 million in direct spending annually into the Northwest Territories economy and the tourism industry has the potential to provide an even larger contribution, especially in smaller communities. We need to continue to support the tourism industry in its efforts to market the Northwest Territories as a four-season destination.

Economic growth is benefiting Northwest Territories residents. As of December 2004, the territorial employment rate, which is the percentage of people over 15 years of age that are employed, was almost 71 per cent, the second highest in Canada.

Despite our booming economy, we continue to observe quality of life indicators that are significantly below national standards. The distribution of economic activity in the Northwest Territories is not even. The NWT Bureau of Statistics' *2004 Community Survey* shows unemployment rates ranging from five per cent in Yellowknife to almost forty per cent in some smaller communities. One of the main priorities of this government is to ensure all northerners have the opportunity to benefit from economic development. Economic growth must not only benefit large corporations, it must also benefit the young men and women that call this land home. The development that we are experiencing must result in improved social conditions and help provide a better quality of life for all Northwest Territories residents.

It is important to point out, Mr. Speaker that while the Northwest Territories receives some benefits as a result of our economic boom, the rest of Canada benefits even more from our non-renewable resource development. Until we negotiate new arrangements with the Government of Canada, they will continue to receive more than 90 per cent of government revenues from non-renewable resource development. Further, the majority of the direct and indirect employment created by resource development would benefit Canadians living outside the Northwest Territories. Clearly, the negotiation of an agreement that ensures that northern governments receive a fair share of resource revenues is a critical requirement for continued development in the Northwest Territories.

FISCAL REVIEW AND OUTLOOK

Turning now to our fiscal situation, Mr. Speaker, I am pleased to report that the negotiated increases in federal transfers and the successful implementation of our fiscal strategy have greatly improved the Government's fiscal outlook over last year.

2003-04 Year End Results

Our final numbers for the 2003-04 fiscal year showed an operating deficit of \$65 million, \$13 million less than estimated last March. This was primarily the result of higher than expected revenues.

2004-05 Update

Last March we predicted a \$46 million operating deficit for the current fiscal year, 2004-05. I am pleased to advise this House, Mr. Speaker, that we are now projecting a \$44 million operating surplus. The current 2004-05 revenue forecast is \$103 million higher than last year's Budget forecast. Higher Formula Financing Grant and health fund transfers account for \$92 million of this increase, but our tax revenues are also estimated to be higher than forecast. Expenditures for the current year are now forecast to be \$14 million higher than budgeted last March. This increase is primarily due to expenditures beyond our control, such as costs incurred for additional fire suppression activity due to a severe forest fire season in 2004.

In short, the strategy we adopted a year ago – a strategy composed of securing additional revenues under our Formula Financing arrangements and implementing both expenditure reallocations and limited tax measures – has been successful.

2005-06 Outlook

Mr. Speaker, this Budget holds the line on spending growth. Our 2005-06 operating expenditures are budgeted to grow less than one per cent from the 2004-05 Main Estimates. This, combined with increases to the Formula Financing Grant, will produce a budgeted operating surplus of \$49 million for 2005-06.

Medium-Term Outlook

As late as last fall, we were forecasting that this Government would exceed its authorized borrowing limit of \$300 million by fiscal year 2006-07. I am pleased to announce that the negotiated increases in federal transfers and the expenditure restraint that we are continuing to exercise mean that the Government of the Northwest Territories will not exceed its borrowing limit in the medium term. However, our fiscal strategy must take into account the requirement set out by the federal government to repay them the \$290 million Corporate Income Tax overpayment that we received in 2002-03.

Mr. Speaker, the good news on the revenue side is that we have been able to negotiate increased funding in the short term under Formula Financing. However, our funding arrangements after 2005-06 are uncertain. The new rules for Formula Financing after 2005-06 will be established after an Expert Panel on Equalization and Territorial Formula Financing provides recommendations on how funding should be allocated among the three territories. The Panel will report in late 2005, which adds uncertainty to our fiscal framework beyond 2005-06.

This uncertainty means we must continue to exercise fiscal discipline. We cannot make expenditure commitments that we cannot finance. Although we have significantly higher revenues than forecast last year, we need to continue with our fiscal plan and meet the expenditure targets we set last year. I say this, Mr. Speaker, because we needed \$46 million to balance the 2004-05 budget and we continue to face forced growth of over \$40 million annually to cope with growing population and inflation.

