

PUBLIC SECTOR

Government employment and spending is the largest of any sector in the NWT. Benefits of this spending are widespread, in terms of both program delivery and re-spending effects.

1. THE PUBLIC SECTOR TODAY

The public sector, or government, is an important part of the NWT economy. Spending on programs and delivery of those programs provides jobs and income to public servants directly, construction and service contractors indirectly. Recipients of transfer payments such as social assistance, additional to the benefits of the services being provided such as health care, education, housing, and many others are all included in the government's impact on the economy. In many communities, government activity is the basis for the local economy.

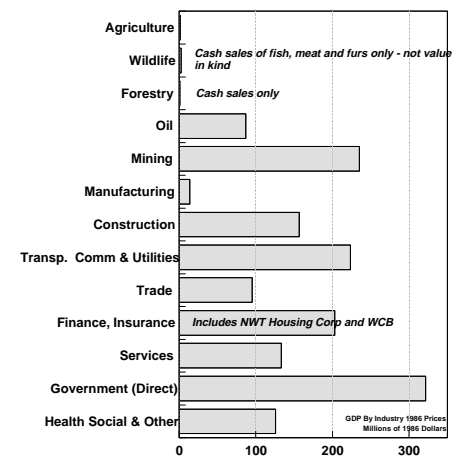
Government includes all three levels; federal, territorial, and municipal. Changes in spending patterns or policies by any or all of these has significant impacts on local economic conditions and opportunities.

The GNWT and governments everywhere are faced with shrinking revenues and increasing demands for services. In addressing these issues they must be mindful of the social as well as economic impacts of cutbacks that have taken place and will continue in the foreseeable future.

2. GLOBAL & NATIONAL TRENDS

Governments all over the world, faced with mounting deficits from the late 1980's and recession of 1990, have been cutting back. The federal government has been cutting programs and transfers to provinces and territories. The provinces in turn have had to

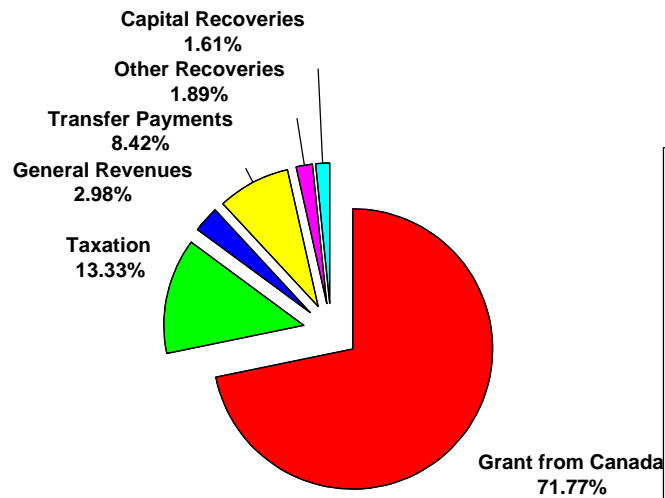
THE ECONOMY



WHAT'S INSIDE

- 1. THE PUBLIC SECTOR TODAY 1
- 2. GLOBAL AND NATIONAL TRENDS 1
- 3. INGREDIENTS FOR SUCCESS 3
 - 3.1 RESOURCES 3
 - 3.2 HUMAN RESOURCE DEVELOPMENT 4
 - 3.3 CAPITAL & INVESTMENT 4
 - 3.4 PUBLIC INFRASTRUCTURE 5
 - 3.5 MARKETS AND SALES 5
 - 3.6 REGULATIONS AND TAXATION 5

GNWT Revenue Sources (1997/98)



The GNWT is heavily dependent on Federal funding to maintain the level of services required by NWT residents. Total revenues are over \$1.1 billion.

The federal government has been cutting programs and transfers to provinces and territories. The provinces in turn have had to undertake severe cost-cutting measures in attempts to balance their own budgets and to reverse the trend of rising debt.

New Zealand was one of the first countries to undertake drastic cost cutting measures. That country turned its situation around at considerable social cost in terms of eliminating services once taken for granted and changing the way government does business.

