

Fiscal Update

I rise today to provide a fiscal update but in doing so, I want also to speak about one of the most valuable economic resources that exists across the whole of the Northwest Territories: resiliency.

The world remains in the grip of a pandemic the likes of which few people alive in the world today have any reference point to. Canada is currently experiencing a second wave. In the NWT we are fortunate that since the start of the pandemic, we have been able to limit the cases of COVID-19 that have entered our borders, but that comes with a cost; travel within the territory remains tightly restricted and, as a result, many sectors of our economy continue to be seriously impacted. This follows on several months of lockdown or near lock down earlier this spring.

I venture that no household in the NWT is untouched by the COVID-19 pandemic. Similarly, there is likely no business or industry that has not faced or does not continue to face, financial or human resource challenges. Many households, businesses, employers and employees are stressed, scared or both. That is the reality of the times we are in.

Mr. Speaker, the Northwest Territories has a strong history of resiliency. The climate is harsh, but people have thrived here since time immemorial. Costs of living are high, but people come and grow their families here. The cost of doing business is high and yet we do continue to attract investment.

A lot has changed since the Budget Speech in February. Budget 2020 spoke to the importance of working within our means by finding internal efficiencies and using creativity and innovation to deliver our mandate priorities even in a time of slow economic growth.

The need for innovation and creativity is more pressing than ever but in the current context, we must start from a place of resiliency to put innovation and creativity to the test.

Despite all of the pandemic-related upheaval, the core values we are using to deliver fiscal responsibility to the NWT have not changed; we will still work within our means to deliver not only on the priorities of the 19th Legislative Assembly but also to ensure that people and communities across the territory are healthy and safe. We continue to seek creative solutions to these wholly unexpected challenges. We strive to strike a balance between all of the many diverse needs that exist.

Fortunately, we will start with some good news: signs of an economic recovery are appearing. Our job market has recouped many of the resident jobs lost, the labour participation rate has climbed back to its March level and the employment rate has partially recovered. Retail sales are rebounding, with the Northwest Territories outperforming the provinces so far this year, and this consumer spending is supported by stable and high average weekly earnings. We are painfully aware of sectors in the economy that are still in serious hardship but are cautiously optimistic that we will have a 90 per cent job recovery to pre-pandemic levels by the end of calendar year.

Our own revenues will drop this year. We are forecasting significant corporate income tax and resource revenue declines as the events of 2020 will likely continue to some degree through 2021 and work their way through the economy. It is simply not possible to give direct financial support to every person or business in need, all at the same time. But from the earliest days of the pandemic, we made efforts to immediately support NWT people, businesses and communities by waiving a number of revenues, including airport fees, bridge tolls, and leases which will result in a decrease in projected revenues.

Despite these revenue losses, our fiscal situation remains stable thanks in large part to two facts: we have received \$92 million in immediate and very welcomed support from the Government of Canada to address the expenditure challenges caused by the COVID-19 pandemic; and, in addition Territorial Formula Financing provides a mainstay of fiscal support that will respond to current own source revenue losses in future years. As a result of the new federal support we are currently projecting this fiscal year's total revenues to be \$2.2 billion, \$38 million more than estimated in the 2020-2021 Budget.

That said, the pandemic has driven expenditures significantly higher as we implement measures to protect NWT residents and provide economic support. In total, we estimate \$175 million in new expenditures for emergency measures including additional health care costs, income assistance, and other various forms of economic relief and supports for people, businesses and communities. To better sustain our delivery of the crucial programs and services we have implemented to protect the territory from COVID-19, we are proposing this sitting to bring these existing functions together under a COVID-19 Coordinating Secretariat that will help us better meet demand, ensure more efficient use of the GNWT's fiscal resources and provide a clearer point of accountability for the ongoing implementation of the public health orders. With respect to COVID-19 costs, the Department of Finance will publish cost information on its website to maximize transparency.

Regardless of how we deliver the pandemic-driven activities, all these expenditures will have a material impact on our fiscal bottom line. We are planning for the worst while hoping for the best and are including the projected costs at \$175 million by the end of this fiscal year in our updated forecast for this year. Even within this, we have tried to find efficiencies and innovative delivery methods, and to strike a balance between all the many needs created or contributed to by the realities of the pandemic. This response includes moving \$31.7 million that would otherwise be

spent across departments into the COVID-19 Secretariat as a single-point of accountability and administration; \$72 million for other related health care costs such as testing and supporting health care system capacity; and \$72 million for economic supports, including the foregone revenues. Taking the \$92 million in direct federal support into account, the projected net effect of the COVID-related costs is expected to be \$83 million.

Although these high costs are not good news, the GNWT has a track record of fiscal responsibility as demonstrated again this summer when Moody's Investors Service confirmed our Aa1 credit rating for the 14th consecutive year. Past financial responsibility will help us weather the pandemic's revenue and expenditure shocks in our medium-term fiscal outlook. We are committed to continuing on this track.

This commitment will require work. Our latest medium-term outlook projects a course which if not adjusted, results in both an operating deficit in three years and exceeding the new borrowing limit. Despite a \$1.8 billion borrowing limit, our current path will start the next Legislative Assembly in violation of that limit. Resilience is not an accident; it can be consciously sought and developed through diligent effort.

We are paying for our COVID-19 pandemic response by shrinking our operating surplus, not by increasing debt or increasing taxes. The 2020-2021 operating surplus is projected to narrow a full \$143 million from the February 2020-2021 Budget to \$60 million. This reduced position could impact our longer-term fiscal sustainability. But it is a response that should allow for short-term cushioning and as a result, hopefully, more long-term resilience within our private sector.

The lower operating surplus will also increase our total debt to a projected \$1.262 billion by the end of this fiscal year. Had we not successfully negotiated a \$500 million increase to the federally imposed borrowing limit, this level would

have been unacceptably close to the previous limit. Although the new \$1.8 billion limit will provide \$538 million in borrowing capacity at year-end, we need to be conscious of the risks of carrying too much debt. COVID-19 is not an excuse; we must focus on the difficult choices we need to make to live within our means, while providing the programs and services that Northwest Territories residents need, especially within the context of COVID-19.

During the Budget Dialogues I held over the summer, we heard loud and clear that spending reductions are preferred over tax increases. By themselves, increasing revenues will not be sufficient and is frankly unlikely to be fruitful in the short term as the pandemic continues to impact markets across Canada and the world, continued borrowing will be fiscally unsustainable, and letting capital assets deteriorate by starving the capital budget is unacceptable. The reality is that expenditure management will need to be the main pillar in moving the GNWT onto a sustainable fiscal path. I want to be very clear: expenditure management is not the same as expenditure reduction. Budget Dialogues participants gave considered suggestions for better expenditure management to improve our efficiency and find more value for our dollar. Now is the time to be creative and innovative; there is a path forward that will allow us to budget in a way that reflects the values and priorities of the people of the NWT. That will be our fiscal path.

Last, during the Budget Dialogues, I also heard many thoughtful comments from people making the connections between health and productivity; between education and labour market participation; and between economic growth and government revenue growth. I believe underlying much of what we heard is evidence that we are truly pulling together as a territory. This energizes me with optimism that as we show resiliency, we will re-build and provide a legacy for the future to realize the great potential that this territory offers.

Thank you, Mr. Speaker.