FISCAL STRATEGY

Mr. Speaker, in many ways our fiscal strategy can be compared to the operations of a well-managed household. A family would be in dire circumstances if they had to borrow to buy groceries. If they found themselves in this situation and could not earn more income, their only alternative would be to look at how they spend their money. If money is tight, they may need to choose between buying their children toys or new winter coats. Most families make these choices on a daily basis. The Government of the Northwest Territories is no different. Our operating expenditures are not fiscally sustainable if we have to borrow to finance them. However, just like a family is prepared to borrow to buy a house if they can afford the monthly mortgage payment, we are prepared to borrow to make necessary capital investments.

We do not want to find ourselves in the fiscal situation we faced last March. We must take steps to ensure on-going fiscal sustainability. Our Fiscal Responsibility Policy is a cornerstone of this Budget and our new fiscal strategy.

Our Government must invest in programs, services and public infrastructure for Northwest Territories residents. The new Fiscal Responsibility Policy sets out the guidelines for how much we can borrow, what we should and should not borrow for, and how we will be held accountable for our borrowing decisions. We are prepared to borrow for infrastructure and other investments. We are not prepared to borrow for day-to-day operating requirements. The Fiscal Responsibility Policy will ensure the Government has a coordinated strategy for responsible spending, borrowing and debt repayment.

The Northwest Territories requires significant investment in infrastructure. The Fiscal Responsibility Policy establishes an on-going means of financing that investment. The Policy requires that, at a minimum, 50 per cent of our annual capital infrastructure investment will be financed by the cash generated from operating surpluses. A maximum of 50 per cent of annual capital infrastructure investment will be financed by debt. This means we need to plan for, budget and achieve operating surpluses on an on-going basis that are sufficient to generate the cash to finance 50 per cent of capital investments, as well as make the principal and interest payments on what we have borrowed. Ensuring we have cash operating surpluses sufficient to fund critical capital investments is one of the disciplines we must exercise to be truly fiscally responsible and accountable.

Our Fiscal Responsibility Policy means that we must focus on priority areas and be cautious about on-going program commitments. This Budget limits expenditure growth in 2005-06 to critical new initiatives and forced growth. Our priority initiatives are those that support the goals and the needs identified in our *Strategic Plan*.

By restraining spending in 2005-06 we can reduce the likelihood of further major spending reductions. Of course we must always be vigilant to ensure we are spending wisely and achieving acceptable results. Responsible management and sound fiscal stewardship means continually monitoring our expenditures on programs and taking actions to further improve efficiency and results. We must be able to make these decisions without the pressure of a fiscal crisis.

Mr. Speaker, as part of our fiscal strategy, we requested that Moody's Investors Service, a respected international rating agency, undertake an independent credit rating for the Government of the Northwest Territories. I am pleased to report that yesterday Moody's announced that it has issued a Aa3 credit rating for our Government. This is an excellent rating. This high-grade rating represents an independent assessment of the strength of our economy and recognizes the sound fiscal position and outlook of this government. The rating is built on the commitment to long-term fiscal planning and balanced fiscal outcomes made by the Members of this Legislative Assembly.

Mr. Speaker, as a result of the sound fiscal position of the Government and the implementation of the Fiscal Responsibility Policy, I will be asking the Honourable Ralph Goodale to change the current borrowing authority from its

arbitrary level of \$300 million, to one which reflects this government's capacity to finance debt. We believe affordable debt to be the level at which annual debt payments do not exceed five per cent of total annual revenues.

EXPENDITURE MEASURES

Fiscal sustainability not only means living within our resources but also ensuring that the fundamentals and necessities are in place. That means we spend on priority programs first. Total budgeted expenditures in 2005-06 will grow to \$974 million, an increase of less than 1 per cent from last year. The Budget includes \$20 million in forced growth for current programs and services and \$16 million for new initiatives that will help us achieve the goals set out in our *Strategic Plan*. But we are offsetting these increases with expenditure reductions of \$26 million.

When we took office last year our financial situation required strong action to reduce spending. We set a target of reducing spending by \$10 million in 2004-05, \$20 million in 2005-06 and a further \$20 million in 2006-07. Today I am able to report we have exceeded our reduction goals for 2004-05 and 2005-06 by \$5 million in each year. By making these hard spending decisions early, and with our improved revenue outlook, we have met our short-term expenditure objectives. By remaining aggressive in looking for efficiencies and better ways of doing business, we will be able to make strategic investments in areas of priority to the people of the Northwest Territories.

