

2007 - 2008

Budget Address

NORTHWEST TERRITORIES

The Honourable Floyd K. Roland
Minister of Finance

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

February 8, 2007

Introduction

Mr. Speaker, it is my honour and privilege today to present the 2007-08 Budget for the Government of the Northwest Territories. I would like to take this opportunity to thank all Members of the Legislative Assembly who worked individually and collectively through the Standing Committee process to contribute to the formation of this budget.

This is the last budget of the 15th Assembly. And that makes it an ideal time to look back briefly at what we have collectively accomplished over the past three years. But perhaps even more important, it is time to look ahead ... with optimism, with confidence and with a keen understanding that the next few years will be a critical turning point in our history.

As a Member of this Assembly and Minister of Finance, let me begin by saying I'm proud of what this Assembly has achieved. We've put sound fiscal policies in place, invested wisely in infrastructure, and taken important steps to improve health care services and make sure our young people get the education they need. We've worked hard to build our economy and support communities, families and individuals all across the territory.

Our economy has been growing at a faster pace than the rest of Canada. More and better jobs are translating into higher incomes for people in the Northwest Territories. The important decisions we have made will help build a better future for our residents. They will allow us to move forward in achieving our vision of "self-reliant individuals and families sharing the rewards and responsibilities of healthy communities and a prosperous and unified Northwest Territories."

At the same time, make no mistake. The challenges ahead are substantial. And the blunt reality is that our territory cannot address those challenges alone. Nor can we achieve the lasting benefits new economic opportunities could bring, unless and until we are able to sort out longstanding issues with the federal government.

Just this summer, our hopes were raised when Prime Minister Harper visited Yellowknife and echoed many of the sentiments we've been expressing for years. He called for an end to the paternalistic policies of the past. He vowed to champion our cause in Ottawa and across Canada. He acknowledged that, in the past, Ottawa has done as much to frustrate northern development as to facilitate it. And he noted that when development occurred, Ottawa was first in line to scoop up most of the revenues. He committed to a new deal on resource revenue sharing as part of negotiations on Territorial Formula

Financing and agreed that, if our territory is going to take on more responsibilities and more control over our destiny, we'll obviously need more revenues.

We have heard these words of support and hope for many years, along with the promise of doing the right thing for the Northwest Territories. Federal Finance Minister Jim Flaherty plans to bring forward a proposal to the federal Cabinet to raise our borrowing limit. Minister Flaherty has indicated he will also bring forward solutions for strengthened, principle-based Territorial Formula Financing arrangements in the next federal budget. We will be watching closely to ensure that this time, promises turn to action.

Because, Mr. Speaker, we've heard the encouraging words before. We share a common goal of seeing the Northwest Territories become a self-sufficient and contributing member of Canada's confederation. I firmly believe that's also what Canadians want. And yet, we haven't seen real action on the very thing that will allow that to happen. And that's reaching an agreement on how we can share the revenues from developing our natural resources to build a strong and prosperous territory.

Like so many Northerners, I'm growing increasingly impatient with the lack of real and tangible progress on an issue so absolutely vital to the future of our territory. And frankly, time is running out. We know that the Northwest Territories is poised for enormous economic growth. A third diamond mine will be completed this year and two more mines, one diamond, one gold, are set to proceed to regulatory review. We are confident that the necessary reviews of the Mackenzie Gas Project will be completed and the project will proceed. The result will be unprecedented economic growth in the Territory ... and an opportunity for us to fulfill the promise of a self-reliant people and realize our potential as full and equal partners in this country.

That promise and potential are within our grasp but only if we're ready. Only if we have the right tools in place, including the right agreements with the federal government, to allow us to capitalize on the opportunity and turn it into a lasting benefit for people, families and communities all across our territory, and for the rest of Canada.

This fall, I had a chance to talk about these issues with a group of people in both Yellowknife and Inuvik. These two roundtable discussions were part of our commitment to develop a macroeconomic roadmap for the future of the Northwest Territories. The discussions brought to light a number of issues we need to address. But what struck me the most was the sense that we need to get ready. Ready to anticipate and manage the impact of growth. Ready with the skills and education our people need to take advantage of the full range of new jobs economic growth will provide. And ready to secure more lasting benefits so this doesn't become one more of the boom and bust cycles we've all seen before.

That's why I believe these next few years will be a turning point and a test for all of us. We have a window of opportunity to get ready for the economic boom that's on our doorstep. With the right tools and the right investments now, we can capitalize on the opportunities ahead. We can transform the Northwest Territories into a key economic driver, not only for the North, but for all of Canada. And most important, we can make sure the benefits of economic growth flow first and foremost to people in the North ... not just for today, but for future generations ... for your grandchildren and mine.

