

SUPPLEMENTARY DOCUMENTS

DEPARTMENT OF FINANCE
FEBRUARY 20, 2008



TABLE OF CONTENTS

Fiscal and Economic Outlook..... 1

Appendices..... 17

- A. Accrual-Based Budgeting
- B. Building Canada Fund
- C. Hedging
- D. Impact of New Accounting Standards
- E. Improvements to the 2008-2009 Main Estimates
- F. Inuit Societal Values
- G. Outfitters Assistance Program
- H. Strengthening Financial Management
- I. Tax Measures

FISCAL AND ECONOMIC OUTLOOK

DEPARTMENT OF FINANCE
FEBRUARY 20, 2008



FISCAL OUTLOOK

For 2008-09, the Government of Nunavut (GN) projects a surplus of \$4.5 million. This surplus compares to the revised estimated \$1.8 million deficit for 2007-08.

Due to enhanced federal transfers, revenues are projected to be \$1.162 billion in 2008-09, an increase of \$50.0 million over the \$1.112 billion projected in the 2007-08 Revised Main Estimates.

Overall GN expenditures are projected to increase by \$44.0 million for 2008-09 compared to the 2007-08 Revised Main Estimates. GN Operations and Maintenance (O&M) expenditures are projected to increase by \$24.1 million. The increase in O&M expenditures is mainly attributable to planned forced growth requirements for 2008-09.

Capital expenditures approved in November 2007 total \$98.3 million. Major allocations go to:

- The Department of Education: \$25.6 million for a variety of programs, including \$3.3 million to build a trades school in Rankin Inlet and \$2.1 million for the planning and design of Nunavut Arctic College's Community Learning Centre in Pond Inlet.
- The Department of Community and Government Services: \$23.1 million for capital projects that will affect almost all communities in Nunavut, including \$4.6 million for water supply and sewage facilities and \$2.4 million for projects in Iqaluit.
- The Nunavut Housing Corporation: \$19.1 million for new housing stock and Homeownership Programs, and for ongoing modernization and improvements.
- The Department of Health and Social Services: \$14.4 million for programs including Qikiqtani General Hospital Phase II in Iqaluit, and the new Continuing Care Centres in Igloolik and Gjoa Haven.
- The Department of Economic Development and Transportation: \$9.5 million for a wide range of expenditures, including an airport replacement project in Arctic Bay.
- The Department of Justice: \$2.9 million, primarily for the planning and design of the new Correctional Centre in Rankin Inlet.
- The Department of Culture, Language, Elders and Youth: \$850,000 for the planning and design of the Piqusilirivvik Folk School in Clyde River.

Figure 1

| Fiscal Forecast | | | |
|---------------------------|---|--|--|
| | 2007-08 Main Estimates (\$ Millions) | 2007-08 Revised Estimates (\$ Millions) | 2008-09 Projected (\$ Millions) |
| Revenues | 1050.7 | 1111.9 | 1162.2 |
| Expenditures | | | |
| O & M | 895.4 | 946.2 | 970.3 |
| Capital | 91.8 | 91.7 | 98.3 |
| Contingencies | 70.1 | 75.8 | 89.1 |
| Total Expenditures | 1057.3 | 1113.7 | 1157.7 |
| Surplus (Deficit) | (6.6) | (1.8) | 4.5 |

Figure 2

| Summary of Revenues (2008-09) | |
|--------------------------------------|--------------------|
| Federal Transfers | \$ Millions |
| Territorial Formula Financing | 944.1 |
| Other Federal Transfers | 136.8 |
| Total Transfers | 1080.9 |
| Own Source Revenues | |
| Taxes | 46.6 |
| Other | 34.7 |
| Total Own Source Revenue | 81.3 |
| Total Revenues | 1162.2 |

DEBT LIMIT

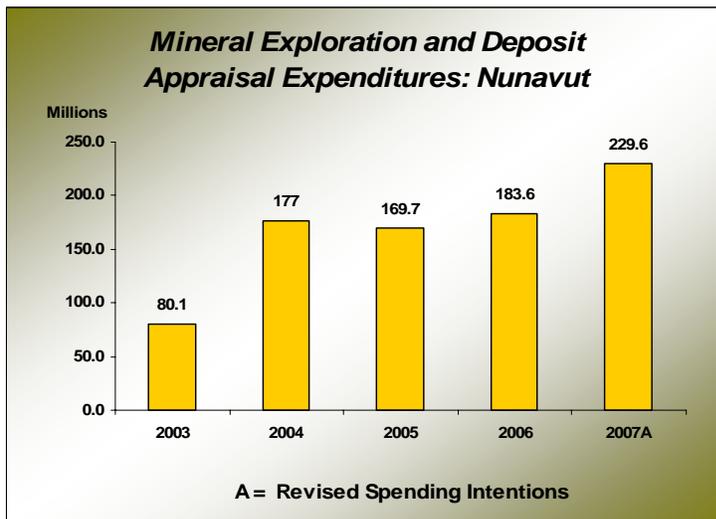
In 1999, the Federal Government set the GN's borrowing limit at \$200 million. On December 31, 2007, GN debt totaled \$139.2 million. Current long-term debt as of December 2007 was 12 percent of revenues. The GN is currently able to service its debt obligations.

Figure 3

| Long Term Debt | | | |
|---|-----------|------------------------|-------------------|
| Borrowing Authority | | | |
| The Governor in Council, pursuant to subsection 27(2) of the <i>Nunavut Act</i> , has approved Government borrowing up to \$200 million. | | | |
| | | December 31, 2006 | December 31, 2007 |
| | | (thousands of dollars) | |
| Government of Nunavut Bank Overdraft liability | \$ | - | \$ - |
| Government of Nunavut Mortgage Payable | \$ | 4,959 | \$ 4,735 |
| Nunavut Development Corporation Bank Overdraft Facilities | \$ | 1,125 | \$ 1,147 |
| Qulliq Energy Corporation Credit Facilities | \$ | 28,000 | \$ 28,000 |
| Qulliq Energy Corporation, long term debt | \$ | 58,439 | \$ 56,870 |
| Nunavut Housing Corporation, Hillside Co-op Mortgage | \$ | - | \$ 1,200 |
| Nunavut Housing Corporation, long-term debt | \$ | 48,881 | \$ 47,206 |
| Total debt | \$ | 141,404 | \$ 139,158 |
| Authorized borrowing limit | \$ | 200,000 | \$ 200,000 |
| Available borrowing capacity | \$ | 58,596 | \$ 60,842 |
| The various debt instruments of the Nunavut Development Corporation, Nunavut Housing Corporation and Qulliq Energy Corporation are guaranteed by the Government of Nunavut. | | | |

ECONOMIC OUTLOOK

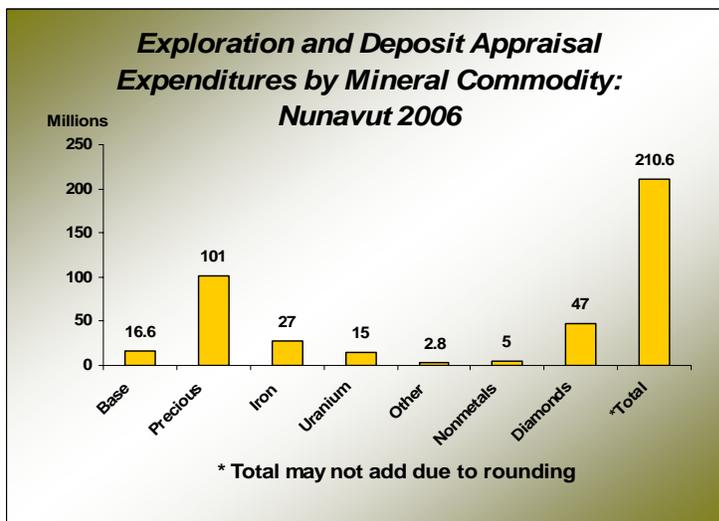
In 2006, Nunavut's real GDP grew faster than that of any province or territory except Alberta, advancing 3.4 percent on the heels of a decline of 0.2 percent in 2005. Nunavut benefited especially from mining industry activity, which helped exports jump 21 percent after six years of declines resulting from the closures of several major mines. It also translated into an acceleration of consumer spending. Business investment, however, which remained essentially flat in 2006, dampened the effect of real GDP growth. This stands in contrast to the previous three years, when business investment was a driving force of the economy.



Source: Natural Resources Canada

Figure 4. The Mining and Exploration sector has rebounded strongly in recent years and all signs point to continued growth in 2008-09.

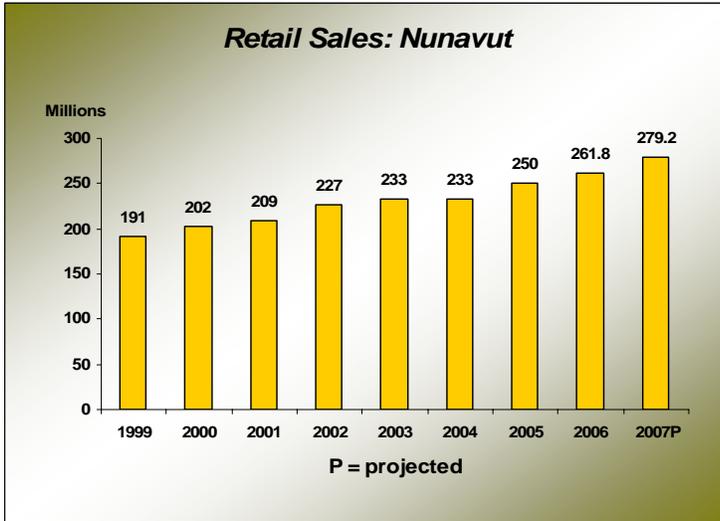
Record metal and oil prices continue to fuel exploration in Nunavut. Mining companies are expected to spend about \$230 million on exploration in 2007, an estimated increase of about \$46 million over 2006.