In reducing expenditures, we took care to minimize the impact on services to the public. We first looked to internal efficiencies and then to areas where the impact would only be felt within the Government itself. After that, we looked at where we could reduce service levels or program support that would have minimal impact on the public. However, public impacts will be felt. It is simply not possible to reduce government spending by \$40 million over two years and not have some impact on public services.

Mr. Speaker, there are many unmet social needs in each of our communities and sectors of our economy require more investment. Since 1999-00, the Government of the Northwest Territories has increased base spending on social programming by over \$200 million, or 40 per cent, and yet we seem to have only scratched the surface on improving social conditions. Making real social gains will require much more than just money. Control over our own future starts with the individual. It will take acceptance of greater personal and collective responsibility, improved access to educational and economic opportunity, and resolution of Aboriginal rights issues.

Strong Northern Voice and Identity

Mr. Speaker, this Assembly has identified “a strong northern voice and identity” as one of our goals. We must continue to work hard to ensure that northern issues remain high on the national agenda. Last December, our Premier, the Honourable Joe Handley, along with Prime Minister Martin and the Premiers of Yukon and Nunavut, launched the development of a comprehensive Northern Strategy framework.

This work will build on initiatives and goals set out in the *Strategic Plan* and will address joint actions in areas such as economic growth and jobs, health and education, culture, the environment and Arctic sovereignty and security.

Participation by the Government of the Northwest Territories in the announcement and development of the Northern Strategy is based on the principle that any effective, sustainable strategic plan for the North will include an agreement on the transfer of responsibility for northern lands and resources from the federal government to northern governments. Equally important, this transfer must be accompanied by an agreement that makes northern governments the primary beneficiaries of the revenues generated by these northern resources. To this end, the Prime Minister has agreed that all parties target this spring for the conclusion of an Agreement in Principle, and 2006 for the conclusion of a Final Agreement on Devolution and Resource Revenue Sharing.

During the negotiation of the Northern Strategy Framework, we were also able to negotiate an additional \$40 million in funding for the Northwest Territories. It is our view that this funding must be used to address urgent community needs. The timing of this funding is dependent on the passage of the 2005-06 federal budget so we intend to take the next several months to discuss, with Members of this Legislative Assembly, Aboriginal governments and other stakeholders, how these funds should be expended.

This Budget includes \$355,000 to support initiatives such as the development of the Northern Strategy and \$1.8 million for the continuation of devolution and resource revenue sharing negotiations. This funding includes a \$500,000 contribution to the Aboriginal Summit for their continued participation in this process. The negotiation of a fair deal on devolution and resource revenue sharing remains a critical priority for this government.

Healthy, Educated People Living in Safe Communities

Over \$695 million of our budgeted operating expenditures are targeted to support social and community programs. This represents more than 70 per cent of our expenditures and reaffirms the commitment of this Government and Legislative

Assembly to the goal of “healthy, educated people living in safe communities, who are able to contribute and take advantage of life’s opportunities.”

Our health care system continues to face increased demand due to demographic pressures and rising costs. Through the Department of Health and Social Services, the Government of the Northwest Territories will spend \$253 million for health and social services programming in 2005-06.

Mr. Speaker, this Budget makes significant new investments in the health and welfare of our residents. An additional \$12 million will be invested in existing and expanded health programs and services, including:

- ◆ \$1.8 million for supplemental health benefits programs for seniors and residents with specific health conditions such as heart disease and diabetes;
- ◆ \$1 million for implementation of the third year of the Mental Health and Addictions strategy, which will permit the addition of three clinical supervisors and nine mental health worker positions;
- ◆ \$907,000 for three new public health units in the Sahtu, Deh Cho and Tłı̄chǫ regions;
- ◆ \$737,000 to help meet the rising costs associated with placing adult residents in southern facilities to ensure they can receive the care they need when it is not available in the Northwest Territories;
- ◆ \$895,000 to fund eight Community Demonstration Projects as part of the Government’s response to the Social Agenda; and
- ◆ \$2.8 million for compensation and benefits increases for health care professionals to ensure we continue to remain competitive with the rest of the country.

