

Budget Address

2015 - 2016

NORTHWEST TERRITORIES

The Honourable J. Michael Miltenberger
Minister of Finance

**Fifth Session of the
Seventeenth Legislative Assembly**

February 5, 2015

Tticho

Introduction

Mr. Speaker, as I rise to present the last Budget of the 17th Legislative Assembly I would first like to thank the Members of this Assembly, who, through various Standing Committees, have worked with the Cabinet towards achieving the priorities of this Assembly within the limits of our fiscal framework. It is a credit to our system of consensus government, as the many successes and accomplishments of the 17th Legislative Assembly and the numerous challenges met and often tough choices made, are because we worked together. This Budget looks to conclude the work of the 17th Assembly and prepare for the fiscal transition to the 18th Assembly.

Our accomplishments are built on three basic principles:

- We will protect programs and services while managing expenditure growth,
- We will maintain a stable tax environment to support the economy, and
- We will achieve this while remaining committed to the *Fiscal Responsibility Policy* to manage our debt.

Taking Stock

Guided by these principles we have achieved some game changing goals during the past 1,197 days. Only 310 days ago we rolled up 5,000 kilometres of red tape when we gained responsibility for the management of our lands, waters and non-renewable resources on April 1 of last year. The smooth transition was a testament to the dedication of our entire public service, from the people who worked directly to make the assumption of the new responsibilities seamless, to the employees who carried on the regular business of government while the focus and resources were elsewhere. Resource management decisions are now made faster while using the same stringent requirements and processes as before. We are finally receiving a share of the resource revenues generated in our territory. As an Assembly, we have chosen, after sharing with Aboriginal governments, to save 25 per cent of the net revenues we receive from our resource revenues in the Heritage Fund to ensure future Northwest Territories residents share in the benefits of the resources we are using now.

We have protected programs and services. Over the life of the 17th Assembly we will have increased social envelope spending by \$112 million. To date in this Assembly we have added \$69 million in new initiatives plus almost \$54 million in multi-year one-time funding to offset a portion of the NWT Power Corporation's electricity rate increase, which helped moderate the transition to higher rates. In 2015-16, the Government proposes to add \$24.2 million to continue support of the priorities of the Legislative Assembly.

We have not raised taxes, except through indexing to inflation.

We have taken measured risk to make strategic capital investments to grow the economy. This includes the Mackenzie Valley Fibre Optic Link, which will provide opportunities for business, more efficient and effective delivery of government programs, and is expected to pay for itself with the anticipated growth of the Inuvik Satellite Station Facility.

During the life of this Assembly, including the 2015-16 capital budget approved last November, we will have delivered, started working on, or committed to, \$1.5 billion in capital projects. This includes major projects like the Inuvik to Tuktoyaktuk Highway and the Stanton Hospital renovation. These infrastructure investments are significant commitments that will benefit our residents for generations.

We have accomplished this while remaining committed to our *Fiscal Responsibility Policy*. In keeping with the Policy's guidelines, we will have generated operating surpluses in every year of our mandate to pay for at least half of our infrastructure and to service debt. Through careful management of expenditures, we were able to keep our commitment to invest an additional \$100 million in capital in the last two years of this Assembly.

While we have borrowed to make capital investments, our debt servicing payments are one per cent of total annual revenues, well below the *Fiscal Responsibility Policy*'s maximum debt servicing payment guideline of five per cent of total revenues, and the third lowest in the country.

Economic Outlook

These accomplishments are set against a backdrop of a different reality. We are expecting the economy to have grown 5.2 per cent in 2014 and to grow 3.7 per cent this year. The growth in 2014 reflects increased diamond production, pre-construction work on the Gahcho Kué mine and the Inuvik-Tuktoyaktuk Highway construction. The economic growth should continue this year with the increased investment resulting from the start of construction of the Gahcho Kué diamond mine.

These economic growth estimates cloak the decrease in resident employment, the declining population, the dramatically slowing oil and gas exploration, the business closures in some of our communities, and the fact that our economy is only four-fifths of what it was in 2007. Our economic growth is concentrated in the diamond industries while the rest of the economy is not really growing at all.