A Look Back

With that context in mind, let me take a few minutes to talk about some of the highlights of what the Members of this Legislative Assembly have been able to achieve over the past three years.

In 2005, we implemented our *Fiscal Responsibility Policy* – a policy that committed us to manage our fiscal resources in a sound and prudent manner and to invest wisely in addressing current and future needs. This policy continues to guide our actions today. And one of the tangible outcomes of our responsible fiscal approach was a favourable Aa3 credit rating from Moody's Investors Service, which was recently upgraded to an even more favourable Aa1 rating.

During the first three years of this government, we have increased funding for social programs by more than \$94 million – for education, health and social services, housing and justice. This allowed us to:

- ◆ increase the number of doctors and nurses and improve health services;
- ◆ strengthen school programs and support for students;
- ◆ renew the mandate of the NWT Housing Corporation; and
- ◆ launch a comprehensive review of income security programs.

We have also fundamentally reshaped the role of community governments through the development and implementation of the *New Deal*, which puts responsibility for community decisions where it belongs – in communities and with people who are directly involved and accountable.

We've focused our efforts on achieving sustainable economic growth and balancing support for large resource developments with a firm commitment to small business and traditional economic activities. Specifically:

- ◆ we established the Department of Industry, Tourism and Investment to focus our efforts on achieving sustainable economic growth;
- ◆ we consolidated our support for small business through a new Business Development and Investment Corporation;
- ◆ we completed the necessary socioeconomic agreements with the Mackenzie Gas Project and the DeBeers Snap Lake Project, to ensure northern employment and business opportunities; and
- ◆ we've expanded support for tourism, arts and crafts and the traditional economy.

As well, we have ensured that protection of the environment continues to be a priority for our government. To that end:

- ◆ we created the Department of Environment and Natural Resources to provide a focus for the government's role in environmental stewardship;
- ◆ we implemented a beverage container recovery program; and

- ◆ we have advanced the *Species at Risk* legislation with a draft bill expected towards the end of the 15th Assembly.

Nearly \$300 million has been invested in capital projects over the past three years, providing essential support for winter roads, bridges and paving projects, and new or renovated schools in nine communities.

Mr. Speaker, all Members of this Assembly should be proud of what we've achieved. The investments we've made and the steps we've taken over the past three years have unquestionably benefited people and communities in all regions of our territory. And I believe those benefits will only grow in the years ahead.

Budget 2007-08 Highlights

One of the biggest challenges of success is that we have to keep on being a success. It means there is no time to sit back, pat ourselves on the back, and say our work here is done. In fact, we're only just beginning.

Our challenge is to take the successes we've achieved, build on that solid base, make the right strategic investments, and position the Northwest Territories for a more prosperous and successful future.

To that end, let me turn now to the highlights of this budget.

Based on currently available information, we are projecting an operating surplus of \$46 million for the current fiscal year, 2006-07. This reflects the responsible fiscal approach taken by this government and Legislative Assembly, an approach that allows us to meet our obligation to repay, this fiscal year, \$290 million in corporate tax overpayments made to our government several years ago by the Government of Canada. Through prudent fiscal planning, we have most of the necessary funds to repay this amount, with the requirement to borrow only \$8 million at the end of this fiscal year to cover the balance.

For 2007-08, we estimate our total revenues to be \$1.231 billion, an increase of 4.3 per cent over last year. Although we will not know the final numbers for certain until the federal government's budget is tabled, the federal Minister of Finance has guaranteed that the Territorial Formula Financing Grant for 2007-08 will not be less than \$764 million. As I mentioned earlier, we are expecting proposals in the next federal budget that will outline new Territorial Formula Financing arrangements.

In terms of spending, the budget for 2007-08 includes a net increase of \$89 million in spending, an increase of 8.3 percent over last year. This includes \$55 million to address increased social program costs, to meet higher fuel costs and to maintain competitive wages for teachers, health care workers and other public sector employees, as well as \$38 million in additional spending on key priorities identified by Ministers and legislative committees.

We also recognize there is considerable uncertainty in our fiscal picture. I have committed to Members that I will consult with them on the allocation of any additional

revenues resulting from the federal budget, and return to this Assembly in May with a revised expenditure plan if required.

The budget also includes an estimated \$151 million for public infrastructure, including \$30 million to fund school renovations and construction and \$37 million for road transportation projects.