At last September’s First Ministers’ Meeting, Premier Handley and his provincial and territorial colleagues secured increased funding for health care. This included a Health Access Fund of \$150 million over five years for the three territories to help offset medical transportation costs and to fund long-term health reform initiatives. Because the terms and conditions for the Health Access Fund are not finalized, the revenue and associated expenditures are not included in this Budget. The Honourable Michael Miltenberger, Minister of Health and Social Services, will be coming forward later this year with a plan to use this new funding.

Mr. Speaker, achieving success in our education system is a priority for the Government. Total spending of the Department of Education, Culture and Employment will be \$245 million in 2005-06. This Budget will provide the

Honourable Charles Dent, Minister of Education, Culture and Employment with over \$3 million to implement new initiatives in our education system including:

- ◆ \$742,000 for the services provided by Alberta Learning for the use, scoring, and reporting of Grade 12 diploma exams and Alberta Achievement Tests taken by our students;
- ◆ \$662,000 to implement the fourth and final year of the Bachelor of Science in Nursing program at Aurora College; and
- ◆ \$727,000 to support the continued development and implementation of early childhood immersion programs designed to restore the use of Aboriginal languages among young children and their families.

Along with these investments, over \$2 million has been allocated to Northwest Territories schools to help meet expenditure pressures.

Our government, Aboriginal governments, Aurora College and industry are working together to help Northerners access the training they will need to qualify for careers in our growing economy. Last year two major collaborative efforts were announced. The four year Aboriginal Skills and Employment Partnership, or ASEP, projects in support of the oil and gas and mining sectors will train nearly 800 Northerners for jobs in these two important sectors. The federal government contributed nearly \$24.8 million to these efforts while the Government of the Northwest Territories, Aboriginal governments and industry pledged \$28.4 million in in-kind contributions and support from existing budgets. During the next year, the Department of Education, Culture and Employment will work closely with its partners to plan and deliver critical training under the ASEP projects.

While the number of Northwest Territories apprentices has increased nearly 20 per cent over the past four years, we still need more trained Northern tradespersons to meet the demand caused by rapid resource development. We are responding to recommendations made by the Standing Committee on Social Programs by directing \$480,000 more of the Department of Education, Culture and Employment's training budget for apprenticeship subsidies in 2005-06. As well, the Department will develop new high school courses to prepare students for emerging northern occupations.

Mr. Speaker, this Budget supports the Assembly's goal of making our communities safer.

The Department of Justice will provide over \$1.4 million to the Royal Canadian Mounted Police for ten new RCMP positions. Six of these positions will be assigned to detachments in Rae, Yellowknife, Fort Providence and Tuktoyaktuk. A new three-person traffic unit will have two officers based in Hay River and one in Yellowknife. A new dog and handler unit, located in Yellowknife, will serve the entire territory.

To continue the commitment to improve access to legal aid services, \$400,000 has been allocated for the on-going operations of the new family law clinic. In addition, over \$200,000 has been allocated for the continued public education and training on the *Protection Against Family Violence Act*.

As further support of justice activities at the community level, an additional \$240,000 will be made available to community justice committees.

Well-Governed, Sustainable Communities

Mr. Speaker, well-governed, sustainable communities and regions are a large part of the vision of the 15th Legislative Assembly and we are committed to delivering on this goal.

The Government's *Strategic Plan* emphasizes the importance of partnerships. Many community governments are looking to partnerships as a creative solution to meeting their infrastructure needs.

Earlier this year, the Honourable Michael McLeod, Minister of Municipal and Community Affairs, announced the New Deal for Community Governments, designed to provide all our communities with the tools and resources they need to operate effectively. Communities have taken on an increasing range of authority and responsibility in recent years and this government recognizes that communities need increased resources and flexibility to exercise these responsibilities.

Therefore, we intend to see most community governments become municipal taxation authorities, setting mill rates and directly benefiting from the revenues raised locally, effective in the 2007-08 fiscal year. And in response to demands from communities, we will transfer full authority for infrastructure planning and development directly to those community governments who currently receive their infrastructure services through the Government's corporate capital planning process. To ensure communities have the support necessary in this endeavour, we will provide formula funding for infrastructure directly to community governments and we will commit that funding levels to community governments will not decrease.

This new approach will put decision-making about capital projects where it belongs – at the community level. It will provide communities with a guaranteed funding base that can be used to leverage partnerships, or used as collateral to borrow for infrastructure development.