Over the medium term, there are encouraging signs that our two largest diamond mines will extend their mine lives. These potential extensions are not overly long-term and we need to be cautious. Forecasts are just forecasts until they become reality. The scope and timing of new resource projects is uncertain and already identified potential new mines, including the Gahcho Kué mine, are smaller than the existing mines that will mature soon under the current mine plans.

We have been through the resource boom and bust many times and we are fortunate that we have the diamond mines to support our economy as they have. Nevertheless, we should not count on being lucky again. Our economic future depends on us being able to make investments to grow and diversify the economy and achieve the objectives set in our economic strategies. We are measuring the success of our efforts by setting an aspirational target to increase the Northwest Territories' population by 2,000 people over the next four years. We are measuring success by boots on the ground because other economic indicators are misleading in a small resource-based economy with a large fly in and out workforce.

While all options are on the table to reach our 2,000 target, we are focussed on strategies to help private business retain and recruit as well as do the same for the GNWT workforce. These strategies look at the quality of life offered by the Northwest Territories. We have some of the highest incomes in Canada, our taxes are competitive, and the lifestyle is second to none, so we are focussing on reducing the cost of living through investments to reduce energy and transportation costs and increase our stock of affordable housing.

Fiscal Situation

We expect to end 2014-15 with a \$109 million surplus despite facing both expenditure and revenue shocks. The most severe fire season in the Northwest Territories' history has cost \$55 million, or 3 per cent of this year's budget. Record 64-year low water levels at the Snare Hydro system required the Government to intervene with a \$20 million contribution to the Northwest Territories Power Corporation to ensure higher electricity costs of 13 per cent are not passed on to residents and businesses. On the revenue side, resource revenues are expected to be \$41 million lower and corporate income tax \$24 million lower than the 2014-15 Budget estimates. This perfect storm of shocks has dropped our capacity to borrow and is projected to reduce the \$100 million cushion of unencumbered room under the federally-imposed \$800 million borrowing limit to \$70 million by the end of this fiscal year.

Based on the economic outlook and the population growth forecasts, we are projecting revenues to remain almost flat over the medium term while expenditure pressures continue to grow. Without continued careful expenditure management, we will have a fiscal problem. If we want a vibrant economy we need to make the infrastructure and other investments that will create the environment for our economic potential to be realized. We do not have the revenue growth necessary to make all these investments possible and we are constrained by the \$800 million borrowing limit to borrow to make strategic investments. We can make some investments but it will mean others will not be able to be made and if we can't find enough savings through efficiency gains then other expenditure management actions will be necessary.

Even a higher limit on our authority to borrow will not mean we can relax on expenditure management. Our borrowing is made up of \$407 million in long term and public agency debt and \$272 million in short term debt. Much of our public agency debt, such as the \$184 million in Northwest Territories Hydro Corporation debt, is self-financing through ratepayers. Our short term debt is created when we borrow for other infrastructure investments and cash shortfalls for programs and services. We use operating surpluses to pay for this debt. Addressing our growing infrastructure deficit and making investments to grow the economy will make large operating surpluses an on-going requirement.

Consequently, for this Budget we asked departments to find savings from within to limit forced growth and reduce the operating base. Our new initiatives, which are mainly completions of actions already started, would not be possible without this restraint.

Budget Highlights

The 2015-16 Budget estimates that total revenues will be \$1.83 billion in 2015-16, a 0.6 per cent drop from the revised 2014-15 revenue estimate. Through careful expenditure management by departments, we have held the growth in operating expenditures to 2.1 per cent in 2015-16 to produce a budget of \$1.68 billion. The projected \$147 million operating surplus will increase our borrowing capacity to \$86 million by the end of 2015-16.

Revenues

This Budget introduces no new taxes. We are holding to the principle of maintaining a stable and competitive tax regime. We need tax revenues to make investments for the well-being of residents and to grow the economy. At the same time, we want to be careful to not increase the cost of living, already one of the highest in the country, on Northwest Territories residents and business.