We expect to end the 2007-08 fiscal year with an operating surplus of \$44 million. The government's direct debt at the end of the year is estimated to be \$50 million, with total debt subject to the \$300 million debt limit estimated at \$189 million.

Those are the key numbers. But what people listening to this budget today want to know is: where will the money be spent?

This budget reflects our continuing commitment not only to responsible fiscal management, but also to ensuring that every dollar we invest tackles the most pressing problems, addresses the right priorities, and helps position the territory for a better future.

Social Programs

This year's budget includes key investments in social programs, especially education, health care and social services.

As we heard at the roundtable sessions this past fall, investments in these key areas are critical to make sure people are ready to take advantage of the opportunities economic growth will bring. People said, it's not just about money. It's about putting people first ... making sure the economy works for people and that individual Northerners, their families and their communities can benefit from all the opportunities economic growth can bring. That means focusing on education, making sure our children and young people get the education and skills they need to participate fully in the future of our economy. And it means building healthy families and healthy communities.

This budget reflects those messages directly. As part of this year's total budget for the Department of Education, Culture, and Employment of \$286 million, we will invest:

- ◆ \$962,000 to complete the implementation of full-day kindergarten;
- ◆ \$1 million to enhance child care subsidies;
- ◆ \$3 million to increase student support;
- ◆ \$3.9 million to reduce the pupil-teacher ratio, and provide physical education and trades programs in Northwest Territories schools;
- ◆ \$301,000 to support the delivery of a Language and Cultural Instructor Program at Aurora College; and
- ◆ \$175,000 to enhance literacy programs and supports.

In addition, the budget allocates \$320,000 to enable the Department of Transportation to hire apprentices to work with journeymen in the department.

We'll also continue our investment in schools with new construction in Tulita, Gameti, N'Dilo and Yellowknife, construction of an Aurora College Learning Centre in Fort Simpson, as well as planning for a new school in Inuvik.

In terms of Health and Social Services, the total budget of \$277 million includes:

- ◆ \$360,000 for an Aboriginal Wellness Program;
- ◆ \$137,000 to promote reduced use of tobacco;
- ◆ \$431,000 to support increasing costs for taking care of the elderly, people with disabilities, and services provided for long term care;
- ◆ \$1.2 million to strengthen rehabilitation services;
- ◆ \$1.3 million for increased costs for physician and hospital services; and
- ◆ \$425,000 for non-government organizations to address increasing costs of providing critical services.

Steps will also be taken to renovate parts of the Stanton Territorial Hospital and the Fort Smith Health Centre, and to consolidate the medical clinics in Yellowknife. The Department of Health and Social Services will also continue working with other provinces and territories to develop electronic medical records and expand the use of technology in the diagnosis of medical conditions.

Housing remains a key concern across the Northwest Territories. During the past year, programs offered by the NWT Housing Corporation have been restructured with a renewed focus on expanding the stock of housing in communities. In 2007-08, the Housing Corporation is allocating \$16.25 million for its *Affordable Housing Initiative*, which together with additional matching funds available through the federal Northern Housing Trust, brings the total investment to \$32.5 million. We expect this to result in the construction of an additional 168 housing units – some made available through the homeownership programs of the Housing Corporation, and others replacing older public housing units. Work will also continue during the year to streamline existing Housing Corporation programs.

This year the Department of Justice will continue its work to strengthen community programs and services. This budget includes:

- ◆ \$428,000 to establish an RCMP detachment in Sachs Harbour;
- ◆ \$688,000 to expand activities of Community Justice Committees;
- ◆ \$233,000 to enhance Legal Aid; and
- ◆ an additional \$1.9 million to support RCMP activities across the Northwest Territories.

In addition, Social Program Ministers are working together on a number of important initiatives. The Income Security Reform work will continue throughout 2007-08 and will build on the policy framework that is currently in place. As the detailed work proceeds, this Assembly may be asked to consider enhancing some key programs. At the same time, the 2007-08 budget provides:

- ◆ \$695,000 to address Homelessness;

- ◆ \$262,000 to support a pan-territorial sports strategy; and
- ◆ \$180,000 to support the *Healthy Choices Framework*.

It is worth noting that many of the initiatives described above will be done in partnership with community-based non-government organizations. These organizations are an important part of our network of social supports.

Governance

Turning to communities, as I mentioned earlier, the *New Deal* is a significant achievement of this Legislative Assembly. Through the work of the Department of Municipal and Community Affairs and the NWT Association of Communities and the contributions of many elected municipal representatives and staff from across the Northwest Territories, we have reshaped the role and authorities of community governments.