Source: Natural Resources Canada

Figure 5. The Meadowbank gold mine is currently under construction, and is estimated to come on-stream in 2010. It will produce 350,000 ounces of gold per year through an eight-year life.

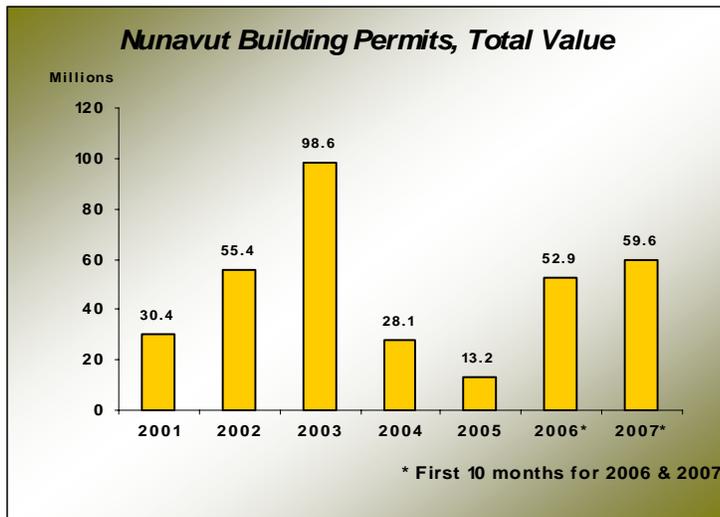
Baffinland Iron Mine Corporation continued its drilling activity in 2007. It plans to begin construction of a mine in 2010, with its first delivery of ore in 2014.



Source: Statistics Canada, GN Bureau of Statistics, GN Department of Finance

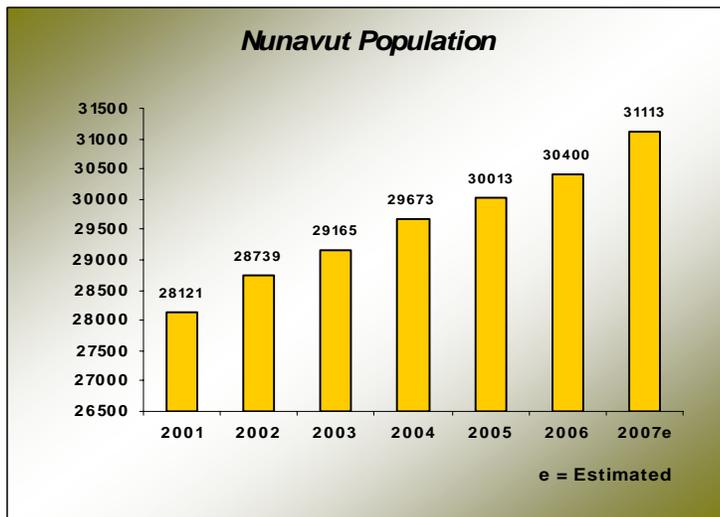
Figure 6. Year-to-date **Retail Sales** as of November 2007 show an increase of 6.8 percent over the same period in 2006.

Year-to-date seasonally-adjusted **Wholesale Trade** as of November 2007 grew to \$43.5 million from \$22.3 million in the same period in 2006, an increase of 95 percent.



Source: Statistics Canada

Figure 7. Year-to-date seasonally-adjusted **Building Permits** as of October 2007 increased in value to \$59.6 million from \$43.4 million over the same period in 2006, an increase of 37.3 percent.



Source: Statistics Canada

Figure 8. The **population** of Nunavut as of July 1, 2007 is estimated at 31,113. This represents an increase of 2.4 percent, or 713 people, over July 2006. This growth rate is more than twice the national average of 1 percent. Strong birth rates and interprovincial migration fuels these increases.

ABORIGINAL POPULATION

New data from the 2006 Census shows that the number of people in Canada who identified themselves as Aboriginal has surpassed the one-million mark. A total of 1,172,790 people reported either First Nations, Métis or Inuit identity. In 2001, 976,305 people identified themselves as Aboriginal, and in 1996, 799,010.

In 2006, Aboriginal people accounted for 3.8 percent of the total population of Canada, an increase from 3.3 percent in 2001 and 2.8 percent in 1996.

The Aboriginal population has grown faster than the non-Aboriginal population. Between 1996 and 2006, it increased 45 percent, nearly six times faster than the 8 percent growth rate of the non-Aboriginal population over the same period.

Of the 1,172,790 people who identified themselves as Aboriginal in the 2006 Census, about 4 percent, or 50,485, are Inuit, a 26 percent increase over 1996.

Census data shows that the Inuit population in Canada is much younger than the non-Aboriginal population and other Aboriginal groups, largely the result of a higher birthrate and a shorter life expectancy. In 1991, life expectancy in Inuit-inhabited areas was 10 years less than in Canada overall, with a wider gap for females (11 years) than for males (9 years). By 2001, the difference was more than 12 years, and the gap was similar for males and females. At 67 years, life expectancy in Inuit-inhabited areas is about what life expectancy was for Canadians in 1946.

INUIT POPULATION OF NUNAVUT

In 2006, 85 percent of the population of Nunavut identified themselves as Aboriginal, the highest proportion of Aboriginal people in all of Canada's provinces and territories. Of the Aboriginal people in Nunavut in 2006, 24,635, or 99 percent, were Inuit. The Inuit of Nunavut are the largest Inuit population in Canada, accounting for about one half of all Inuit in the country.

This population is growing quickly, at more than twice the rate of the non-Aboriginal population of Canada. Since 1996, Nunavut's Inuit population increased by 20 percent. During that time, Canada's non-Aboriginal population increased by 8 percent.

The Inuit population of Nunavut is one of the youngest in Canada, with a median age of 20 years, compared to 40 years for the Canadian non-Aboriginal population. Thirteen percent of Inuit in Nunavut are under the age of five, compared to 5 percent of Canada's non-Aboriginal population. Seniors make up only 3 percent of the Inuit population of Nunavut, compared to 13 percent of the non-Aboriginal population in Canada.

The largest Inuit population in the territory lives in the capital, Iqaluit. About 3,500 Inuit, or 14 percent of the total Inuit population of Nunavut, reside there. They account for 58 percent of the city's total population.

CANADIAN DOLLAR

The Canadian dollar reached parity with its U.S. counterpart on September 20, 2007, for the first time since November 1976. Its newfound strength coincides with a steady decline of the U.S. Dollar. At its high, it reached \$1.10 against the U.S. dollar, but has since retreated to hover around parity. The Canadian dollar's upward surge is mainly due to sustained high prices for commodities and energy, which has kept the Canadian economy strong even as a weak residential sector has caused the U.S. economy to slow. There is some concern that the increase in the value of the Canadian dollar may negatively impact certain sectors of Nunavut's economy, such as mining and tourism.

Mining activities in Nunavut generally cost more than mining activities in the provinces due to the vast expanse and remoteness of the territory. Although Nunavut in recent years has experienced record spending on exploration, companies are finding the appreciation of the dollar restrictive. For example, Nunavut's only diamond mine recently listed the dollar as one reason for its current operating difficulties. However, high metal and mineral prices will continue to balance the higher costs associated with the stronger Canadian dollar.

Tourism from the United States may decrease in 2008 because of the weaker U.S. dollar. American travelers to Nunavut are accustomed to seeing their dollar go further, but now they will be spending more on transportation, food, entertainment and accommodation. In contrast, the Canadian dollar has not shown as much strength against the British Pound or the Euro, and European travelers are less likely to share Americans' concerns.

KEY SECTORS

Public Sector

Since the creation of the territory, the public sector has been the principal driver of the Nunavut economy. It accounts for approximately 30 percent of territorial wage earners, significantly higher than the Canadian average, which is less than 6 percent. The public sector also accounts for a significant portion of investment. About 33 percent of the \$395 million in capital expenditures estimated for 2007 derive from public expenditures. This total was second highest among all provinces and territories, and significantly higher than the national average of just under 21 percent.

The public sector in Nunavut also accounts for a significant portion of Gross Domestic Product, making up about 26 per cent of its value in 2006. In Canada as a whole, by contrast, the public sector accounted for less than 6 percent of Gross Domestic Product in 2006.

With the ongoing development of major mining projects, and the promise for future developments related to mining, the relative importance of the public sector in the Nunavut economy will likely decline. Even so, the public sector will continue to be a significant contributor to the Nunavut economy well into the future.

Cultural Industries

The current estimate of the value of sales by Nunavut artists is approximately \$30 million. The *Nunavut Economic Development Strategy* projects the value of art sales to reach \$50 million by the year 2013.

More than 20 percent of Nunavummiut over the age of fourteen rely on the arts as a source of primary or supplementary income. Nunavut artists are major contributors to the international arts market. Ten percent of Canadian art sold internationally is Inuit art, although Inuit make up less than a quarter of one percent of the Canadian population.