Expenditures

The budgeted 2015-16 operating expenditures are only \$34.6 million higher than the 2014-15 Budget. Departments held the line on expenditures by keeping forced growth and other adjustments to \$46 million. This natural increase in spending was partially offset by reductions of \$23.1 million for programs that have ended and \$12.6 million in reductions to department budgets.

Without the concentrated effort by departments to find savings or to re-profile funding from within their existing budgets, it would not have been possible to present the \$24.2 million in new initiatives in this Budget to continue the work to advance the priorities of this Assembly over the past four years.

Investing in People

We will be spending over \$930 million on social programs in 2015-16 as investments in the Northwest Territories residents to encourage healthy lifestyles free from poverty. Almost 72 per cent of the increase in our operating budget will go towards our social programs, including an additional \$1.75 million for the food allocation in the income assistance program, allowing our most vulnerable Northerners to better feed their families.

To date in this Assembly we have added over \$14.4 million in new initiatives to improve the well-being of Northwest Territories residents, ranging from actions under the *Anti-Poverty Strategy* and the *Early Childhood Development Action Plan* to prevention programs.

In this Budget we are investing another \$4.9 million in new or re-profiled initiatives that will support Northwest Territories residents in reaching their full potential.

This Budget proposes to add \$440,000 to promote integrated approaches to case management for high needs clients being served by multiple departments and agencies. Most of the funding is directed to improving wellness through pilot projects in Yellowknife and Inuvik that will integrate the services provided by various departments and non-government agencies to people with a variety of needs. The team will work directly with clients to help manage their cases so that multi-agency services are integrated into a single team for each individual. This pilot project will provide better service to individuals and will provide information on what approaches will work to ensure the culture shift necessary to break down the barriers and silos that exist across departments and between the GNWT and other agencies providing services. The final product of this pilot project will be the knowledge to make recommendations on how to support integrated case management as a permanent system-wide approach for the delivery of services to clients in a variety of areas, including mental health and wellness.

Helping people gain permanent employment is an objective that supports wellness in individuals as well as reduces income assistance costs. By re-profiling funds from its income assistance program, the Department of Education, Culture and Employment will be able to direct \$646,000 for a new initiative to establish five Employment Service Officers in each region of the Northwest Territories to help employable income assistance clients to gain permanent employment or enter into training. These Employment Service Officers will work one on one with specific income assistance clients, who typically have a wide range of needs and barriers to employment readiness and also work with employers throughout their region.

Our Early Development Instrument data suggests that a third of all Northwest Territories children are behind in their development by the time they reach five years of age and in the smaller communities as many as 60 per cent of five year olds are not at the level they should be. Many strategies and frameworks work in partnership to address the underlying issues that are holding our children back from reaching their true potential and through the *Early Childhood Development Action Plan* this Budget includes \$1.12 million in direct action to improve childhood outcomes. This funding will increase wages and training of early childhood staff in some communities. It will also support new regional approaches to early intervention for children in families at risk, improving our

ability to provide children and their families with the special supports they need to reduce long-term social, emotional and educational problems.

This Budget includes \$1.1 million to support the Wellness Court Program. The Wellness Court is an alternative to conventional court that focuses on addressing the underlying causes of offending behaviour. The funds will be used to hire staff for the Wellness Court Program, including case managers and a psychologist, and to create an evaluation framework. We fully expect that over time this specialized court will result in a reduction in offending, and will lead to other positive outcomes for clients and their families. In time, the outcomes from this program and specialized court will spill over into savings for the Government and decreased demands upon the justice and correctional systems.

Supports for our seniors will have a positive effect on keeping whole families in the territory and is an important part of our population growth strategy. Over the longer term, we will have to find additional ways to help seniors stay in their own homes and their communities as long as possible. In the short term, however, our priority is to ensure adequate staffing in our existing long-term care facilities and we have added \$618,000 in 2015-16 to provide more hours of direct patient care in Yellowknife's Aven Manor, Fort Simpson's Elders Care Home and Fort Smith's Northern Lights Special Care Home.