In Canada, Alberta was one of the first provinces to adopt similar measures in the early 1990's. All provinces have had to make cutbacks to varying degrees. More recently, Ontario increased the level of cutbacks to address its budget situation. Alberta has now reached the stage where cost-cutting has resulted in a surplus, allowing for some choice as to how that money should be spent - reduce the debt or reinstate services in health and/or education.

The federal government has also recently met with success and is ahead of targets in reducing the deficit, allowing for some flexibility in spending.

NWT TRENDS

The Government of the Northwest Territories receives about 70% of its revenue from the federal government through the Formula Financing Grant.

The Formula Financing Grant fills the fiscal gap between NWT spending needs and the NWT's ability to raise revenues. Spending needs are represented by the Gross Expenditure Base, which is adjusted for the growth in provincial-local government spending or growth in the national economy and relative

population growth in the NWT compared with Canada as a whole. Own-source revenues are adjusted for the relative rate of taxation compared with the provinces.

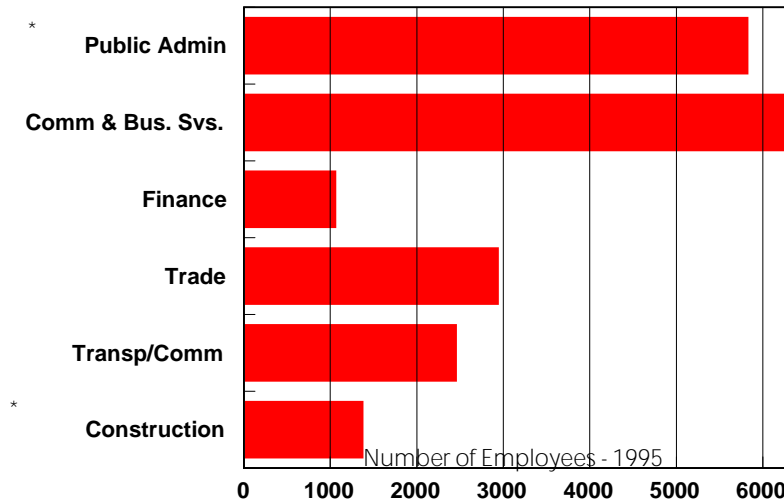
In its 1995 budget, the federal government announced that the 1995-96 Formula Financing Grant would be frozen at its 1994/95 level and a cut of 5 per cent would be applied to the Gross Expenditure Base in 1996/97. Because it is applied to the Gross Expenditure Base, the effects of the cut will carry forward into future years. Over the three years from 1996/97 to 1998/99, this measure will reduce revenues to the Government of the Northwest Territories by \$167 million.

Growth in the Gross Expenditure Base is tied to the level of provincial and local government spending. Provincial budget reductions have meant a further reduction in the Grant to the NWT and no increases in the Grant are expected in the near future.

Meanwhile, our population continues to grow at the fastest rate in Canada, and government's capacity to fund social and other necessary programs is being eroded.

In addition to reduced revenue levels, the way government operates is changing. The Community Transfer Initiative will alter

Employment by Industry Category



Although government is the single largest employer, growth has slowed and budget cutbacks are being reflected in recent job losses.

the way government does business by transferring resources and authority for a variety of programs to the community level. Contracting for construction of capital projects and maintenance of facilities will occur to an increasing degree, at the community level.

3. INGREDIENTS FOR SUCCESS

3.1 RESOURCES

As a major sector of the NWT economy, government does not rely on any one natural resource, as is the case for export sectors. It relies on the accumulated wealth created by those sectors and returned to it in the form of taxes, royalties, fees, and other payments from its citizens' incomes or from the incomes of businesses.