In 2007, the Department of Economic Development and Transportation began to implement *Sanaugait: A Strategy for Growth in Nunavut's Arts and Crafts Sector*, which will support growth in the sector. Throughout 2007, and continuing in 2008, the Department of Economic Development and Transportation increased support to the Nunavut Arts and Crafts Association. It also secured increased support from Indian and Northern Affairs Canada for international arts branding and for the protection of the intellectual property rights of Nunavut artists. Additionally, it is working with the Vancouver Organizing Committee to determine how Nunavut's cultural industries will participate in the licensing and marketing of the official Inuksuk symbol of the Vancouver 2010 Olympic and Paralympic Winter Games.

Nunavut's film and new media sectors also continue to grow through support from the Department of Economic Development and Transportation. In 2007, the Department of Economic Development and Transportation provided \$475,000 under the Nunavut Film, Television and New Media Development Program for training and programming opportunities for Nunavut filmmakers and media artists. It also supports the operations of the Nunavut Film Development Corporation, which delivers this program. Nunavut Film estimates that expenditures on film production in Nunavut in 2007 and through 2008 will exceed \$9 million, of which \$1.5 million will be for local labour.

In 2008, the Department of Economic Development and Transportation will continue to support *Sanaugait*, as well as *Ukkusiksaqtarvik: Carving Stone Supply Action Plan*. Priorities include improving access to quality materials, developing domestic and international market opportunities, and educating artists about intellectual property rights, artistic techniques and business skills.

Fisheries

The fishing industry in Nunavut focuses primarily on two species: shrimp and Greenland halibut, also known as turbot. Inshore fishing of arctic char also accounts for a small percentage of Nunavut's total catch.

Preliminary data from Fisheries and Oceans Canada indicate that, in 2007, turbot landings were down slightly, declining to 7,395 tonnes from 7,858 tonnes in 2006. Early ice development in certain areas was largely to blame. Turbot prices were also under pressure in 2007 due to the Canadian dollar's strength. Shrimp landings declined in 2007 as well, to 2,666 tonnes from 4,017 tonnes in 2006. Shrimp prices, however, improved in the latter part of 2007 and in early 2008.

Although landings were down slightly in 2007, Nunavut's fishing industry has experienced major growth over the past five years. Greater allocations of turbot and shrimp, major investments in offshore fishing vessels, and increased participation by Inuit have all contributed to a healthy industry. Inuit participation at higher skill levels is also likely to increase thanks to continued training by the Nunavut Fisheries Training Consortium, and through programs that offer certification for professional positions on fishing vessels.

In 2007, the Nunavut Wildlife Management Board, in conjunction with the GN and industry stakeholders, began to develop a new commercial fishing allocation policy. This new policy will bring a high level of transparency and accountability to the fishing industry. It will also provide support for an inshore, small-boat fishery for Nunavut by reserving allocations specifically for smaller vessels. Additionally, the GN remains committed to addressing issues constraining the industry, such as its minority share of offshore fisheries and the lack of small-craft harbours.

The future of Nunavut's fishing industry depends upon good stewardship and conservation, as well as maximizing benefits to Inuit. Under the new allocation policy, Nunavut's quota holders will be required to demonstrate these values. Allocation decisions will also reflect the needs of Inuit.

Sealing

The ringed seal is important to Inuit in economic and nutritional terms, but it is also of fundamental importance to the social and cultural fabric of Nunavut's small coastal communities. In Nunavut's economy, cash from the sale of sealskins helps Inuit finance subsistence harvesting. This cash is needed for food, supplies and maintaining a traditional way of life. Under the Fur Pricing Program, the GN purchases 6,000 to 9,000 skins each year, providing more than \$500,000 in income for hunters. The Fur Pricing Program benefits more than 800 hunters, while the meat from harvested seals provides a replacement food value of approximately \$5 million annually.

To showcase the use of Nunavut ringed seal and other furs in both functional and fashionable clothing, a new Nunavut Inuit Collection was produced for 2007. The collection was shown at the 25th anniversary of the North American Fur Fashion Expo in Montreal, and at trade shows around Nunavut and Canada. Additionally, the Nunavut Arctic College offered a pilot training course in Fur Production and Design to teach Nunavummiut the knowledge and skills needed to design and produce sealskin clothing for market.

The Department of Economic Development and Transportation continues to implement the Nunavut Sealing Communications Initiative, and is working with other jurisdictions to develop a strategic response to the anti-sealing movement and proposed international bans. An Inuit Sealing Sub-Committee is being established under the Fur Institute of Canada's Sealing Committee to bring more Inuit involvement to national and international communication efforts. The Department of Economic Development and Transportation is also sponsoring a new website, <http://www.sustainablesealing.ca/>, to promote Nunavut's sustainable sealing industry. Promotional materials and videos are being distributed, and delegates have been sent to Europe to counter misconceptions about Nunavut's traditional, sustainable seal harvest. Inuit hunters and seamstresses were also sent to Parliament Hill and to the Netherlands to respond to the 2007 annual anti-sealing protest.

The GN supports both animal welfare and the sustainable use of wildlife. Inuit have survived for thousands of years by responsibly harvesting renewable resources, including seals, and this practice continues today.

Commercial Harvesting

Harvesting activities in Nunavut include hunting for household consumption and community distribution, as well as for the commercial sale of meat and skins. Musk ox, caribou and seals comprise the major species that are harvested in the territory.

The annual replacement cost of the harvest of country food has been estimated at \$30 million. Beyond the potential cost savings to Nunavummiut, access to a healthy source of food is a significant benefit. Harvesting activities also provide people with productive choices in their communities, which are attuned to Inuit cultural values and the Inuit traditional way of life.

Commercial harvesting in Nunavut has contributed to the development of two meat processing plants in the territory. Kitikmeot Foods in Cambridge Bay processes arctic char and musk ox, and Kivalliq Arctic Foods in Rankin Inlet, arctic char and caribou. Combined sales total more than \$2.2 million annually, and the plants are an important source of local employment.

Mineral Exploration and Mining

In 2007, mineral exploration hit a new record in Nunavut, due in part to high commodity prices globally. Well over one hundred exploration projects were active in the territory, with projected exploration expenditures of approximately \$230 million. For sites already under development, capital expenditures reached approximately \$185 million. Including all other expenditures, mining companies spent a projected total of \$495 million to explore and develop Nunavut's mineral resources. To promote Nunavut's mining potential further, the GN has completed geological mapping of the Boothia and Foxe Peninsulas.

As part of the implementation of the *Nunavut Mineral Exploration and Mining Strategy*, the Department of Economic Development and Transportation is conducting an independent review of the permitting and regulatory structures related to mineral exploration and mining in Nunavut. The review, to be released in April 2008, will recommend actions to streamline and simplify the regulatory system in the territory.

Acquisition of some of Nunavut's most promising projects by large industry players demonstrated confidence in the territory's mineral potential and regulatory environment. Early in 2007, Zinifex acquired a large portfolio of base metal projects from Wolfden Resources for \$388 million, including the High Lake and Izok Lake deposits. Later, Agnico-Eagle acquired the Meadowbank gold project for \$710 million. At the close of 2007, Newmont spent \$1.5 billion to acquire the emerging Hope Bay gold district from Miramar Mining.

Three significant mining projects are projected to open in the near term. Both Newmont's Doris North gold mine and Agnico-Eagle's Meadowbank gold mine are scheduled to open in 2010. By 2014, Baffinland's Mary River iron mine is also expected to begin production. All in all, up to eight additional mines may open by 2016, creating many new jobs.

In addition, there has been significant interest in Nunavut's uranium resources in recent years. In response, the GN has introduced six principles for development of a uranium industry in the territory. Under these principles, the GN:

- Regards mining, including uranium mining, as an important potential source of revenues to meet the needs of Nunavut's growing population and also as a potential source of employment and associated skills development for Nunavummiut.
- Recognizes that uranium development places special responsibilities on government because of the nature of uranium and its by-products, the history of its use for both peaceful and non-peaceful purposes, and its potential risks to human health and the environment.
- Understands that uranium development must have the support of Nunavummiut, especially in communities close to uranium development.

- Will support uranium development in Nunavut provided that the following conditions are satisfied:
 - a) Health and safety standards that are at least at Canada's national standard must be assured for workers involved in uranium development in Nunavut;
 - b) Environmental standards must be assured, especially for the land, water and wildlife;
 - c) Nunavummiut must be the major beneficiaries of uranium development activities.
- Believes that nuclear power generation will be an important part of global strategies for ensuring energy supplies while reducing reliance on greenhouse gas-emitting fossil fuels.
- Believes that Canadian law and international agreements provide a reasonable level of assurance that uranium mined in Nunavut will be used for peaceful purposes.

In early 2008, Tahera announced that its Jericho diamond mine would cease production. Tahera noted its recent struggles with the high Canadian dollar, lower world diamond prices and higher-than-expected operational costs as factors in their difficulties. While unfortunate, the closure of Jericho will not be a significant setback to the sector's current momentum.

Many industry analysts expect commodity prices to remain strong for an extended period due to continued undersupply. Nunavut remains well-positioned relative to other northern jurisdictions, with a fully settled land claim, and highly prospective and comparatively unexplored geology. Consequently, mineral exploration and mine development expenditures should also remain strong for the foreseeable future.

