

2006 – 2007 Budget Address

Introduction

Mr. Speaker, it is my honour and privilege today to stand before you and Members of this Legislative Assembly to present the Budget for the Northwest Territories for 2006-07. I would like to take this opportunity to thank my Cabinet colleagues and the Standing Committees for their input, particularly for the Committees' work on pre-Budget consultations.

This Budget comes at a historic time. Many of us have looked ahead with hope to the day when the Northwest Territories would be self-reliant and strong, with a thriving economy, jobs and opportunities for our people. Today, those are no longer just dreams. We're on the brink of tremendous economic opportunities – opportunities that will test our imagination and our ability to respond. Opportunities that will transform the Northwest Territories into a key economic driver, not only for the North, but for all of Canada.

The Northwest Territories is poised to become a leading player on Canada's resource development scene. The demand for our energy resources has never been greater.

The Mackenzie Valley Pipeline – once only a far-off dream – is on the verge of becoming a reality. Public hearings have already begun. If approved, it will open the doors to the vast natural gas reserves of the Mackenzie Delta and Beaufort Sea.

Our two diamond mines have made the Northwest Territories the third largest producer of gem quality diamonds in the world. Now a third mine is under construction and a fourth is in the approval stage.

These economic developments will not only create jobs and business opportunities, they will bring new hope and opportunities for our people. They will help make our vision for the Northwest Territories a reality. They will allow self-reliant individuals and families to share the rewards and responsibilities of healthy communities and a prosperous and unified Northwest Territories. They will provide the resources for us to invest in infrastructure, give our children the best possible education, improve our health system, preserve our environment, and build stronger communities.

Mr. Speaker, all of this is possible for the Northwest Territories.

But only if two essential conditions are met.

First, as a government, and as citizens of the Northwest Territories, we have to do our part. That means using our revenues wisely and adhering to our Fiscal Responsibility Policy. It means investing in essential services that will bring the best long-term benefits to people and communities in the Northwest Territories. It means creating a positive

environment for business so they see the Northwest Territories as a good place to invest and do business.

That's our part, Mr. Speaker. And we'll do our part through the decisions and priorities reflected in this Budget.

The other essential condition, Mr. Speaker, is to address the fundamental fiscal issues facing this government. This means working with the new federal government to take immediate action on long-standing issues that stand in the way of the Northwest Territories achieving its full potential.

As I stand here today, presenting the Budget for 2006-07, we're in exactly the same position as we were at this time last year. While we have made progress on new short-term targeted funding arrangements under the previous federal government – progress that has allowed us to invest in infrastructure, communities and our health system – fundamental, long-term fiscal issues have not been resolved.

We have no resolution on a new approach to Territorial Formula Financing. We have not reached agreement with the federal government on sharing of resource revenues. And we have not been able to lift the borrowing limit imposed on the Northwest Territories.

These are outstanding issues that can and must be resolved.

Mr. Speaker, just over a week ago, Canadians elected a new Conservative government led by Prime Minister-designate Stephen Harper. On behalf of the Government of the Northwest Territories, I want to reiterate Premier Handley's congratulations to Mr. Harper and members of his new government.

We very much look forward to what Mr. Harper has consistently called a fresh new approach to government and to relationships with the provinces and territories. We were very pleased when he made the commitment at his first press conference last week to begin negotiations on the fiscal imbalance issues that exist between jurisdictions in this country. The recognition of this important issue by the new federal government is a concrete and welcome step.

Most importantly, we listened carefully on election night when Mr. Harper spoke directly to the territories and told us he sees the potential in the North and looks forward to helping us achieve our dreams.

As a Government and as Minister of Finance, we are ready and willing to work with the new Prime Minister and his government, and with our territorial and provincial partners to address these complex and important issues immediately.

The key word is **immediately**.

The issues related to Territorial Formula Financing are specific and unique to the territories. So are issues related to resource revenue sharing. There is no need to delay

decisions on these critical issues for our territory and for the entire North while negotiations begin on complex issues related to the fiscal imbalance.

So as a Government, we urge the new Prime Minister not to wait while other fiscal issues are discussed, but to seize the opportunity to establish a new partnership with Canada's North and take action on outstanding issues that stand in the way of tremendous progress in our Territory. We are ready and eager to meet with him and the new Finance Minister to begin this new partnership immediately.

With these fundamental issues clearly in mind, let me turn now to some highlights from our Budget for 2006-07.

Setting a bold agenda

Mr. Speaker, the Northwest Territories faces unprecedented opportunities. We cannot and will not shy away from these opportunities. We cannot and will not move forward with a timid budget full of half steps. It's time to be bold. It's time to be decisive.

