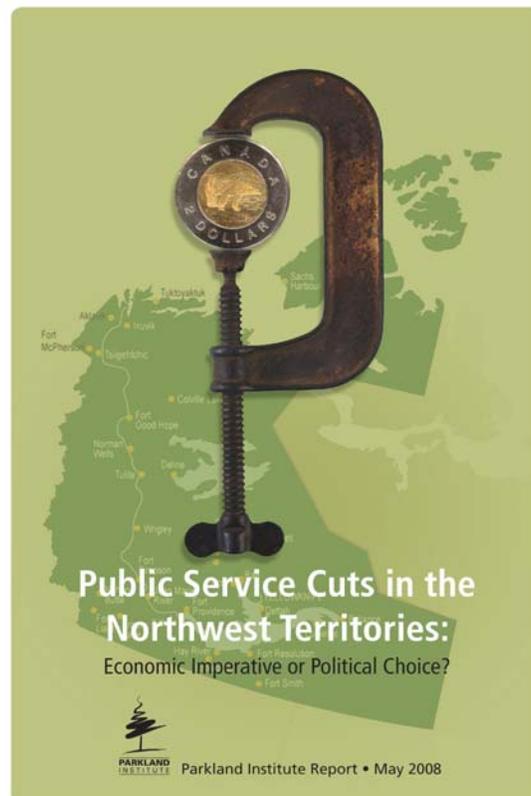


Public Service Cuts in the Northwest Territories: Economic Imperative or Political Choice?

Appendix – Response to Government Comments

By David Thompson
May 2008



Introduction

This Appendix addresses the comments made by representatives of the Government of the Northwest Territories (GNWT, Government) in relation to the Parkland Institute Report entitled “Public Service Cuts in the Northwest Territories: Economic Imperative or Political Choice?” (Report) published May 6, 2008.

GNWT Comments

The GNWT has not yet published any formal response to the Report, but its representatives have made comments through the media:

1. Deputy Finance Minister Margaret Melhorn on CBC News, “Layoffs, other savings needed to fund projects: NWT deputy minister” May 8, 2008
<http://www.cbc.ca/canada/north/story/2008/05/08/report-reax.html>
2. Finance Minister and Premier Floyd Roland in Yellowknifer, “Report claims budget cuts political, not economic” May 9, 2008
http://www.nnsl.com/members/newspapers/stories/may9_08bd.html
3. Finance Minister and Premier Floyd Roland on CBC News, “We've got to find dollars to reinvest in infrastructure': NWT premier” May 9, 2008
<http://www.cbc.ca/canada/north/story/2008/05/09/roland-budget.html>

Response to Comments

General Response

Government budgets are vital not just to government, but to public policy and the broader public interest. Major budget changes are thus an appropriate item for broad public discussion. In January 2008, or possibly earlier, the GNWT decided to make major cuts – in excess of 10% of the total budget. Yet, as of mid-May, the GNWT has failed to release documentation regarding the cuts, e.g. rationale, detailed calculations showing financial necessity and lack of alternatives, a description of which services will be cut, or a list of which communities will be affected.

The Report analysed the GNWT’s finances and the health of the broader economy, using numbers from Government publications. It found growing revenues, growing surpluses, an eliminated net financial debt, and likely growing revenues in future years, all underpinned by a strong economy growing faster than any other in Canada. Based on the Government’s documents, there appears to be no economic case for budget cuts.

This Appendix attempts to provide a response to the Government’s public comments to date and to provide further information.

Specific Responses

For each of the media stories, comments made by GNWT representatives are presented in italics, followed by bulleted responses.