Beginning in the 2007-08 fiscal year, the Government will flow \$22.5 million in formula funding directly to community governments, to allow them to make critical investments in community infrastructure to meet local priorities. Community governments will receive \$90 million in direct funding, an increase of 10 per cent over 2006-07. In addition to community infrastructure funding, this budget includes:

- ◆ \$4.1 million to increase contributions under the municipal funding formula;
- ◆ \$3 million to increase funding for water and sewer services;
- ◆ \$800,000 for the municipal insurance program; and
- ◆ \$150,000 to support the development of community energy plans.

Protecting Our Environment

It is our responsibility to ensure that the environment we enjoy today will be here for our children and our grandchildren. This budget includes:

- ◆ \$500,000 in additional funds to complete biophysical studies that will ensure we have the necessary data to monitor, assess and mitigate the effect of proposed resource developments in the western Northwest Territories; and,
- ◆ \$500,000 in additional funds for the *NWT Barren-ground Caribou Management Strategy* to further our efforts to protect this important and declining resource.

Over the coming year we will also invest in improving the efficiency of our regulatory approval process by building capacity within the Northwest Territories.

Supporting Economic Growth

Mr. Speaker, all of the investments I've just highlighted are critical for communities and for individual Northerners. And they will help create stronger communities and build the capacity of our people to live independent, productive and positive lives.

But our future will not be secure simply by expanding government services and government spending. We need to build the kind of sustainable, balanced and vibrant economy that will sustain communities and our territory and create opportunities and hope for future generations.

Today, we look at the Northwest Territories economy and see many positive signs. While much of our attention is focused on resource development projects, our goal is to see growth and development in all sectors of the economy. That was one of the clear messages from participants in the two macroeconomic roundtables last fall. People want to see an economy that's balanced and sustainable ... not just focused on resources but including large and small businesses, tourism, and the traditional sectors of our economy. That's critical to ensure there are long-term benefits, and those benefits flow directly to Northerners.

This fall, we expect the third Northwest Territories diamond mine to come into production. This will provide additional opportunities for Northern businesses and employment.

With respect to the Mackenzie Gas Project, our position is clear. We support the project and we want to see it proceed. But we must be assured that:

- ◆ construction and operation of the project will be undertaken in an environmentally and economically sustainable manner;
- ◆ over time, the benefits of northern development will accrue to Northwest Territories residents; and
- ◆ the project will be undertaken in a way that encourages exploration and development of the Basin on as broad a basis as possible.

This year, we will spend an estimated \$1.7 million to support planning for the Mackenzie Gas Project and to ensure that our people, communities and businesses are adequately prepared to meet the demands and maximize the benefits that this project will bring to our territory.

This government is maintaining its commitment to tourism through the *Tourism 2010 Strategy* that was tabled in the Legislative Assembly one year ago, by renewing its investment of \$1 million. This investment will support marketing research, tourism training, infrastructure, and product development, and will encourage the continued expansion and development of this important contributor to the Northwest Territories economy.

The hunting and trapping industry is important to many of our communities. The fur industry is experiencing a resurgence. In support of this growth, the budget for the Genuine Mackenzie Valley Fur Price Program has been increased by \$200,000. Also, as part of this budget, an additional \$120,000 is being provided to the Community

Harvesters Assistance Program; \$247,000 to the Fort Smith Metis Council Western Harvesters Assistance Fund; and \$211,000 to the Salt River First Nation Harvester Assistance Fund.

We know that developing our economy requires investments in infrastructure that will connect our communities, provide access to our resources, and lower the cost of living and doing business in the Northwest Territories. An efficient and effective transportation system is essential to achieving this and we are doing our part. This budget includes more than \$47 million to fund improvements to existing highways and winter roads, to replace bridges and to undertake airport improvements.

Developing our energy potential and reducing our dependence on fossil fuels is also critical. The *2007 Energy Plan* will provide both a framework to guide future government decisions with respect to energy development, supply and use in the Northwest Territories, and an action plan to respond to the concerns raised by our residents. The planned *NWT Greenhouse Gas Strategy* will complement the *2007 Energy Plan* by calling for emission reductions to protect the environment. To support both of these important initiatives, we continue to pursue, through the NWT Power Corporation, opportunities to develop the Northwest Territories' enormous hydro potential, including the proposed expansion of the Taltson River facility.

Mr. Speaker, those are the spending highlights of the budget for 2007-08.

Revenue Initiatives

There is one more piece of good news for everyone in the Northwest Territories. This budget includes no tax increases.