Unlike past Budget speeches, I do not intend today to go through all the details of the various projects and initiatives included in the Budget for 2006-07. All of that information is available in the Budget documents and from individual Ministers. We look forward to an in-depth review in this House over the next several weeks.

Instead, I would like to highlight some areas that reflect the bold approaches we're taking in this Budget.

First, the financial picture.

- ◆ For 2005-06, we are projecting an operating surplus of \$18 million. That's down from our original projection primarily because of an increase in spending needs and a decrease in Corporate Income Tax revenues. It's important to note, Mr. Speaker, that we remain within the guidelines of our Fiscal Responsibility Policy. That Policy has served us well. And in spite of the challenges we face, I can assure everyone listening today that we will continue to be sound financial managers for the Northwest Territories.
- ◆ Maintaining our commitment to responsible budgeting, the Budget for 2006-07 projects an operating surplus of \$31 million. Spending in the current year includes a number of one-time initiatives, such as the Community Capacity Building Fund. Accounting for these one-time programs, our spending in 2006-07 is expected to increase by 7 per cent over last year's Budget as we cope with increased social program costs, community infrastructure needs and the requirement for competitive wages. We expect our revenues to increase by about 5 percent. The bottom line is we will spend \$1.07 billion, take in revenues of \$1.1 billion, and invest \$111 million in capital projects in 2006-07.

- ◆ The prudent fiscal management approach that we have taken during this Legislative Assembly will allow us to meet our most immediate fiscal challenge. In 2006-07, the Government will have to repay \$290 million in Corporate Income Tax to reflect an overpayment of taxes that we received from the federal government in 2002. This will increase our borrowing by an estimated \$78 million. By year-end, we anticipate our total debt to be \$223 million, a full \$77 million below the federally imposed borrowing limit.

Now for some of the details.

This Budget is about seizing opportunities and maintaining momentum. It is designed to achieve four clear goals.

- ◆ To invest in priority areas.
- ◆ To set the stage for further investment and growth in our economy.
- ◆ To lay the groundwork for reducing the cost of living and raising income levels.
- ◆ And to position our government to manage development.

To achieve these four goals, our government will pursue an all-weather highway down the Mackenzie Valley and support the investment in engineering feasibility and environmental work on the Bear River Hydro project.

Working with communities and industry, we'll pursue a comprehensive solution to the critical housing needs in our communities by promoting the conversion of pipeline workforce housing into more than 1000 residential homes.

We will start to ease some of the most critical housing needs through a \$4 million allocation from the Northern Strategy Trust to build new affordable housing units in 14 of our smallest communities. In October 2004, this Legislative Assembly made a motion calling for a 10 per cent reduction in core housing need. However, to make major progress towards this goal, we require the new federal government to follow through with commitments made by the former federal housing Minister to provide \$100 million over the next three years to cost share more than 500 new affordable, energy-efficient homes in the Northwest Territories.

On top of that, Mr. Speaker, we will follow through on the commitment by Members of this Legislative Assembly to support the development of well-governed and sustainable communities and regions. This Budget commits an additional \$12 million in new program funding for communities, including \$4.5 million from the federal gas tax agreement. The Budget also includes \$31 million in infrastructure contributions for community and regional operations, and almost \$3 million in water treatment plants and sewage and solid waste disposal sites in various communities.

In response to the input we received from Members, we will invest in energy conservation and cost of living reduction strategies for the environmental and financial

benefit of our residents. Mr. Speaker, subsidies and direct government support may be important in the short term but they are not the long-term solution for this Territory. We need to look at the factors that drive higher costs and address those factors head on. That means investing in transportation infrastructure to lower the cost of bringing goods into our communities. It means investing in hydro power to provide a cheaper, more environmentally-friendly energy source. And it means protecting those who are least able to cope with rising costs. That's why we will spend an additional \$326,000 this year to increase the low-income senior citizen supplementary benefit from \$135 to \$160 per month.

Mr. Speaker, it is the responsibility of the Members of this Legislative Assembly to make sure future generations have the opportunities to benefit from the Northwest Territories' enormous economic growth. And that means investing in workforce development and improvements to our education system so future generations have opportunities to learn and work right here at home.

With this year's Budget we will invest a total of \$259 million in programs delivered by the Department of Education, Culture and Employment, an increase of \$17 million from the current year. Additional money will go towards increasing our commitment to student support. We will provide additional support for full-time kindergarten. We will expand investment in school construction, building new schools in Tulita and N'dilo, replacing the schools in Inuvik, and investing in improvements in student residences for Aurora College students in Fort Smith and Inuvik. The investments we will make in these education projects will top \$120 million over the next few years.