Stronger mining activity in Nunavut has the potential to contribute to the social and economic health of Inuit, particularly with respect to infrastructure, employment and training. Firstly, Inuit are intimately involved in the decision to allow mining in Nunavut, through participation on the Institutions of Public Government. Additionally, Inuit Impact and Benefit Agreements and Development Partnership Agreements negotiated with mining companies will ensure that benefits flow to Nunavut Land Claims Agreement beneficiaries. Finally, Inuit Qaujimajatuqangit is a core part of the environmental assessment that must accompany each new mining operation.

In order to strengthen Inuit participation in the mining industry further, the GN has allocated funds towards trades training. These funds will go toward building and staffing a trades school in Rankin Inlet, and to expanding Nunavut Arctic College's Community Learning Centre in Pond Inlet. Both projects are anticipated to reach the construction stage in 2008.

Petroleum Resources

The most recent estimate by the Geological Survey of Canada indicates that Nunavut's conventional undiscovered oil and gas resources stand at approximately 10 billion barrels of crude oil and 100 trillion cubic feet of natural gas. There have been no estimates of unconventional oil resources, though up to one billion barrels of oil sands may be present on Melville Island and an additional 600 trillion cubic feet of gas hydrates may exist in the Sverdrup Basin. Current estimates of discovered resources in the territory stand at 530 million barrels of oil and 12 trillion cubic feet of natural gas, held across 20 Significant Discovery Licenses.

Nunavut's oil and gas potential attracted considerable interest in 2007. The Council of the Federation projected Nunavut's gas production rate will reach 345 billion cubic feet per year by the year 2020, almost 6 percent of total projected Canadian production. A seismic prospecting

company from Greenland began an offshore survey on the Canadian side of the Davis Strait near southern Baffin Island. Another seismic prospecting company has also recently requested authorization from the National Energy Board to begin work in the Davis Strait in summer 2008. Additionally, Petro Canada has announced publicly that it would develop its Drake Point and Hecla license areas on Melville Island if natural gas prices remain high.

The Department of Economic Development and Transportation has commissioned a study of the issues and challenges facing the petroleum industry in Nunavut. It aims to encourage the development of the Melville Island gas fields within the next decade, as well as further exploration in the territory to determine Nunavut's full oil and gas potential more accurately.

Working closely with Indian and Northern Affairs Canada, Natural Resources Canada, the National Energy Board and the Geological Survey of Canada, the Department of Economic Development and Transportation also plans to provide public access to information about petroleum resources in Nunavut to increase investor confidence in the territory.

Energy

In October 2007, the GN approved *Ikummatiit: The Government of Nunavut's Energy Strategy*. This strategy establishes a framework for reducing Nunavut's dependence on fossil fuels and for creating an affordable, sustainable, reliable and environmentally responsible energy system. It will guide Nunavut's energy policies and related GN programs and activities until 2020. *Ikummatiit* mandates four areas of policy action:

- Energy conservation and efficiency;
- Alternative energy, including the development of hydro-electricity;
- Better management practices; and
- Oil, gas and uranium development.

New housing in Nunavut will also conform to high environmental standards. The Nunavut Housing Corporation, in conjunction with Nunavut Tunngavik Incorporated, has developed and was negotiating a ten-year housing program with the Federal Government. Initially, 725 units will be built. They will be built at an energy-efficiency level that is 25 percent above current code requirements. This was successfully piloted in 2007 with a five-unit building. Strategies and innovations will be investigated to identify further savings opportunities, and policies will be instituted to ensure that all new housing is energy efficient.

The GN protects Nunavummiut by directly and indirectly subsidizing the cost of energy. In order to better track and manage these subsidies, as well as promote energy efficiency and conservation, the GN proclaimed legislation in 2007 to establish a single Affordable Energy Fund. Current subsidies will continue under this Fund.

Nunavut Fuel Resupply

Despite higher world oil prices, the strong Canadian dollar helped insulate the Petroleum Products Division of the Department of Community and Government Services against world price escalations. Many of the buying arrangements are based on U.S. indicators and a high Canadian dollar allowed the Petroleum Products Division stronger buying power in the exchange calculation: instead of buying with a 75-cent dollar, the Petroleum Products Division was generally purchasing fuel on par with the U.S. dollar.

Figure 9

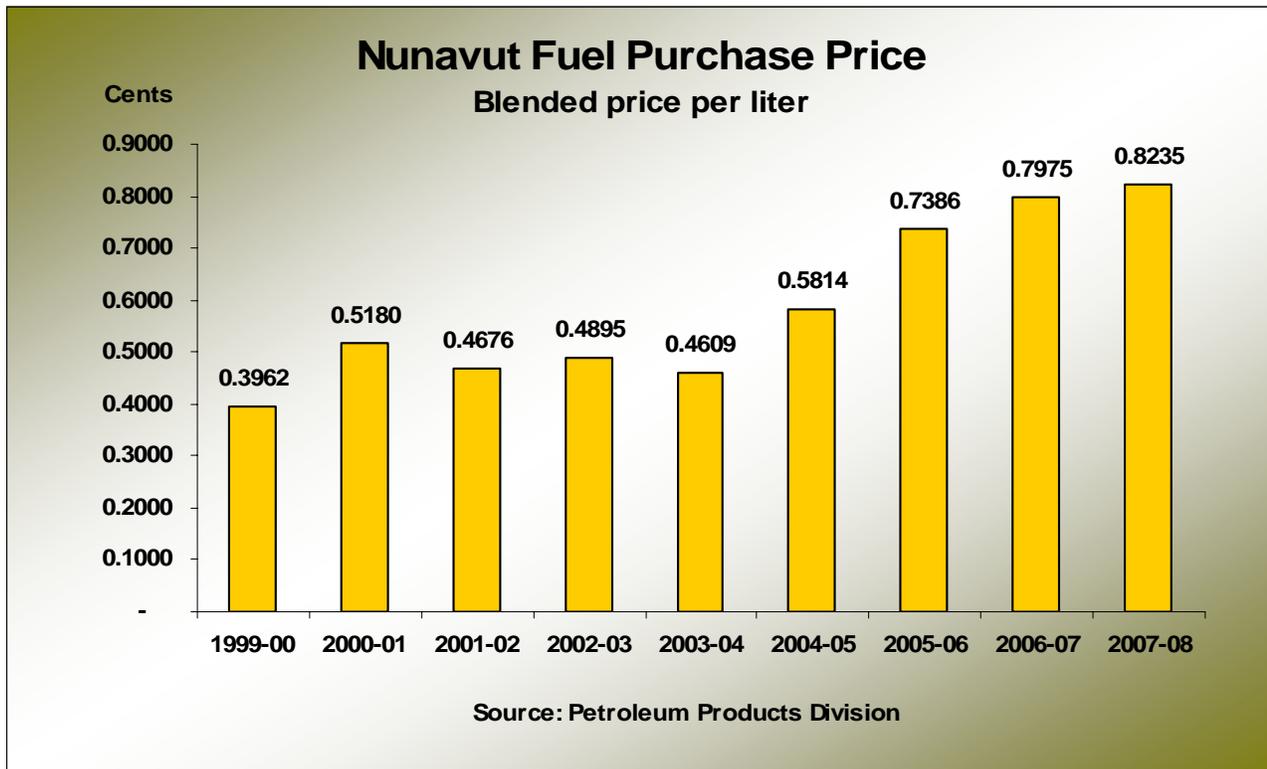
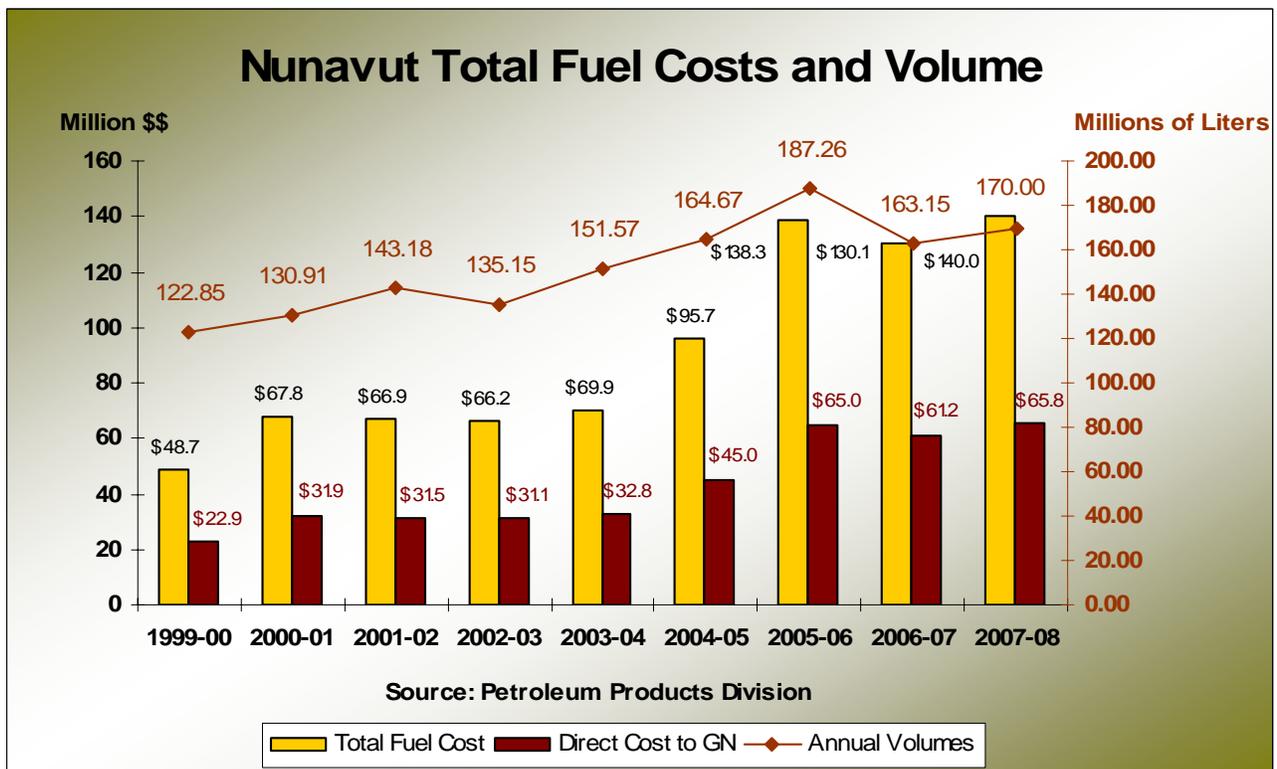