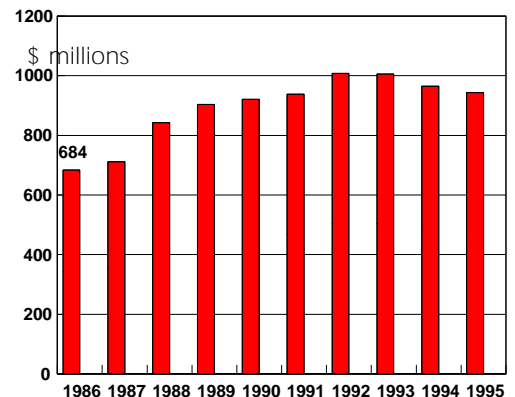
In the case of the GNWT, we do not have sufficient income from these sources within the NWT and must rely on transfers from the federal government to provide necessary services for residents.

The state of our existing finances and reliance on external funding mirrors the poor economic linkages and relative lack of development of our resource sectors. Without development in these areas to produce income and business tax revenue, the GNWT will remain vulnerable to changes in federal

funding. Royalty payments for use of our resources currently flow to the federal government because it currently controls mineral resources in the NWT.

The GNWT is also changing the way it uses the resources it does have. Community empowerment has been taking place and is increasing. The process of empowerment puts resources in the hands of the communities and improves the capacity of

Gross Domestic Product at 1986 Prices- Gov. Expenditures on Goods & Services



each community to plan how that funding is used, as well as to plan where the community wants to go in terms of social, cultural, and economic issues.

Both the territorial and federal governments commit considerable resources to the development of the NWT, much of it towards the same objectives, as is the case with DIAND. Program planning between governments is not well coordinated, however, and the programs we do have are not always complementary. These separate approaches sometimes lead to individual programs not having sufficient funding to carry out needed projects and clients becoming confused as to which funding source to approach. Duplicate programs also entail duplicate administration, both at the field and headquarters level. In addition to federal cuts to transfer payments, the expiration of the 1991-1996 Canada/NWT Economic Development Agreement was a serious blow to stimulating economic development in the Northwest Territories.

3.2 HUMAN RESOURCES

Total labour income in the NWT for 1995 was approximately \$1.48 billion. The GNWT, municipalities, federal government, and public hospitals employed over 9,000 residents, with a total gross payroll of over \$546 million. In other words, 37% of the labour income in the NWT originated from various levels of government in 1995.

The issue of how this level is maintained was raised in the resources section above. From a human resource standpoint, these jobs represent a significant opportunity for residents in direct employment and significant benefit to goods and service businesses that rely on this income to be spent locally.

Another aspect of these jobs is that most of the higher-paying jobs are held by people who have moved North because of the

relatively high wages and benefits offered. Government cutbacks and continued restraint, however, have lessened the gap between Northern and Southern wages, and dropping of benefits such as housing further reduced the relative attractiveness of these jobs. In 1990, average weekly earnings in the NWT were 31.8% higher than the Canadian average. In 1995, average weekly earnings in the NWT were only 24.3% higher than the Canadian average. Although this average uses all industries and not just government, it indicates a general trend.

Affirmative action measures have long been in place to attempt to have the government workforce representative of the population it serves. Aboriginal representation has always been low by this measure, and difficult to increase because of the skill level requirements of many of the jobs involved. With increased skills, job opportunities exist.

The creation of Nunavut provides a further opportunity for local hire. Skill deficiencies for available jobs is recognized, and training programs have been given a high priority. In the West, positions will likely be lost. The extent of those job losses has yet to be determined, and is dependent on the level of incremental funding the federal government is willing to provide for the creation of Nunavut. Although the extent of transfers of positions to Nunavut is not known, some of the positions required will be coming from the West. The extent to which incumbents move with those positions has not yet been agreed to.

3.3 INVESTMENT AND CAPITAL

Through lending and business contribution programs, the GNWT has played a significant role in provision of financing to

the private sector. The Business Incentive Policy provides an incentive for businesses to establish in the North to provide goods and services, not only to government, but the private sector as well. Introduction of the Immigrant Investor "Aurora Fund" provides a means to use private sector capital to invest in Northern businesses.

The GNWT will continue to play a support role in the provision of private sector capital where traditional lending institutions have been unwilling to invest.

3.4 PUBLIC INFRASTRUCTURE

The degree of public infrastructure development has two major effects. The construction industry benefits from the jobs involved in building the infrastructure, while individuals and businesses benefit from the availability and use of that infrastructure.