Frankly, we want to keep taxes as low as possible, particularly because the cost of living, working and doing business in the North continues to be significantly higher than the rest of Canada. As a government we intend to maintain a fair and competitive tax structure, one that will generate the revenues we need to fund important programs and services, but which also encourages people to live here and businesses to invest in growing our economy.

Since last February's budget, we made two changes to the income tax system. Effective July 1, 2006 the NWT corporate tax rate for large businesses was reduced from 14 per cent to 11.5 per cent. In November we increased the Dividend Tax Credit for Northwest Territories residents investing in Canadian corporations. Both measures help make the Northwest Territories a more competitive tax jurisdiction. And our small business tax rate is still one of the lowest in the country.

One of the important steps we will pursue this year is an increase in the existing federal Northern Residents Deduction. That deduction is designed to help residents of all three territories and northern regions of the provinces address our high northern cost of living. But the amount of the deduction has not been changed significantly since it was introduced in 1988. Meanwhile, the cost of living in the Northwest Territories has increased by an estimated 44 per cent. I have written to my provincial and territorial

colleagues asking for their support to have the Deduction increased to reflect current realities. Mr. Speaker, that's just one of the issues we'll take forward to the federal government in the coming months.

Challenges Ahead

I can't stress enough how important and how urgent it is to address and resolve outstanding issues with the federal government. We have been patient. We've made a strong and consistent case. We've seen two national reports on Territorial Formula Financing, both of which supported our case and recommended changes we would welcome.

But in spite of that, we have no guarantees that key issues will be resolved quickly or to the benefit of Northerners.

While the federal government reaps the benefits of resource developments in our territory, we must make the necessary investments to build and sustain our economy, protect our environment and prepare our people, without many of the tools required to do so effectively. And the result is that instead of allowing us to use our own resources to become less dependent on the federal government, they keep us firmly tied to their purse strings.

The facts speak for themselves. In 2005-06, the federal government received \$244 million in oil and gas and diamond royalties from our territory alone. We get no share of those royalties. This just doesn't add up.

A recent article by Russell Banta concluded that, over the past five years, the federal government has taken \$923 million in resource revenues from the North, in addition to federal taxes – significantly more than the estimated \$700 million cost of the much-needed Mackenzie Highway. And speaking of highways, the federal government is responsible for building new highways in our territory. And since 1987, not a single kilometre of new highway has been built in the Northwest Territories, despite our vast mineral and oil and gas potential and the revenues Canada reaps from our territory.

The federal government often talks about how much they spend in the North. And yes, in per capita terms it sounds like a lot of money. We appreciate their contribution and we depend on it far too much. But the reality is that while we received over \$18,000 per person in federal transfers in 2004, the federal government raised almost \$16,000 per person in revenues in the Northwest Territories. That's the part they rarely mention.

So Mr. Speaker, I want to close with two commitments to the people of the Northwest Territories.

First, I will do everything in my power to fight for resolution of three outstanding issues with the federal government: a better and more sustainable arrangement for Territorial Formula Financing, an appropriate revenue sharing agreement to allow northerners to benefit from the development of our resources, and an increased borrowing limit so we can invest in meeting our critical capital infrastructure needs.

We've waited long enough. It's time for the rest of Canada to recognize the potential of the North, to understand that we can become a leading driver in Canada's economy and a thriving contributor to the rest of Canada. But only if we have the tools to chart the right course, make the necessary investments, and capitalize on the opportunities ahead.

My second commitment is to put in place a new economic roadmap for the Northwest Territories. I intend to build on the excellent discussion that occurred at the roundtables in Yellowknife and Inuvik. Later today, I will table a report outlining what we have heard so far. After the budget, the next step is to bring people together again to discuss key issues and help us chart the course for our economic future. By the end of this summer, we will have developed a policy framework to guide our decisions and help us make the right investments and the best choices in the months and years ahead.

Conclusion

Mr. Speaker, we have our work cut out for us.

The next two to three years will be a critical time for our territory. It will be a time during which we will chart a clear economic course. A time when major economic developments proceed and open up our territory to a host of new opportunities. A time when we establish a more productive relationship with the federal government and the rest of Canada begins to understand the importance of the North to the future of our country.

And most important, a time when we begin to see the future as we've always hoped and dreamed it would be. A future where our proud traditions and strong cultures, respect for our environment, and hopes for our children come together to create a proud and prosperous territory.

Mr. Speaker, I look forward to meeting these challenges head on and to working with all of you to achieve the future we want for ourselves, our families, our communities and our Territory.