Deputy Finance Minister Margaret Melhorn on CBC News, “Layoffs, other savings needed to fund projects: NWT deputy minister” May 8, 2008

<http://www.cbc.ca/canada/north/story/2008/05/08/report-reax.html>

“[D]eputy minister Margaret Melhorn said the cost-cutting measures are more about funding government priorities — such as dealing with aging infrastructure — than about balancing the books....”The legislative assembly has identified a number of priority areas, and if the government wants to make investments in those areas to help move those priorities forward, then there has to be some money identified,” she said Wednesday... Melhorn said the Parkland Institute report focuses on government's proposed cost cuts, ignoring the need for increased spending

- The Report acknowledged that the Government wishes to boost infrastructure spending, and that this might be the rationale for the cuts (e.g. Report pages 3, 10, 16). However, other Government statements suggest the rationale is more about the level of expenditures vis-à-vis revenues (e.g. Evolution of Fiscal Framework document discussed at pages 8-11, comments of Premier and Finance Minister Floyd Roland noted later in the same CBC news story¹).
- The Government has not released any document describing the cuts, their rationale, and calculations demonstrating the necessity (whether it be increased infrastructure spending, or “balancing the books.”)

The N.W.T.'s infrastructure, from schools to public housing, needs to be replaced or repaired, she said. The government spends about \$100 million a year on construction projects, and it plans to add \$50 million to that amount in the coming years, she added.

- The Report noted that increasing revenues from economic growth and increases to core Federal funding should be adequate to cover increased capital spending needs (pages 15-17).

¹ “In January, the premier, who is also finance minister, warned of ‘serious financial difficulties’ ahead if the government does not change its spending.... ‘If we continue to allow our expenditures to grow faster than our revenues, we’ll experience serious financial difficulties by the end of this assembly,’ Roland said on Jan. 22.”

- The Report further noted that additional sources of revenue are available if and when needed (pages 17-20).

Finance Minister and Premier Floyd Roland in Yellowknifer, “Report claims budget cuts political, not economic” May 9, 2008

http://www.nnsi.com/members/newspapers/stories/may9_08bd.html

Roland told Yellowknifer, "We need to cap the growth of government. We've spent faster than we have expenditures coming in."

- As the Report notes, the Government’s own numbers show that revenues have been growing faster than spending (pages 6-10).

He attributes the report's conclusion to its use of "opportunistic years" to look at revenues. By using 2002-2003, a year with low revenues due to a large federal repayment, Roland said it creates the appearance of greater growth since then.

- The Report uses the same years as the Government uses:
 - Where the Report examines and illustrates the trends of revenues and expenditures, it uses the very same years that the Government uses in its most recent available financial statements: 2002-2003 through 2006-2007.²
 - Where the Report addresses the revenue and surplus discussions in the Government’s Evolution of Fiscal Framework document (pages 8-11), it uses the same years that the Government uses.

"We don't see this as Las Vegas, and we don't want to gamble our future," said Roland.

- The Report suggests that the Government make decisions with the most current, most accurate information. Some such information was unavailable when the cuts were announced, for example:
 - \$35 million per year of Federal infrastructure funding over seven years, announced the month after the cuts were announced
 - GDP growth of 13.1% in 2007, announced three months after the cuts were announced.
- The Report notes that the Governments surplus projections have been, on average, \$19 million below actual levels over the past four years.

The report proposed alternatives to public service cuts, should revenues fall in the future. ... Among the recommendations made are the creation of a carbon tax and the increase of tax rates on large corporations, top income earners and fuel, all three of which are below national

² GNWT, “Public Accounts, Northwest Territories, 2006-2007”

<http://www.fmbs.gov.nt.ca/documents/expenditures/pubaccount/2006-07pa.pdf> at p.18 (accessed May 14, 2008).

averages. ...Roland said the government won't exercise that alternative. Noting that the NWT has one of the highest costs of living in the country, the premier said he did not want to drive it any higher.

- Considering cost of living in the absence of income is misleading. The Report notes that NWT average incomes are the highest in Canada. If you consider total household spending as a proportion of family incomes across provinces and territories,³ the NWT is actually slightly below the national average.
- The ultimate decision on tax rates rests with the Legislative Assembly, not with the Government.