Given these proposals represent a major change in the way this Government does business, we intend to consult with and work with communities to develop transition plans and build capacity. The Department of Municipal and Community

Affairs will receive an additional \$1 million in 2005-06 to consult and plan for the use of enhanced funding under the New Deal. In addition, this Budget contains \$125,000 to establish a Centre of Expertise for infrastructure financing and leveraging, which will work directly with communities who need technical assistance to find external infrastructure funding opportunities.

Mr. Speaker, I am pleased to announce a number of important measures representing the first steps in implementation of the New Deal for Community Governments.

As an interim measure, beginning April 1, 2005, we will turn over property tax revenues collected within General Taxation Area community boundaries to those communities. This means an additional \$350,000 in operating revenues for communities in 2005-06. The funding will be provided as an unconditional grant for communities to apply to areas of greatest need.

Effective the 2006 tax year, every local government will have the right to ask that the mill rate within community boundaries be raised if they choose to use property taxation as a way to increase revenues. The revenue from a mill rate increase will go directly to the community that asked for the increase.

For many years our smaller communities have asked for stable capital funding so that they can do proper planning. Unfortunately, our fiscal situation has made it difficult to keep up with community infrastructure needs or to provide the certainty that municipal governments have been asking for. The steps this Legislative Assembly have taken to stabilize our own fiscal situation means that we are in a position to address this urgent issue in our communities.

Mr. Speaker, I am pleased that this government will address the infrastructure deficit faced by our community governments. We will establish a stable funding base of \$25 million per year for infrastructure development in our communities, effective April 1, 2006. To meet this target, we intend to increase funding levels for community infrastructure in the current infrastructure acquisition plan by \$13 million in 2006-07, \$15 million in 2007-08, and \$17 million in 2008-09.

The increases to our infrastructure acquisition plan will provide direct benefit to the 27 General Taxation Area communities who today rely entirely upon the Government for infrastructure development.

Mr. Speaker, we also recognize the financial pressures faced by the six larger communities who already operate as municipal taxing authorities. To assist these communities, we intend to provide an additional \$3 million on an annual basis to support infrastructure development in these communities. This funding will also be effective on April 1, 2006.

These initiatives are designed to support the New Deal for Northwest Territories communities. I should also note that our Government is working closely with the Government of Canada to ensure that our initiatives will complement emerging

proposals by Canada to provide new funding to community governments for infrastructure development through initiatives such as the Municipal Rural Infrastructure Fund and gas tax funding. Last week's announcement by the Government of Canada of the gas tax sharing formula will mean an additional \$37.5 million will flow to Northwest Territories communities to be used for environmentally sustainable infrastructure over the next five years. Once the gas tax fund reaches its full amount in the fifth year, Northwest Territories communities will receive \$15 million annually on an on-going basis. We are working with the Northwest Territories Association of Communities to ensure that these funds will flow in a manner that best meets the needs of our communities.

As the Premier has previously committed, there will be no claw back of new federal funding for community governments. This increased funding, combined with new federal funding, will mean that community governments are more able to respond to local needs.

Finally, I am pleased to announce that the 2005-2006 Infrastructure Acquisition Plan has been amended to include \$5.5 million in additional funding that will be provided this year through the Government of Canada's Municipal and Rural Infrastructure Program.

In addition to new initiatives, we recognize that community governments are struggling to cope with inflationary pressures such as rising fuel costs, salary and wage increases and the cost of providing water and sewage services. This Budget includes \$2.5 million to help community governments deal with these pressures.

We are also looking at alternative energy sources that will help address the high energy costs faced by all communities and further our goal to improve the sustainability of our communities. Through the Northwest Territories Power Corporation, we are continuing to pursue the development and expansion of our hydro electricity potential. There is reason to be optimistic that one day we will see many benefits from increasing our supply of this cheaper, cleaner power source. The Power Corporation has entered into partnerships with Aboriginal businesses to advance these projects.

Mr. Speaker, last week Premier Handley and I met with the Senate Standing Committee on Aboriginal Peoples. It is anticipated that *Bill C-14*, the legislation ratifying the Tłıchǫ Lands, Resources and Self-Government Agreement, will receive assent in the next few weeks, which will allow its implementation. This agreement is a testament to the evolving relationship between the Government of the Northwest Territories and Aboriginal governments and will provide a useful guide as we address similar issues in other regions of the Northwest Territories.