On top of our investment in education, we will respond to the call from Members of this Assembly to expand our emphasis on youth programs. This Budget invests half a million dollars in the Northern Youth Program funded from the Northern Strategy Trust. It increases our investment in the NWT Games program designed to expand sports and recreation services in communities and increase physical activity among youth. In total, almost \$700,000 has been added in this Budget to support the NWT Games, Arctic Winter Games and the Canada Winter Games.

Mr. Speaker, the health of our citizens is the priority of all Members of this Legislative Assembly. This Budget invests over \$265 million in programs delivered by the Department of Health and Social Services, an increase of over \$18 million from the current year's budget. The additional money will go towards enhancing health care programs and addressing the higher costs of delivering health care in the Northwest Territories. We will invest \$13 million in renovations to hospitals and treatment centres, medical equipment and upgrading hospital records.

This Budget includes a \$400,000 investment from the Northern Strategy Trust in the NWT Healthy Choices Framework to promote healthy lifestyles, break addictions and help people make productive and healthy choices. This year, participating departments will move forward with a coordinated curriculum for Northwest Territories schools and strategies for promoting healthy eating and physical activity.

As I said at the outset, Mr. Speaker, the Northwest Territories is on the brink of unprecedented economic growth. But we can't sit idly by and simply wait for that growth to magically appear at our doorsteps. We need to work for it. We need to create the environment where positive economic development can thrive. And we need to carefully manage the impact of growth on our communities, our people, and our Territory.

Our Government intends to do just that.

We will participate fully and actively in the Mackenzie Gas Project to ensure that, if the project proceeds, the needs and concerns of our residents are addressed. Last fall, the Premier and I outlined the intentions of the Government of the Northwest Territories to develop a stable fiscal regime for the project. We will proceed with that commitment and work with industry and the federal government to ensure the pipeline proceeds in an environmentally sustainable manner.

This Budget invests over a million dollars to complete the necessary feasibility studies and environmental base line work necessary to proceed with the Taltson Hydro Expansion project.

Additional investments will be made in transportation including capital improvements for our airports, our highway programs, and the Mackenzie Valley Winter Road bridge program.

We will continue to promote tourism in the Northwest Territories. This Budget includes \$1 million to implement Tourism 2010 – a multi-year tourism plan for the Northwest Territories that will help us compete for tourists from around the world. We will also invest in enhancing our parks and renovating the Prince of Wales museum.

Mr. Speaker, these are smart investments – investments that will help create a positive, strong and growing economy.

At the same time, we need to understand that, in a highly competitive environment, having the right combination of resources and the necessary infrastructure isn't enough. Businesses can and do take their investments anywhere in the world. And to encourage businesses and industry to locate and do business here in the Northwest Territories – we have to compete, and we have to compete on taxes.

We simply cannot afford to see businesses continue to file their income tax outside of the NWT in order to avoid higher tax rates.

That is why I am pleased to announce today that the Northwest Territories Corporate Income Tax rate on large corporations will be reduced to 11.5 per cent, effective July 1, 2006. I will be introducing the legislation to implement this change during the Budget Session.

Our Small Business Corporate Income Tax rate, at 4 per cent, is well below the national average. However, we continue to work with the business community in the Northwest Territories to determine how we can best support our small business sector. This tax

rate is part of our deliberations and we hope to soon bring forward a proposal for Members to consider.

All other taxes will remain the same as a result of this year's Budget.

Mr. Speaker, there are more details and more spending announcements in the Budget documents. We are on the verge of tremendous economic growth. We are preparing for that growth carefully, thoughtfully and deliberately. We're investing wisely. And the benefits of the opportunities in our Territory will flow not only to people here in the North but also to Canada as a whole.

A New Partnership with the federal government

And that brings me back, Mr. Speaker, to the second condition necessary for us to achieve our goals – a new and cooperative working relationship with the federal government.

We are at a critical stage. From a fiscal perspective, four key issues stand in the way of us achieving the full potential for this Territory and for our people – four issues that require a resolution with the federal government.

First, we need a new funding arrangement with the federal government that reflects the needs of the Northwest Territories. The current fiscal arrangements simply cannot continue. Not only are they inadequate to meet the reality of the Northwest Territories but in many ways they act as a disincentive to the Northwest Territories moving forward.