In addition to these new initiatives, we are proposing to transfer \$1.6 million from the Department of Education, Culture and Employment to the Northwest Territories Housing Corporation to add 75 new housing spaces for income support recipients in Inuvik, Hay River, and Yellowknife, which will improve the housing support provided to these residents.

Investing in the Economy

We have worked hard to be able to fund strategic investments in infrastructure that will create the environment for economic growth and diversification. We have taken measured risks and are prepared to take more if we can invest in a fiscally sustainable manner.

Investments to grow the economy are more than investments in strategic infrastructure. Budget 2015-16 continues actions to build a diversified economy that will provide all communities and regions with opportunities for resident employment and business success with \$5.2 million in new initiatives. These actions complement the \$11.9 million in new initiatives spent in previous 17th Assembly Budgets to strengthen regional economies and implement actions identified in the *Mineral Development Strategy* and the *Economic Opportunities Strategy*.

In total, the Budget provides \$2.5 million for initiatives to support the *Economic Opportunities Strategy*, including more funding for the agriculture strategy, the film industry pilot project, regional economic plans, tourism promotion and training, a business internship, and \$1.5 million in support for the commercial fishing industry.

Over \$1.7 million in new funds are proposed for the *Mineral Development Strategy*, including \$300,000 for the Geoscience Field Assistant Training Program and a geoscience career liaison coordinator and over \$1.4 million to hire a geophysicist, a surficial geologist and a northern mining business development officer and provide

support for incentive programs for exploration, scientific resource deficits, and coordination between industrial market segments.

The 2015-16 Budget proposes to make an initial contribution of \$1 million to help fund the 2018 Arctic Winter Games. We expect that a community, or group of communities, outside of Yellowknife will be chosen late this fiscal year to host the 2018 Games. This is a multi-year commitment to provide the host organization with funds to establish an office, hire staff and raise additional resources to conduct the Games and, if necessary, bring existing facilities to the standard expected by the Arctic Winter Games International Committee. Hosting the Games provides community and economic development and lasting sport and health benefits.

Devolution Implementation

We spent \$59 million in last year's Budget to assume the responsibilities and duties under the Devolution Agreement for the management of our lands, waters and non-renewable resources. We set aside almost \$10 million of the \$67.2 million transfer into the base of our Territorial Formula Financing Grant in 2014-15 to fund necessary activities that were not anticipated in the initial implementation process. The 2015-16 Budget adds \$3 million to complete the devolution implementation, including \$1.2 million associated with the impact of final devolution implementation actions on regular department budgets.

Within the Department of Lands, funding in the amount of \$151,000 has been allocated for the next three years for a resource management specialist to coordinate the GNWT input into the federal amendments to the *Mackenzie Valley Resource Management Act* and the federal regulatory improvement initiative and to help ensure the GNWT Surface Rights Board is established and operational by April 1, 2016. Although the *Act* remains federal jurisdiction, the new regulations that are being contemplated under the *Act* will be largely administered by the GNWT through its new delegated authorities. The new regulations represent important additions to the suite of authorities found under the *Act*. The coordinated approach will bring forward the policy thinking from a number of departments to maximize the GNWT's influence in shaping the evolving regulatory regime and minimize its potential exposure to unanticipated administrative costs in new regulations.

An additional \$415,000 is budgeted for new lands and resource specialists and a legal advisor to ensure that we have a coherent and well-planned policy base for building relationships with the new Boards and for the necessary coordination of GNWT decision-making with Canada for environmental assessment, inspection and enforcement of existing operations. As well, to continue the work of the Office of the Oil and Gas Regulator, we are including \$220,000 to fund a resource management position.