The range of public infrastructure provided includes roads, docks, airports, housing, community facilities, offices, public housing and a variety of other necessities, all of which contribute to local development and well-being.

Planned capital expenditures by the Government of the Northwest Territories for 1997/98 will be \$139 million, down from \$200 million in 1995/96. Continued cutbacks in capital have serious long-term implications in addition to the immediate drop in construction-related activity. Without replacement capital, O&M costs increase, and there is a larger and larger

demand for facilities in the future both from the standpoint of replacing existing buildings and equipment as well as meeting demands of a growing population.

Government also faces the prospect of providing education and health infrastructure for a growing population. Cutbacks now will increase the need to catch up in the future.

Although capital funding will likely remain constrained, more severe cutbacks are unlikely because of the long term implications.

The creation of Nunavut will result in a large increase in capital expenditures in the eastern Arctic, especially in regional centres. The federal government is responsible for provision of these incremental costs.

3.5 MARKETS AND SALES

Markets and sales as an ingredient for success is different for government than for the private sector. Governments tend to concentrate on marketing on behalf of significant economic sectors, in support of economic development generally.

The GNWT directly supports broad tourism marketing programs because of the potential for the sector to create jobs. It lobbies on fur and wildlife issues as a means to ensure a continued livelihood for residents. Although the minerals sector deals with commodities which have a set price which no amount of marketing will change, government marketing for this sector is geared to attracting investment, which will in turn create jobs.

Governments in general, and especially in the NWT, are a major market themselves for goods and services from the private sector. Capital expenditures on

infrastructure, travel, communications, and other goods provide some businesses with the majority of their sales. The fact that these expenditures are decreasing increases the emphasis on the need for private sector development to provide the demand for these businesses.

3.6 REGULATIONS AND TAXATION

The Government of the Northwest Territories has one of the lowest corporate tax rates in Canada, along with personal income tax rates. Taxes, although necessary, reduce the amount of disposable income available to residents to spend locally, and business taxes tend to make investment less attractive. The GNWT has purposely maintained low tax rates to reflect the added costs of living in the North and to ensure that the limited investment we do have is not discouraged.

The recent budget proposed no new taxes, and relied on budget cuts to meet deficit reduction targets.

The NWT has too small a tax base to use as a source of funding its way out of difficult times. Investment and jobs are needed. With new jobs and investment, tax revenues will increase.

One area of potential revenue is not now open to the GNWT. The federal government owns most of the land in the NWT and receives the royalties from mineral development on these lands. The GNWT has been pushing the federal government for devolution of this authority to ensure we benefit from resource development. From a regulatory viewpoint, the GNWT also strives to ensure that the regulatory requirements for such developments are clear, transparent, and provide for the best interests of GNWT residents and the environment.

4. CONCLUSIONS

The Government of the Northwest Territories will experience continued restraint to meet budget targets in addition to the reductions expected to occur with the creation of Nunavut. It cannot be relied upon to play as significant a role in the economy as it has in the past. Many businesses are already feeling the impacts of government cutbacks in contracting and through direct job reductions. The outlook for 1997 and 1998 shows continued reductions in government expenditures in the range of 5% annually.

The establishment of the Nunavut government will provide significant short-term growth potential from capital expenditures as well as the creation of new jobs in Nunavut. Opportunities exist to make the best use of available jobs through training for Northerners, and especially aboriginal residents, to take advantage of jobs that are currently available. Community Empowerment will continue as a means to empower communities to provide government services, but also as a means to promote community development.

Empowerment provides an opportunity for communities to plan across a wide range of requirements and to use available resources in the best way possible for each community's situation. It provides an opportunity to integrate economic development needs with social, cultural, and educational developments.

Devolution of mineral and oil and gas responsibilities will remain a priority to ensure we can control development and receive the benefits of development of our resources. Education and training will remain a priority. Jobs exist, but Northerners require increased basic education, often to the university level to take advantage of higher-paying jobs in the public service.

With greater limitation on resources, governments must find ways of operating more effectively.

Economic
Framework