In the past year, we have worked with the panel established by the Council of the Federation and the Expert Panel established by the federal government to make our positions clear. We are optimistic that our views have been heard by both those panels and we look forward to seeing both reports this spring. However, decisions on a new approach to Territorial Formula Financing are in the hands of the federal government. Those decisions are both urgent and critical to the Northwest Territories. We intend to use the coming weeks and months to make our positions well known to the new federal government and to press them for action on an immediate basis.

Second, we need to reach a fair resource revenue sharing agreement with Canada.

Our Territory's abundance of natural resources is our best opportunity for the future. It holds the potential for us to become a thriving, self-reliant and prosperous territory.

But as it stands today, the federal government controls virtually all of the natural resources in the Northwest Territories. And the benefits of that control flow directly to the federal government. In 2004-05, federal Public Accounts show that the federal government took in over \$270 million in resource revenues from the Northwest Territories and this amount is growing every year. In comparison, the Northwest

Territories Public Accounts showed only \$3.5 million in Corporate Income Tax revenues in that same year.

That situation would never be tolerated in a province like Alberta. It wasn't accepted in Newfoundland and Labrador or Nova Scotia where special Accords recognize their unique needs. And it won't be tolerated in Saskatchewan if their government has its way.

Why should it be tolerated in the Northwest Territories?

What we're asking for is a fair deal. A deal that gives our Territory a net fiscal benefit from the resources of our land. That benefit should cover the costs involved in resource developments, and ensure adequate incentives for economic development. It must allow us to fund our ongoing programs and, at the same time, invest in developing our labour force, our infrastructure and our economy so all our residents share in the benefits of development.

Mr. Speaker, it's time to put negotiations for a resource revenue sharing agreement on fast forward. During the recent election campaign, Prime Minister-designate Harper stated that he believed "...northerners should be the primary beneficiaries from the development of northern resources". Mr. Speaker, this was a bold and welcome statement for this territory and we are committed to working with Mr. Harper in the very short term to make this a reality.

Third, we welcomed the Government of Canada's commitment to provide \$500 million over ten years to address the social and economic impacts of the Mackenzie Valley pipeline. We expect the new federal government will live up to this critical commitment.

But one-time funds, no matter how large or how welcome, do not provide a long-term source of sustainable revenues that can be used to guide future plans and decisions.

Finally, Mr. Speaker, we need the federal government to lift the arbitrary \$300 million borrowing limit imposed on the Northwest Territories. This borrowing limit flies in the face of the principle of territorial political autonomy. It reflects an outdated and unreasonable view that we cannot make sound financial decisions on our own. And it does not reflect the fact that the Government's borrowing ability should be based on our capacity to finance debt rather than be set at a fixed level.

Last February, this Legislative Assembly demonstrated our commitment to fiscal responsibility. We maintained that commitment with this year's Budget. Our Fiscal Responsibility Policy sets clear guidelines and a responsible definition of acceptable borrowing limits. The Policy was instrumental in achieving an Aa3 credit rating from Moody's Investors Services. And it should be more than sufficient for the federal government to act immediately to remove the debt limit.

Concluding comments

Mr. Speaker, this is an unprecedented time in our history – a time when our dreams of prosperity, growth and self-sufficiency are fast becoming a reality.

This Budget sets a bold agenda. It invests in priority areas. And it positions our Territory to seize the opportunities for economic growth and transform them into benefits for all our citizens.

It's an important step. But there's much more work to be done.

In the coming months, my work will focus on two priorities.

First, developing a broad macro-economic policy for the Northwest Territories.

The Northwest Territories faces important questions as we proceed with economic development. We know we need to make investments. This Budget lays the groundwork for many of these investments. But our resources will not be unlimited, even with new fiscal arrangements with Ottawa. We will need to make choices and set priorities. What investments should be made first and how much should be invested? Should we invest millions in transportation infrastructure to further industrial development, grow trade among communities, and reduce the cost of living? Should we invest dramatically in housing or take action to improve education results and promote greater personal self-reliance? Should we invest in hydro-electricity or skills development?

With the help of every Member of this Legislative Assembly, recognized experts, Aboriginal governments, the business community, organizations, industries and communities, we will research and discuss these big questions and develop a new economic blueprint for the Northwest Territories.

Second, Mr. Speaker, outstanding issues with the federal government must be resolved. My commitment is to use all my energy, influence and determination to make sure these issues are resolved, and resolved for the benefit of the Northwest Territories and its citizens.

Mr. Speaker, this is an exciting time in the Northwest Territories. A time of hope and optimism about the future. A time when our dreams for the Territory, for communities, and for our children can be realized. Now it's time to get to work.