This Budget provides \$1 million to establish a new Liabilities and Financial Assurances Division to manage and coordinate financial assurances for resource development projects across several departments by ensuring that companies meet their obligations for environmental liabilities. The legislative framework makes project proponents responsible for the remediation of their project or to respond to an environmental event. However, if the proponent does not respond, the GNWT protects itself and its taxpayers from the potential liability by demanding financial securities from the proponent. The new

Division will improve on the system inherited from the federal government by developing and managing environmental liabilities and financial assurances in collaboration and coordination with GNWT regulatory and central departments. This approach will ensure protection of the environment through whole project assessment of liabilities and financial assurances and provide necessary policy advice. This will ensure that the GNWT identifies the appropriate level of security for a project, which will protect the GNWT from the significant financial liabilities that can arise from the failure of a proponent to address an environmental event or its closure and reclamation obligations.

Supporting the Environment

Information management is a key component in the development of sustainable economic and environmental management frameworks. Post devolution, it has become apparent that there are critical gaps in the Northwest Territories environmental and landscape baseline data, and therefore funding is required to increase the knowledge in this important area. This Budget proposes investing \$694,000 to establish the Western Arctic Centre for Geomatics in Inuvik. This investment will provide resources for three positions that will provide geomatics services such as remote sensing and research support to the GNWT and other Northwest Territories stakeholders.

Following devolution, the GNWT took over the full operation of the Taiga Environmental Laboratory, which provides analytical water sampling to the private sector and other government departments. This Budget includes a \$577,000 increase in the facility's operating budget for costs to assume total control of the operations at the laboratory. These costs are expected to be partially offset by the revenues that will be received from the laboratory's operations.

Assuming responsibility for the Northwest Territories lands and waters on April 1 has transformed the GNWT from a co-lead with the federal government to the leader on the *NWT Water Stewardship Strategy*. The biggest risk to implementing our water stewardship strategy is the potential effects on trans boundary waters from actions of our upstream neighbours. This Budget includes one-time funding of \$1.6 million to conclude protective trans boundary water agreements with upstream jurisdictions. Commitments flowing from these agreements will be addressed in subsequent budgets.

Investing in Energy and Lowering the Cost of Living

The GNWT has a long term commitment to reducing energy costs and our reliance on non-renewable energy sources. We have demonstrated this commitment with \$12.3 million in new initiatives in the last three budgets. The \$4 million in new initiatives in this Budget will bring the total new actions taken in this Assembly in continuing energy initiatives to lower the cost of living and reduce Northwest Territories' greenhouse gas emissions to \$16.3 million.

We are proposing an additional \$1.4 million in this Budget to continue our energy conservation efforts. The \$400,000 in additional funding proposed to keep Arctic Energy Alliance regional energy advisors will bring the total funding for this initiative to \$1.13 million per year. As well, the \$1.4 million includes \$400,000 to convert streetlights in NTPC thermal communities to more efficient LED streetlights, \$300,000 to fund the

Hot Water Heater Replacement program, which is designed to replace domestic electric hot water heaters with more efficient oil- or propane-fired heaters in non-hydro communities, \$200,000 for the Commercial Energy Efficiency Program and \$100,000 for the Energy Efficiency Incentive Program that helps address up-front cost barriers that consumers face in becoming more energy efficient.

We are continuing our efforts to explore alternative energy sources with \$2.6 million for on-going and new initiatives. The Budget includes \$100,000 in additional funds to support the Alternative Energy Technology program, which provides up to one-half of the project cost for biomass and other alternative energy projects. We also propose providing the NWT Housing Corporation with \$700,000 to install solar panels on 30 public housing units in six communities to supply energy for the mechanical and electrical systems. We want to make further use of the sun's energy by proposing \$500,000 to integrate solar panels with the new diesel plant in Colville Lake and \$125,000 to support solar energy smart grid technology in communities. We are also looking to take advantage of world-class winds near Storm Hills by proposing \$175,000 to test the feasibility of large-scale wind-generated power in that location and \$50,000 for the NWT Wind Monitoring Program administered by Aurora Research Institute. We propose to continue to promote community biomass energy projects and evaluation of biomass projects with \$450,000 in additional funding. Finally, we propose \$325,000 to complete liquefied natural gas feasibility studies in Yellowknife and in one of three candidate communities: Fort Liard, Fort MacPherson and Tuktoyaktuk.