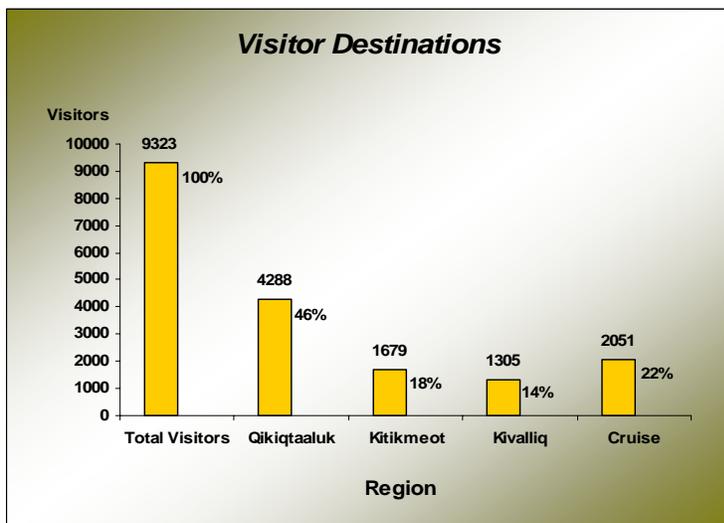
Figure 10



Tourism

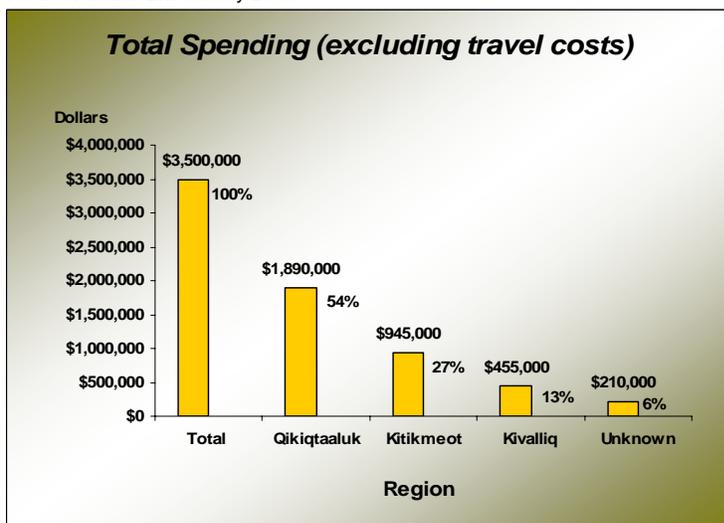
Estimates indicate that the tourism sector in Nunavut accounts for about \$26 million in economic activity and attracts approximately 13,000 people each year, primarily from Canada, the United States and Europe.

Visitors come to Nunavut for its unparalleled opportunities for outdoor activities, including the spectacular scenery of the many Territorial and National parks and Heritage River systems, wildlife viewing, hiking, fishing and hunting. Nunavut also offers unique cultural activities and learning opportunities, as well as a vibrant and diverse arts and crafts sector.



Source: Visitor Exit Survey 2006

Figure 11. In 2006, the Department of Economic Development and Transportation completed Nunavut’s first **Visitor Exit Survey**. It confirmed that approximately 9,300 travellers visited Nunavut between June and October of that year. Half of these travellers visited for business purposes and more than one-third for leisure or to visit family and friends.



Source: Visitor Exit Survey 2006

Figure 12. In 2006, these 9,300 travellers spent \$3.5 million on meals, accommodation, activities and retail purchases, largely in the Qikiqtaaluk and Kitikmeot regions.

The GN is continuing to help develop the local tourism sector. In 2007, the Department of Economic Development and Transportation reviewed the *Travel and Tourism Act* with the intent to align it with the *Nunavut Land Claims Agreement* and to simplify license procedures for tourism operators. Under an agreement with Nunavut Tourism, the Department of Economic Development

and Transportation also provides more than two million dollars annually to support visitor services, product development, marketing and promotion, and hospitality and tourism training.

In 2007, the Governments of Nunavut and France signed a Memorandum of Understanding to promote cooperation in tourism. The Department of Economic Development and Transportation is working with the Association des francophones du Nunavut to develop links with tourism agencies in France, and to increase Nunavut's profile there. In addition, the Department of Economic Development and Transportation continues to encourage investment in tourism at trade shows and through marketing campaigns, such as the successful "lookUPnorth" campaign conducted with territorial partners in 2007.

Since the creation of Nunavut in 1999, cruise industry interest in the territory has grown significantly. In 2007, 29 sailings to Nunavut visited the communities of Resolute Bay, Pangnirtung, Qikiqtarjuaq, Pond Inlet, Grise Fiord, Kimmirut, Cape Dorset and Iqaluit.

General interest in Nunavut will also likely increase in coming years due to the growing level of awareness of climate change and of its impacts on the Arctic, its people and their traditional way of life.

In order to cope with this anticipated growth in tourism, there will be increased need to construct marine and other tourism-related infrastructure. If this growth is to be sustainable, Nunavummiut must be the primary economic and social beneficiaries, and the cultural and ecological values that attract visitors to Nunavut must be protected.

Transportation

The high cost of transportation in Nunavut, coupled with limited options, creates a significant challenge to economic development in the territory. All of Nunavut's communities are accessible by air, either through turboprop or turbojet service, or by sea during the summer months, but none are accessible by road. The rest of the territory, representing approximately 97 percent of Nunavut's vast land area, is accessible only by special charter or by traditional means. Transportation costs also constitute a significant portion of the cost of fuel and building materials for each community, with costs of delivery to Kitikmeot communities particularly high.

Nunavut's geography offers unique opportunities for transportation companies. Iqaluit International Airport is a choice location for cold-weather testing of both military and civilian aircraft. Over the past few years, the European Aeronautic Defense and Space Company has selected Iqaluit as the testing ground for two of their highest-profile projects, the Euro-Copter and the Airbus A380 jumbo jet.

The Department of Economic Development and Transportation is currently updating the *Nunavut Transportation Strategy* to highlight the persistent challenges facing the territory in this sector. The Interdepartmental review is complete, and the Department of Economic Development and Transportation is soliciting stakeholder comments until the end of February 2008.

APPENDICES

DEPARTMENT OF FINANCE
FEBRUARY 20, 2008



ACCRUAL-BASED BUDGETING

The GN implemented accrual-based budgeting on a non-consolidated basis in 2007-08. This backgrounder has been included again in Budget 2008 to provide readers with an overview of the financial summaries included in the Introduction Section of the 2008-09 Main Estimates, using accrual-based budgeting. The implementation of accrual-based budgeting has strengthened the accountability and transparency of the budget development process. The accrual-based budgeting approach permits relevant comparative analysis of budgets to the Public Accounts.

Accrual-based budgeting is an approach to budget presentation whereby the GN recognizes the financial impact of an event as it occurs. That is, a transaction is recorded in the time period when the activity causing the transaction takes place.

On the other hand, cash-based budgeting is an approach whereby the GN would recognize transactions when cash is received or paid out, which is often different than when the event actually happens.

Example 1

Under accrual-based budgeting, the value of goods received but not invoiced prior to the end of the fiscal year would be recorded and included in expenditures for the fiscal year that the goods were received.

In the situation above, under the cash-based budgeting method, the goods received would not be recorded and included in expenditures until the invoice is received and paid.

Another example of accrual-based budgeting is employee leave and severance benefits, which are recorded annually and included in Operations and Maintenance expenditures. Under cash-based budgeting, this transaction would not be recorded and included in expenditures until the employee terminates his or her employment with the GN.

The greatest change in the recording of transactions from a cash-based budgeting approach to an accrual-based budgeting approach is the accounting treatment for fixed assets, such as buildings. Under cash-based budgeting, the expense is included in expenditures when the transaction occurs. Under accrual-based budgeting, the expense is amortized over the useful life of the facility; therefore, only the amortization portion is included in expenditures for a fiscal year.

Example 2

Assume that it would cost \$1 million to build a new facility and the facility is expected to have a useful life of 20 years. Under cash-based budgeting, the \$1 million would be included in expenditures when the funds to construct the facility are actually spent.

Under accrual-based budgeting, the \$1 million would be amortized over 20 years using the straight-line amortization method, which means that only \$50,000 ($\$1,000,000/20$) would be included in expenditures during each fiscal year.