According to Roland, without decisions such as the proposed budget cuts, the government will be in no position to make reinvestments for the future

- As noted in the Report, Government revenues will very likely rise significantly in coming years, thus providing resources for investments without any need for cuts. If it turns out that further revenues are needed in the future, the economy is strong enough (and existing rates of some taxes are low enough), that some taxes could be raised. However, the Report does not suggest that tax increases would be necessary.

."There is a necessity for the capping of government growth and how we spend the dollars," [Roland] said.

- Capping is different from cutting. Capping would mean no further growth, rather than actual reductions.
- Actually capping government growth and spending in the face of a projected doubling in GDP (by 2014) would carry significant risks for government, business, and the public.

Finance Minister and Premier Floyd Roland on CBC News, “We've got to find dollars to reinvest in infrastructure’: N.W.T. premier” May 9, 2008

<http://www.cbc.ca/canada/north/story/2008/05/09/roland-budget.html>

But Roland said the Parkland Institute report is flawed because it included one-time federal funding — such as money under Ottawa's community capacity fund and the national housing trust — in its calculations of the government's revenues.... "For budgeting purposes, we can't take that and say that's going to be what we have in '08-'09, '09-'10, '10-'11 and '11-'12. So when you look at that, and you back out what we feel wouldn't be prudent for us to put in place, those one-time payments."

- The Report used revenue totals taken directly from GNWT publications.
- It is unlikely that the GNWT received “one-time” revenues several times in the past, and will never receive any “one-time” revenues in the future.

³ Statistics Canada, CANSIM tables 203-0001, 111-0009.

- Unlike Territorial Formula Financing, special grants from the Federal Government tend to be tied to expenditures. Thus the existence of “one-time” revenues implies that there are “one-time”⁴ expenditures as well.
- If there are one-time revenues that should be removed from the calculations, there will also be one-time expenditures linked to those revenues, which should also be removed from the calculations.
- There are likely discretionary one-time expenditures that are not linked to “one-time” Federal grants, and which should be removed from the calculations.
- The GNWT has not indicated which one-time expenditures should be removed.
- The Community Capacity Building Fund⁵ was established in 2005, was for \$35 million over a three-year period. This amounts to less than 1% of the Government’s revenues over that period.
- The Northern Housing Trust⁶ was established in 2006, was for \$50 million. It’s up to the GNWT how quickly it uses the grant.⁷ If it did so over a three-year period, this would amount to approximately 1.3% of the Government’s forecasted revenues over that period.

Roland said he wants to focus government spending on investments that will get more results, such as helping more high school students to graduate, and creating more jobs and better programs.

- It is unclear how optimizing spending necessitates cuts.
- Presumably the Government has been optimizing spending for several years already.

Conclusions

The Government’s reaction does not change the conclusions in the Report. Those conclusions stand: revenues and surpluses have been growing, the net financial debt has likely been eliminated, and revenues are likely to grow in future years. Moreover, the economy is strong and growing faster than any other in Canada.

Based on the Government’s own numbers, and taking account of its comments in the media, there appears to be no economic case for budget cuts.

⁴ Whether in one fiscal year, or spread out over a period of a few years. The Evolution of Fiscal Framework document discussed in the Report at pages 8-11 suggested that “each year” since 2004, there were one-time revenues.

⁵ This is presumably the reference to “community capacity fund.” See: http://www.exec.gov.nt.ca/currentnews/speechDetails.asp?varStatement_ID=542, http://www.exec.gov.nt.ca/currentnews/prDetails.asp?varPR_ID=1074.

⁶ This is presumably the reference to “national housing trust.”

⁷ According to the Federal Government, the GNWT has “the flexibility to draw down funds as they require up to the end of the lifespan of each individual trust.” Government of Canada, *Budget 2006* Ch.3 under “Funding Support to Provinces and Territories to Address Immediate Pressures.”

<http://www.fin.gc.ca/budget06/bp/bpc3ee.htm> (accessed May 14, 2008).