We know that to meaningfully reduce the cost of living and to enable the Northwest Territories economy to grow and develop, we need to make significant investments in energy infrastructure, specifically our generation capacity in Yellowknife and in the thermal communities. This fact was confirmed by the recent Energy Charrette held in Yellowknife. Pending the successful conclusion of our borrowing limit discussions with the federal government, the GNWT is prepared to make those investments. These investments are critical economic infrastructure that will lower the cost of living, use environmentally friendly alternative energy sources, minimize our reliance on the use of diesel, and help create the conditions for economic growth.

Following discussions with the Standing Committee of Priorities and Planning, we are proposing to bring all of the GNWT's energy functions into the Department of Public Works and Services to better support the long term sustainability of our energy policies, program development and delivery. This department has a proven track record for getting results in energy planning and conservation and is already providing a leading role in the adoption of renewable energy technologies and developing and promoting good building practices for the northern environment. This action will result in a consolidated core of energy project management expertise and will provide a clear focus and accountability in energy project and program spending.

Investing to Improve Program and Service Delivery

The 17th Legislative Assembly is committed to improving program and service delivery for our residents and businesses. Including the \$5.6 million in new or enhanced actions proposed in this Budget, a total of \$19.6 million will have been directed to improving program efficiency and effectiveness during the life of this Assembly.

Included in these initiatives is almost \$2.5 million to enhance the delivery of French language services and communications to residents of the Northwest Territories.

Last year's Budget provided funding to allow Health Authorities to use information systems expertise at the Technology Service Centre. This Budget provides \$1.5 million in additional funding to upgrade regional Health Authorities' computer systems so that they can be integrated into a territory-wide Health and Social Services Information Systems Service Centre. Bringing all authorities into one common platform will support the continued roll-out of e-health programs such as the territorial Electronic Medical Records, which will improve patient outcomes and enhance the quality of care.

This Budget includes the transfer of \$2.3 million in Traditional Economy programs from the Department of Industry, Tourism and Investment to the Department of Environment and Natural Resources. The transferred programs include the Community Harvester Assistance Program, Local Wildlife Committees, WSCC Coverage for Resource Harvesters, Hunters and Trappers Disaster Compensation Program, Take a Kid Trapping/Harvesting Program and the Western Harvester Assistance Program. The two departments will cooperate to deliver the Genuine Mackenzie Valley Fur Program with the Department of Environment and Natural Resources being responsible for the Fur Marketing Service Revolving Fund program and the Department of Industry, Tourism and Investment being responsible for national and international marketing and promotion. This re-alignment of responsibilities will ensure a coordinated approach to our programs to support traditional harvesting activities and products.

The Government continues with its commitment to decentralize positions to the regions where possible. We are solidly into phase three of our decentralization implementation. After 15 positions are decentralized in 2015-16, and including the seven positions approved for decentralization in 2016-17, we will have decentralized 150 positions to communities during this Assembly. We are working hard to make decentralization possible from within our existing operations as demonstrated by the Department of the Executive re-profiling resources in Headquarters to establish two new Service Officers in Trout Lake and Wekweètì. However, not all decentralization efforts can be funded internally and this Budget provides an additional \$813,000 in 2015-16 for further decentralization actions including costs associated with moving the Territorial Parks Office from Yellowknife to Hay River.

We continue to work to remove the barriers to successful completion of our decentralization strategy. Through the NWT Housing Corporation's Market Housing and Housing for Staff programs, we are working with stakeholders to increase market rental housing in the smaller communities. We are using our recruitment initiatives to help address the high public service vacancy rates outside of Yellowknife by linking Northerners with regional vacancies and providing on the job training programs; and, where we can't develop Northerners to certain jobs in the short term, we will recruit from outside the Northwest Territories using various recruitment tools and initiatives. Now that the dust has settled from the organization changes as result of devolution, the Department of Environment and Natural Resources is currently undertaking an exercise to determine what activities are the most appropriate to decentralize and looks forward to discussing its conclusions with Standing Committees in the near future.