Benefits of accrual-based budgeting

A comparison of accrual-based budgeting with cash based budgeting yields the following conclusions about the accrual-based budgeting method:

- Accrual based budgeting corresponds with the Generally Accepted Accounting Principles (GAAP) used in financial reporting; thereby allowing comparison of budget and actual information prepared on a consistent basis. Since the Public Accounts are prepared in conformity with GAAP, the accrual-based budgeting method will permit relevant comparative analysis.
- Given that accrual-based budgeting charges costs to the time period in which they will be consumed, a more accurate and complete estimate of the cost of government functions is available. Furthermore, a more complete and detailed estimate of government obligations performed is provided when including accurate and complete budget information is included. An example of this would be when accruing for employee leave and severance benefits.
- Accrual-based budgeting allows for easier and more accurate comparisons with other governments because this practice is becoming the standard throughout the public sector.

Changes to the budget process

Tangible capital assets and amortization

- Under cash-based budgeting, the total cost of a capital acquisition is recorded as an expense in the fiscal year when the expenditure occurs. Thus, the overall annual expenditures of government operations, and individual programs, can vary from year to year, often significantly, due solely to capital purchases.
- Under accrual-based budgeting, a capital purchase is considered as the acquisition of a long term asset, available to provide future benefits to government activities. The cost of the capital purchase is not charged to the departmental operations and maintenance budgets, but is recorded in the financial statements as a capital asset.
- The method by which the capital asset cost is charged to government expenditures is called amortization. Amortization is a concept in which the cost of a capital asset is allocated over time to government expenditures. The time period used to allocate the capital cost is the estimated useful life of the asset. Using this approach, as the usefulness of the asset is consumed over time, a corresponding proportionate share of the capital asset cost is charged to government expenditures as demonstrated in example 2 above. This allocation method provides a more accurate measure of activity cost, and thereby a more accurate summary for analytical purposes.

Capital leases

- An operating lease agreement is typically short-term in nature and can be cancelled during the contract period. An operating lease arrangement is typically used to purchase items such as photocopiers or lease GN office space from private companies. These payments are budgeted by departments through their operations and maintenance budgets.
- A capital lease agreement typically extends to the useful life of the asset and substantial risks or benefits of the ownership of the asset are assumed by the GN.

- For example, if the GN enters into a lease arrangement with another party and the GN has the option to purchase the asset at some point in the lease arrangement at a bargain price or assume the ownership of the asset at the end of the lease agreement, the lease must be recorded as a capital asset. The interest portion of the capital lease payment of the asset will be charged as an expense over the estimated useful life of the capital asset and the principal will be used to retire the capital lease as it is consumed over time.

Various non-cash expenses

- Non-cash are expenses that occur each year which do not require payment of cash.
- For example, in the case of prepaid expenses, the cash has been spent in a prior period. This is usually the case for insurance coverage that is paid for a twelve-month period. However, the insurance coverage may impact two fiscal periods.
- An asset may become worthless, such as allowances for doubtful accounts. If an account receivable is deemed to be uncollectible, it must be written-off as a bad debt expense.
- The value of inventory may decrease in value over time. For example, the GN typically writes down the value of fuel inventory at year-end. Because fuels are normally stored for a period of twelve months or longer, the fuels often evaporates over time.
- In each case, when the above events become known and the value of the transaction(s) is determined, departments should include these non-cash expenditures in their annual operation and maintenance budgets to provide a complete budget expense profile for the GN.
- Departments with non-cash transactions are expected to review their programs and services and financial records to ensure that these items are identified and proper budgetary provision is included annually in their operations and maintenance budgets to cover these expenses.

Employee entitlements

- Employee entitlements cover a wide range of obligations for the GN, including: pension costs, removal costs, separation costs, and similar contractual or legal requirements. All employee related expenses should be identified, and where reasonable estimates can be obtained, should be included in the appropriate departmental budget.
- Although the liability for employee entitlements fluctuates on an annual basis, the entitlement continues to accrue. An appropriate provision for the growth in the liability is necessary so that annual GN costs are accurately portrayed, and outstanding liabilities are correctly reflected.

The following Summary Financial Reports have been included in the 2008-09 Main Estimates:

- *Summary of Operations*: expenditures are based on an accrual basis, which includes capital expenditures not transferred to tangible capital assets, the interest portion of lease payments and amortization of capital assets.
- *Summary of Cash Flows*: provides information on how the activities of the GN have been financed and how its financial resources have been used during the fiscal year on a cash basis.

- *Summary of Changes in Net Debt:* reconciles surplus/deficit income used in the acquisition of tangible capital assets recorded in the financial statements.

The attached reports compare financial reporting using the accrual- and cash-based budgeting methods (includes revolving funds).



SUMMARY OF OPERATIONS
(\$000)

| | 2008-09 Accrual Budgeting | 2008-09 Cash Budgeting |
|---|--|---------------------------------------|
| Revenues | 1,177,715 | 1,177,715 |
| Operations expense | | |
| Compensation and Benefits | 339,893 | 339,893 |
| Grants and contributions | 256,544 | 256,544 |
| Other expenses | 397,997 | 397,997 |
| Capital | 61,250 | 123,230 |
| Amortization | 36,206 | - |
| Total operations expenses | 1,091,890 | 1,117,664 |
| Unadjusted surplus (deficit) | 85,825 | 60,051 |
| Estimated supplementary Requirements | | |
| Other Supplementary Requirements | (89,100) | (89,100) |
| Estimated appropriation lapses | | |
| Operation and Maintenance | - | - |
| Recoveries of prior years expenditures | | |
| Projects for Canada and others | | |
| Revenues | 35,507 | - |
| Expenses | (35,507) | - |
| Operating surplus (deficit) | (3,275) | (29,049) |
| Accumulated surplus, beginning of year | 897,137 | 897,137 |
| Accumulated surplus, end of year | 893,862 | 868,088 |

STATEMENT OF CASH FLOWS

(\$000)

| | 2008-09 Accrual Budgeting | 2008-09 Cash Budgeting |
|--|--|---------------------------------------|
| Cash provided by government operations: | | |
| Transfer from Canada | 1,063,750 | 1,063,750 |
| Taxes | 46,610 | 46,610 |
| Other government revenues | 198,299 | 198,299 |
| Salaries and employee benefits | (339,893) | (339,893) |
| Grants and contributions | (256,544) | (256,544) |
| Goods and services acquired | (535,541) | (535,541) |
| Capital | - | (98,330) |
| Allocation of Housing Trust Fund | - | (75,000) |
| Other Supplementary Requirements | (89,100) | (89,100) |
| Cash provided by government operations | 87,581 | (85,749) |
| Cash (used for) capital activities | | |
| Acquisition of tangible assets, net of long term debt assumed | (98,330) | - |
| Allocation of Housing Trust Fund | (75,000) | - |
| Cash (used for) capital activities | (173,330) | - |
| Cash (used for) investing activities | | |
| Loans to municipalities, businesses and individuals | (2,380) | (2,380) |
| Loan repayments received by the government | 330 | 330 |
| Cash (used for) investing activities | (2,050) | (2,050) |
| Cash (used for) financing activities | | |
| Principal and interest repayment of capital lease financing | (10,500) | (10,500) |
| Principal and interest repayment of Mortgage payable | (550) | (550) |
| Cash (used for) financing activities | (11,050) | (11,050) |
| Increase (decrease) in cash and investments | (98,849) | (98,849) |
| Cash and investments, beginning of year | 143,729 | 143,729 |
| Cash and investments, end of year | 44,880 | 44,880 |

**STATEMENT OF CHANGE IN NET DEBT
(\$000)**

| | 2008-09 Accrual Budgeting | 2008-09 Cash Budgeting |
|--|--|---------------------------------------|
| Surplus for the year | (3,275) | (29,049) |
| Tangible capital assets | | |
| Acquisitions | (61,980) | - |
| Write-downs | - | - |
| Disposals | - | - |
| Amortization | 36,206 | - |
| Net use (acquisition) of prepaid assets | (25,774) | (29,049) |
| Increase in net debt | (29,049) | (29,049) |
| Net debt, beginning of year | (56,548) | (56,548) |
| Net debt, end of year | (85,597) | (85,597) |

BUILDING CANADA FUND

In Budget 2007, the Federal Government announced the Building Canada Fund. For Nunavut, this Fund includes two new national infrastructure initiatives:

- The Building Canada Fund proper, allocated to each province and territory by population. The Government of Nunavut (GN) is entitled to \$7.7 million over seven years (2007-14), or \$1.1 million annually. There is a cost-sharing component, which in the GN's case is almost \$400,000 annually.
- The Infrastructure Base Fund, allocated equally to each province and territory. The GN is entitled to \$175 million over seven years (2007-14), or \$25 million annually. There is a cost-sharing component, which in the GN's case is approximately \$8.3 million annually.

The Fund also includes an extension to an existing national infrastructure program:

- The Gas Tax Fund II, of which the GN is entitled to \$60 million over seven years (2007-14) to be allocated to municipalities on a project-by-project basis.

With this funding, the Federal Government expects to provide for national priorities that grow the economy, enhance the environment and build strong communities.

The GN is pleased to receive this additional infrastructure funding, which will assist in addressing some of the territory's pressing needs, both for new infrastructure and for upgrades or repairs to existing infrastructure.