The Beaufort Delta Agenda, an initiative identified in our *Strategic Plan*, provides an important foundation for our government's evolving relationship with current and future governments in the Beaufort Delta region. While work on self-

government in the region continues, the Agenda provides an immediate opportunity for more local and regional input into decision-making. In the coming year, the Government will continue to support and enhance efforts towards realizing the vision and achieving the priorities as laid out in the Beaufort Delta Agenda.

Diversified Economy

Mr. Speaker, one of the goals of the *Strategic Plan* is the development of a diversified economy that provides Northerners with opportunities and choices. This means creating an environment that allows individuals to seek economic opportunities in communities that are viable and sustainable over the long term. It also means taking action to provide necessary public infrastructure.

The Honourable Michael McLeod, Minister of Transportation, will continue to implement projects under the Canada Strategic Infrastructure Fund. With the help of the 50/50 federal cost-sharing contributions from this program, \$32 million in reconstruction projects on our highway system, including the Mackenzie Valley Winter Road, are scheduled for 2005-06. This investment includes completion of the reconstruction and paving of the highway between Rae-Edzo and Yellowknife in 2005-06.

Progress continues on the public-private partnership to build the Mackenzie River bridge at Fort Providence. The project has received approval from the Mackenzie Valley Environmental Impact Review Board and a final Concession Agreement with the Deh Cho Bridge Corporation is expected soon, subject to completion of design work. The current schedule has bridge construction starting this year.

This Government is excited about the international opportunity we have to market the Northwest Territories as a great tourist destination to hundreds of thousands of Japanese and international tourists at Expo 2005 in Aichi, Japan. This Budget includes \$500,000 to fund our marketing efforts at Expo 2005.

The Mackenzie Gas Project is key to the long-term economic development of this territory and we remain firmly committed to ensuring it proceeds in a timely manner. To accomplish this, we have provided additional funding in this Budget to support our efforts in this area. These investments include:

- ◆ \$200,000 for additional resources required to review prospecting permits for potential impacts on heritage areas due to increased land use activity;
- ◆ \$110,000 for additional funding to the Aurora Institute for increased licensing of research applications; and

- ♦ \$120,000 for the Bureau of Statistics to provide support in assessing cumulative social and economic impacts of resource development.

In the upcoming year, government departments will continue to work together and with communities to identify and quantify the costs of impacts of pipeline development. This will better position us to address these impacts.

Care and Protection of the Natural Environment

The *Strategic Plan* commits the Government of the Northwest Territories to increased transparency and accountability in the environmental and economic development portfolios. In January, the Honourable Brendan Bell, Minister of Resources, Wildlife and Economic Development, announced that on April 1st the Department will be restructured into two new departments. The new departments are reflected in this Budget, with a total operating budget of \$52 million for the Department of Environment and Natural Resources and \$35 million for the Department of Industry, Tourism and Investment.

The importance of environmental stewardship and the high value our residents place on the Northwest Territories' natural resources, especially wildlife, is not in doubt. To prepare for development, the new Department of Environment and Natural Resources will continue important research to gather baseline data in every region on the health and status of various wildlife populations. This Budget includes \$275,000 in new funding for the Bathurst Caribou monitoring program to ensure that any impacts of increased human activity on the herd can be identified and mitigated. This program will include working with communities to get direct input from harvesters and elders.

Resource development in the Northwest Territories has been fast-paced. We will need to focus our resources in areas where they will have the most impact and will play a key role in the environmental assessment process of major developments. The Budget includes \$390,000 to address immediate environmental assessment and review requirements. To address regional impacts from development, \$250,000 will be invested in two new regional Environmental Protection Officer positions in Yellowknife and Inuvik.

The development of a system of protected areas in advance of the Mackenzie Valley Pipeline Project is a key commitment of this Government. To meet this commitment, \$1.5 million will be invested over five years to fund the implementation of the *NWT Protected Areas Strategy Action Plan*.

Infrastructure Investment

Mr. Speaker, our new Fiscal Responsibility Policy requires that we run operating surpluses to fund at least 50 per cent of our capital investments. Our expenditure reductions and Formula Financing Grant increases have resulted in budgeted operating surpluses over our three-year planning period. We are therefore able to make necessary investments in capital. We are committing to invest \$116 million in 2005-06, including \$8 million not previously planned for in the 2005-06 capital assessment plan.

There is a substantial and increasing deficiency in our infrastructure investments. In the past we have put necessary projects on hold to fund our operating expenditure needs. As a first step in addressing this deficiency, we will be investing \$85 million more over the 2005-06 to 2007-08 planning horizon for projects that are desperately needed but were not included in the original 2005-06 planning process.