Looking Ahead

Mr. Speaker, we are forecasting total revenue growth to be basically flat for the next five years. By 2019-20 revenues are forecast to be only 0.4 per cent higher than in 2015-16. Over the same period, expenditures are forecast to grow 8.4 per cent, or about 2.1 per cent a year, under assumptions of strict expenditure management and the return to a \$75 million capital budget.

Clearly this is not sustainable. The revenue and operating expenditure projections mean that operating surpluses will be substantially reduced by 2019-20 under current assumptions. Smaller operating surpluses drop us deeper into a trap of short-term borrowing for cash to cover operating expenditures and leave little to no resources available for infrastructure investments and debt servicing payments. Even by constraining the capital budget to \$75 million annually, or about 4 per cent of total revenues, total debt at the end of 2019-20 is projected to be \$759 million, only \$40 million below the current borrowing limit of \$800 million.

Actions on the revenue side are limited over the short term. Next year, over \$1.2 billion of our \$1.8 billion forecast for total revenues comes from a single federal transfer, the Territorial Formula Financing Grant, which is projected to increase an average of 0.3 per cent annually over the next five years. Our lack of population growth and the reduction in the forecasts for provincial government spending are compounding the drag on growth in the Formula Financing Grant and are beyond our control. Our \$425 million in own-source revenues are forecast to grow an average of 3.5 per cent annually over the next five years, but when we factor in the slow growth in Territorial Formula Financing, the growth in our total revenue forecast becomes flat. While increasing our own revenues is an option, we will need to carefully consider the balance between the amount of additional revenues that can be raised on our small tax base and the effect this could have on the Northwest Territories economy.

Fiscal sustainability means that the growth in the total operating and maintenance budget, including compensation and benefits paid to employees, must not exceed our revenue growth. Fiscal prudence means we need to keep a cushion of at least \$100 million in borrowing room. Taken together, this means other expenditure management actions, including reductions, need to be considered.

A higher borrowing limit will not solve this problem - even the ability to borrow more without compromising our commitment to the *Fiscal Responsibility Policy* will require careful management of expenditures. What we borrow we must repay. This is why the provisions in the proposed *Financial Administration Act* that will ensure the Legislative Assembly will have the ability to review, debate and vote on all short and long term borrowing annually through a borrowing plan tabled with the Main Estimates will be so important.

We are approaching the edge of a cliff and our challenge is to ensure that we do not go over. We should not be operating this close to the edge. Going forward, our main priority will be to continue to maintain fiscal sustainability while protecting our programs and services, making investments in critical economic infrastructure to grow the economy and investing in capital to reduce our \$3.8 billion infrastructure deficit. There will be difficult choices to make.

Conclusion

Mr. Speaker, I shall conclude with the blunt message that we have been spending everything that we receive. This can work when revenues are growing but with a forecast of flat revenue growth over the medium term we need to make sure our expenditures grow in line with our revenues.

However, as I was reminded by participants during last fall's Budget Dialogues, we have been here before. We have learnt from past mistakes and together we can work to ensure fiscal sustainability to our Budget. In the days leading up to the next Assembly, we must start considering the difficult decisions so that we are not passing our problems to future generations.

We will meet this challenge and turn it into opportunities. By working together to ensure that the actions we take will give us the best value for the dollars we are spending, we will still be able to seize opportunities to invest in actions to grow our economy, increase our population, increase our tax base, lower the cost of living and continue to protect the environment. Our Aa1 credit rating and key indicators reflect that we are collectively continuing to manage our way through these often trying times.

All Members of this Assembly should be proud of the work we have done toward achieving our vision of strong individuals, families and communities sharing the benefits and responsibilities of a unified, environmentally sustainable and prosperous Northwest Territories. We will not shrink from the challenge of making the difficult choices to ensure that the GNWT remains on a fiscally sustainable path; able to implement our vision for the Northwest Territories.

Thank you, Mr. Speaker.