Building Canada Fund

| Project | Funding (in millions \$\$) | | | | | | Comments |
|--------------------------|----------------------------|--------------|------------|-------------|-------------|--------------|--|
| | Canada | | GN | | Grand Total | | |
| | Yearly | Total | Yearly | Total | Yearly | Total | |
| Building Canada Fund | 1.1 | 7.7 | 0.4 | 2.8 | 1.5 | 10.5 | Per capita funding. Rolled in with base funding for Nunavut because of the small amount. |
| Infrastructure Base Fund | 25 | 175 | 8.3 | 58.1 | 33.3 | 233.1 | Allocated to all jurisdictions. |
| Sub total | 26.1 | 182.7 | 8.7 | 60.9 | 34.8 | 243.6 | |
| Gas Tax Fund II | n/a | 60 | 0 | 0 | n/a | 60 | Municipalities only. |
| Grand Total | 26.1 | 242.7 | 8.7 | 60.9 | 34.8 | 303.6 | |

HEDGING

Every year, the Government of Nunavut (GN) allocates a portion of the Budget to purchasing fuel products for the territory. However, prices for fuel products can increase significantly over time, and the GN always faces the risk of paying a higher price for fuel at the time of the annual resupply than anticipated in the Budget. During 2007, for example, the price of a barrel of crude oil almost doubled.

Many factors outside the GN's control can cause prices to rise. Adverse geopolitical events in oil-producing regions around the globe, severe weather events such as hurricanes, and unanticipated refinery breakdowns are only some of these risk factors.

In order to offset this risk, the GN has approved a Bulk Refined Petroleum Products Risk Management Policy. In accordance with this policy, the GN will use special financial instruments, including futures and forward contracts, swaps, and exchange-traded options contracts, as a strategy to limit the potential impact of increases in fuel product prices. This strategy is called "hedging".

Hedging is complicated and there is an element of risk in any hedging strategy. The GN recognizes that, whenever it uses a hedging strategy, it must carefully balance the associated risks and benefits.



IMPACT OF NEW ACCOUNTING STANDARDS

There are a number of new accounting standards that have either been approved or are in various stages of review by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB). Four important new standards are summarized below that either currently impact the Government of Nunavut (GN) or would have some impact in the future.

Defining the Government Reporting Entity

PSAB has revised its standard on the government reporting entity, which defines which organizations should be included in a government's consolidated financial statements. This standard requires that the GN must consolidate in the Public Accounts all organizations that are controlled by the GN. Control is defined as the power to govern the financial and operating policies of another organization. The revised standard was effective for 2005-06.

The GN initiated consolidation of the 25 District Education Authorities (DEAs) in the GN 2006-07 Public Accounts and plans to fully comply with the standard for consolidation of the DEAs in the 2007-08 Public Accounts. Similarly, the Nunavut Housing Corporation was required to consolidate 21 of the 25 Local Housing Organizations in their 2005-06 consolidated financial statements. The GN will continue to monitor all related organizations to determine if there are other entities that will need to be consolidated in the future.

Transfer payments

In April 2007, PSAB issued a re-exposure draft on accounting for government transfers. If approved, this will require the GN to recognize revenue at the time that a transfer has been authorized and all eligibility criteria have been met, except when the transfer stipulations create a liability for delivery of future year services. Although there is no set date for approval of a final standard on this topic, the GN is already in full compliance with the proposed standard. For example, in 2005-06, the full \$200 million value of the Northern Housing Trust was shown as income to the GN for that year, even though the actual expenses will be incurred over several future reporting periods.

Previously, transfer payments received by the GN had been deferred to future periods. These revenues were then matched to the related expenses in the year those expenses were incurred.

This accounting standard change will likely result in more volatility in the GN's surplus/deficit position. It could create a budget surplus for the GN in the year that the trust funds are recorded as revenue and a deficit when the funds are expended in future years. This could then result in some confusion or misunderstanding regarding actual cash flows and the fiscal situation of the GN.

Financial Instruments

Derivative financial instruments are increasingly being used by governments to manage financial risks such as interest rate risk or foreign currency risk. As a result, in January 2006, PSAB issued an exposure draft on a Statement of Principles with respect to the recognition and measurement of these financial instruments.

The new Statement of Principles would require that all derivatives be reported at fair value (with gains and losses recognized in the statement of operations). Certain hedges would also have the potential to be recorded at fair value or amortized cost.

PSAB also issued a new Public Sector Guideline (PSG-6), Including Results of Organizations and Partnerships Applying Fair Value Measurement. This guideline addresses how the GN accounts for territorial corporations that must adopt a similar, but different, set of new financial instrument standards by 2008-09.

The GN is considering derivative financial instruments to hedge against fluctuating fuel prices through the Petroleum Products Revolving Fund. These hedges could be impacted significantly by this Statement of Principles. This could create unnecessary volatility on instruments that the GN intends to hold until maturity through artificial gains/losses that would never actually be realized. The GN will continue to monitor and provide updates on the status of this matter. Currently there is no set date for approval of a new standard on this topic.

Environmental liabilities

In 2004, PSAB broadened its definition of what constitutes a liability in the public sector and introduced guidance on applying the new definition of liabilities. The revised standard was effective for 2005-06.

Under the standard, if the GN is obligated, or is likely to be obligated, to remediate an environmentally contaminated site, it must recognize this as a liability in the Public Accounts. If it is unclear whether a government is obligated or if a reasonable estimate of the costs to remediate cannot be made, then this information is required to be disclosed in the notes to the financial statements under Contingencies.

If liable, the GN currently recognizes environmental liabilities in its Public Accounts once a reasonable estimate of the cost to remediate the contaminated sites has been determined. As of March 31, 2007, the GN has recognized environmental liabilities for soil restoration at Port Burwell, Killiniq Island; Cape Warwick, Resolution Island and Cape Christian. However, there are still other sites that have not yet been assessed. The GN also includes a contingency note in the Public Accounts.

The GN continues to work towards the determination and appropriate recognition of all applicable environmental liabilities. In 2007-08, the GN completed the field work for the assessment of sites on Commissioner's lands in the Kitikmeot and Kivalliq regions and updated the contaminated sites inventory listing accordingly. Sites in the Qikiqtaaluk will be assessed in 2008-09. The GN set up an interdepartmental committee to ensure that its existing and potential liabilities are identified and appropriate actions initiated.

IMPROVEMENTS TO THE 2008-09 MAIN ESTIMATES

The Government of Nunavut (GN) has made several improvements to the presentation of the 2008-09 Main Estimates to strengthen the accountability and transparency in the budget development process. These improvements are in line with efforts to strengthen financial management within the GN.

Amortization

Capital expenditures for departmental infrastructure needs are allocated through the annual GN capital planning process. The cost of these capital assets is included in the annual Capital Estimates, which are subject to approval by the Legislative Assembly.

Amortization expenses have been included in the departmental and branch summaries as a non-voted item to conform with both accrual based budgeting and the allocation of departmental capital expenditures in the Capital Estimates. Given that amortization is a concept in which the cost of a capital asset (previously appropriated through the Legislative Assembly) is allocated over time to GN expenditures, it does not require approval through the Legislative Assembly.

Amortization is accounted for as a non-cash item because it does not require a payment of cash. The payment of cash occurred during the project phase when the capital asset was either constructed or when it was purchased. The allocation of the cost of a capital asset over its estimated useful life provides a more accurate measure of activity cost, and thereby a more accurate summary of departmental expenditures for analytical purposes.

Three-Year Forecast

Commencing in 2008-09, the departmental three-year expenditure forecast and summary of revenues has been included in Appendix III of the 2008-09 Main Estimates as a first step in moving toward a three-year financial planning horizon.

This multi-year planning approach will eventually link strategic planning within the GN to departmental resource allocation. This will ensure sound decisions are made over time through the establishment of performance measurement standards so that program operations can be assessed in terms of their efficiency, effectiveness and economy. Over time, this will improve the GN's ability to make prudent decisions on the allocation of the GN's limited fiscal resources.

Work Performed on Behalf of Third Parties

Work Performed on Behalf of Third Parties has been moved from the departmental summaries to Appendix IV in the 2008-09 Main Estimates to improve the presentation of these items in the Main Estimates. The consolidation of Work Performed on Behalf of Third Parties in Appendix IV provides a more comprehensive list of all projects funded by Canada and others. Appendix IV also reconciles the total funding from this source to the financial summaries included in the Summary of Information Section of the 2008-09 Main Estimates.

Schedule of Restatement

The Schedule of Restatement in Appendix V of the 2008-09 Main Estimates has been expanded to include the actual expenditures for 2006-07. This change provides a reconciliation of the actual expenditures reported in the Main Estimates to the actual expenditures reported in the Interim Financial Report. This will strengthen accountability and transparency of the budget development process, which is in line with the efforts to strengthen financial management with the GN.

2008-09 Main Estimates Presentation

Commencing in 2008-09, the Main Estimates will be distributed in separate English and Inuktitut publications to improve the quality of the presentation. This is consistent with the publishing of the Business Plans. Given the additional information disclosed in the Main Estimates, this change will improve the quality of the document for review in both languages.



INUIT SOCIETAL VALUES

These are some of the Inuit societal values that are particularly relevant to the way our Government should deliver its programs and services. We need to use these important principles of Inuit Qaujimagatuqangit. Words of advice have often come from our elders who learned these values from their elders before them. We need to follow these principles in our efforts to make our government, and the programs and services we offer more responsive to the people we serve.

Inuuqatigiitsiarniq: Respecting others, relationships and caring for people.