The Government's three-year capital investment plan proposes to invest:

- ◆ \$78 million for school replacement and renovation projects;
- ◆ \$48 million for renovations and upgrades to our hospitals and health centres;
- ◆ \$37.2 million for continued improvements to community water and sewer systems;
- ◆ \$22.7 million for replacement, upgrades and capacity increases for community tank farms; and
- ◆ \$9.4 million for new medical equipment for hospitals and health centres.

Although we are making significant progress in closing the infrastructure gap, much remains to be done. Every community in the Northwest Territories identifies housing as a critical infrastructure requirement. Whether it is overcrowding in small communities or high rents in larger communities such as Inuvik and Yellowknife, we know that housing issues top the agenda for most communities. The housing problems we face are many and complex. The shortage and cost of residential lots, high utility and operational costs, lack of private investment and mortgage financing, and low community income levels are some of the challenges we face.

These problems will not be solved overnight and the Government cannot solve them alone. We must all work together to address them. Economic growth and job creation must increase employment and income levels. Investment in new energy infrastructure must be made to reduce operating costs. Innovations to construction and development financing are required to get capital costs down.

Land management and development practices and policies must be adjusted to increase the availability of affordable residential lots. And individuals must also accept as much personal responsibility and initiative as possible to address their families' shelter needs.

The Honourable David Krutko, Minister Responsible for the Northwest Territories Housing Corporation, will be taking the lead on many of these housing issues. The Minister has recognized that building strong federal-territorial relations is essential in addressing our housing challenges. He has engaged his federal counterpart in one-on-one dialogue on several occasions.

As well, Minister Krutko is directing the Housing Corporation in the revision of its mandate. This will refocus the mandate from being mainly involved in social housing to activities tackling the huge task of addressing the need for affordable and suitable housing. This will better position the Housing Corporation to use opportunities provided by large-scale economic projects. Over the next year, the Corporation will be working with our partners to develop the strategy to achieve this broader and critical goal.

REVENUE INITIATIVES

Mr. Speaker, as I mentioned earlier, Formula Financing arrangements after 2005-06 remain uncertain. We intend to work with the federal government and the Expert Panel on Equalization and Territorial Formula Financing to ensure that new arrangements continue to address our needs after 2005-06.

We also intend to aggressively pursue, in partnership with Aboriginal Governments, a resource revenue sharing agreement that ensures that northern governments are the primary beneficiaries of northern resource development. We have heard the commitment of the Prime Minister on this matter and look forward to an early resolution of these negotiations.

I am also pleased to announce that we are re-introducing the Risk Capital Investment Tax Credit program, which expired last year. The tax credit gives Northwest Territories taxpayers an incentive to invest risk capital in Northwest Territories businesses. Starting in 2005, up to \$2 million in tax credits will be available in each of the next three years.

Mr. Speaker, we have worked hard to stay on the fiscal plan set out by the Members of this Legislative Assembly. I am pleased to say that our revenue and restraint efforts mean that this Budget includes no new tax increases. Our concerted effort to reallocate expenditures and hold the line on program spending mean that tax measures are not necessary.

CONCLUSION

Mr. Speaker, through prudent long-term planning and a firm commitment to bring expenditures in line with revenues, we have made great strides in putting our fiscal house in order.

Fiscal sustainability, however, is always a work-in-progress and we cannot be complacent in managing our finances. We must continue to exercise fiscal discipline. We must constantly look at how we run our programs and spend our money. We must eliminate inefficiency so we can put our resources where they are needed the most. We must always be vigilant to ensure we are spending wisely. And we must put in place policies that ensure we are able to finance the on-going investments in infrastructure that we need to make. We face many challenges in achieving the goals we have set for ourselves as the 15th Legislative Assembly and we must proceed carefully. However, we are now able to move forward within a framework of fiscal responsibility.

We have a clear vision of where we are going and have mapped out how we will get there. We will move forward by working with federal and other provincial and territorial governments to further the Northwest Territories' contribution to all of Canada. We will invest in the infrastructure that will further grow our economy in a manner that balances social, economic and environmental needs.

Mr. Speaker, the future holds much promise for the people of the Northwest Territories. Turning this promise into reality will take focussed and dedicated people who are willing to work together. It is up to the leaders of the Northwest Territories to light the path and lead the way.