- Respect for others and treating others equally is a characteristic the elders have always stressed in their words of advice (uqaujuusiat). Government practices should promote impartiality.

Tunnganarniq: Fostering good spirit by being open, welcoming and inclusive.

- We must make the workplace people-friendly, welcoming and accepting for Nunavummiut, elders, our colleagues and others. Removing language and cultural barriers is important in welcoming people.

Pijitsirniq: Serving and providing for family and/or community.

- In carrying out their responsibilities all GN staff will endeavour to serve each other and the community at large to the best of their abilities.

Aajiqatigiinni: Decision-making through discussion and consensus.

- Important communications and decisions will be made through seeking input from individuals, face to face meetings, direct communication, and consensus development.
- Inuit language will be widely used as the primary language of communication.
- Silence is part of communication, and it does not necessarily signify agreement.

Pilimmaksarniq/Pijariuqsarniq: Development of skills through practice, effort and action.

- The workplace will be more accommodating and flexible in accommodating or making room for new ideas and practices that need to be implemented.
- Inuit staff must be given opportunities to develop skills on the job during regular hours through mechanisms such as mentoring, in-service training, and professional development.

Piliriqatigiinni/Ikajuqtigiinni: Working together for a common cause.

- Inuit and non-Inuit staff must work together from the basis of their own knowledge and experience to develop mutual understanding and a balanced approach to the provision of programs and services.
- We can better serve the public through such collaboration and mutual understanding in the workplace.

Qanuqtuurniq: Being innovative and resourceful.

- Inuit had to continually seek new ways to survive. It is important for Government to recognize that we must constantly explore many different opportunities to move forward.

Avatittinnik Kamatsiarniq: Respect and care for the land, animals and the environment.

- This is a strong Inuit societal value that has sustained Inuit for eons and just as important today.



OUTFITTERS ASSISTANCE PROGRAM

The Government of Nunavut (GN) is committed to helping Nunavut outfitters obtain suitable liability insurance coverage at a reasonable cost.

Recently, it has been difficult for Nunavut outfitters to obtain this type of insurance. Policies available on the market require high premiums for little coverage, and typically exclude the kinds of activities out on the land and water that outfitters in Nunavut regularly offer their clients as part of their business.

The GN is developing a program that will assist Nunavut outfitters with this need, and provide an alternative when traditional insurance solutions are inadequate.

A single organization will represent the outfitters in the territory. The GN will enter into an agreement with that organization and offer financial assistance and liability protection to the members at a reasonable cost. The organization will then charge a fee for the outfitters to become enrolled in the program. An outside professional firm will be used to administer the program and provide recommendations for assistance to individual outfitters based on need.

In the initial years, the GN's financial commitment under the program will be limited to a maximum of \$2 million per year. The commitment will only come into play if and when it is needed. Over time, it is hoped that the program will become self sufficient.



STRENGTHENING FINANCIAL MANAGEMENT

Introduction

For a number of years, the Auditor General of Canada has commented on the need for improved financial management within the Government of Nunavut (GN). In 2005, the Auditor General recommended that the GN:

- Close the gaps in its accounting systems;
- Review its accounting structures, including potentially centralizing accounting functions and accounting staff to deal with the root causes of poor financial management; and
- Develop training plans that will give Nunavut Land Claims Agreement beneficiaries the opportunity to become professional accountants and prepare for senior financial management positions.

Current Activities

To address these recommendations, the GN commissioned a *Review of GN Financial Structures*, which was completed in 2006-07. The review resulted in nine comprehensive action plans to strengthen financial management across the GN. Significant progress has been made towards completion of the action plans.

- 1) *Action Plan:* Expand the accountability framework within the bureaucracy.

Implementation: Deputy Ministers received revised performance contract letters in 2006-07, which include explicit accountability for budgets, internal controls, payment authorities, records and compliance with applicable standards and guidelines.

- 2) *Action Plan:* Enhance the strategy for the production and tabling of the yearly Public Accounts.

Implementation: The year-end reporting process includes improved guidelines and timelines for completion of information by departments, as well as improved due diligence, quality control and assurance processes in the Department of Finance. A new reporting system has been implemented for consolidation of year-end submissions by departments and territorial corporations. Departments and territorial corporations will have improved access to accounting assistance from the Department of Finance on request.

- 3) *Action Plan:* Strengthen the organizational structure of the Office of the Comptroller General.

Implementation: The duties and responsibilities of the Comptroller General were separated from those of the Deputy Minister and four new positions were also created within the Comptroller General's branch. A revised organizational structure for the Department of Finance was approved in 2006-07.

- 4) *Action Plan:* Strengthen senior financial officer capacity.

Implementation: Preliminary work has begun to assess how the GN can strengthen the role of the Senior Financial Officer, such as through more flexible organizational structures, firmer mandates or improved recruitment and retention.

- 5) *Action Plan:* Standardize financial signing authority across the bureaucracy.

Implementation: A signing authority matrix has been incorporated into the revised Financial Administration Manual directive on financial signing authorities and the necessary modifications have been made to the *Delegation of Authority Regulations* of the *Financial Administration Act* to enhance the standardization of this aspect of financial management.

- 6) *Action Plan:* Create and implement a comprehensive human resources strategy.

Implementation: In early 2007, the Departments of Finance and Human Resources retained the services of a consulting firm specializing in human resources, to recommend strategies for training and recruitment, as well as the standardization of job ratings throughout the GN. The first phase of the action plan was completed, which involved conducting interviews with past and current employees on the GN's current compensation package and work environment. Additional work is ongoing.

- 7) *Action Plan:* Review and revise the financial policy framework.

Implementation: Since 2006-07, the GN has worked to update all Financial Administration Manual directives and financial systems manuals, as well as to develop a new Financial Procedures Manual. The project is proceeding well, and should be finalized in early 2008-09.

- 8) *Action Plan:* Review all GN financial information systems for potential improvements.

Implementation: A comprehensive assessment of the GN's financial information systems, including all departments and territorial corporations, was undertaken to determine whether they meet the GN's current and future needs. Action plans were developed and approved for each of the recommendations in the report.

- 9) *Action Plan:* Review Public Agencies.

Implementation: Upon review of the previous eight action plans, it was determined that this review would not be required as virtually all of the recommendations applied to territorial corporations as well as GN line departments. This allowed positive action to begin immediately, while saving scarce resources. Progress continues to be made on building the financial capacity of public agencies and the adequacy of financial systems being used. Additional professional accounting resources have been provided when needed to support public agencies.

Building Capacity - A \$23 million investment

One component of the discussions between the GN and the Government of Canada during 2006 with respect to Territorial Formula Financing was the need to build capacity in the area of financial management. In the Federal Budget 2007, the Government of Canada deemed this component important enough to make a one-time investment into the GN's process of continuous improvement in financial management. The Federal Budget Plan 2007 states on page 352:

As recommended by the 2005 Report of the Auditor General of Canada to the Legislative Assembly of Nunavut, and to address what the Government of Nunavut has indicated is a key priority, Budget 2007 will provide the Government of Nunavut with an additional \$23 million in funding to support its efforts to strengthen its financial management practices and systems.

Since Budget 2007, officials of both jurisdictions have been working to develop a suite of projects that will remain true to the spirit and intent of Strengthening Financial Management while maximizing the use of the funding.

TAX MEASURES

The Government of Nunavut (GN) has introduced four separate tax measures in Budget 2008 to provide tax relief to Nunavummiut.

Firefighters Tax Credit

All full-time and part-time volunteer firefighters who complete at least 200 hours of community service, including training, will be eligible to claim a \$500 non-refundable tax credit. This credit will be effective for the 2008 taxation year, and will be indexed to inflation annually starting in 2009. With 350 to 400 volunteer firefighters active in the territory, this measure will provide up to \$200,000 in tax credits for some of the territory's most valued volunteers.

Pension Tax Credit

Nunavummiut who receive pension income will have a larger pension credit to claim for 2008 and later taxation years. Effective January 1, 2008, the GN will raise this credit from \$1,000 to \$2,000, mirroring a similar increase to the Federal pension credit. This measure doubles the amount of tax-free eligible pension income available to each pensioner, providing an additional \$488,000 in benefits for Nunavummiut based on 2005 tax filing data. For more information on eligible pension income, please consult the current *General Income Tax and Benefit Guide*.

Textbook Tax Credit

Under the federal income tax system, students claiming an education amount on their tax return can also claim a textbook tax credit. This credit is \$65 per month for full-time students and \$20 per month for part-time students. The GN's credit is identical to the federal credit, only applied against territorial income tax.

Nunavut Land Claims Agreement beneficiaries are also eligible for a supplemental grant through the Financial Assistance for Nunavut Students (FANS) program which provides \$200 per semester for textbooks.

Business Training Tax Credit

The GN recognizes that the cost of doing business in the territory is high and will continue to be so for the foreseeable future. Due to Nunavut's large transitory population, many businesses face especially high and persistent costs in the area of recruitment and training. Regular staff turnover can also lead to a loss of productivity and of competitive advantage versus southern firms. To help meet these challenges and at the same time promote the development of a stable Nunavut workforce, the GN proposes to introduce a training tax credit for businesses. The GN has not yet finalized the details of this initiative, which will emerge in consultation with business and other stakeholders this spring and summer. Pending the outcome of these consultations, the GN will submit a concrete proposal during the fall session of the Legislative Assembly.