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Infrastructure Update: Investments in Territories

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The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This note is a supplement to the PBO's report entitled "Infrastructure Update: Investments in Provinces and Municipalities". It examines capital investments made by territories with the objective to identify the incremental impact of the federal infrastructure funding on their capital spending in 2016-17 and 2017-18.

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Executive Summary

On March 13, 2019, the PBO published a report entitled "Infrastructure Update: Investments in provinces and municipalities" to identify the incremental impact of the Investing in Canada Plan (IICP) on provincial and municipal capital spending.[1] As a supplement to that report, this note examines capital investments in the Northwest Territories, Nunavut and Yukon with the same objective of identifying the incremental impact of the IICP on their capital spending.

Consistent with our findings for provinces, we estimate that not only territories did not spend according to their plans prior to the introduction of the IICP, some of them have also revised their planned capital spending downwards (Northwest Territories and Nunavut) after the start of IICP.

Based on PBO's calculations, the level of capital spending in the territories was $111 million lower in 2016-17 and 2017-18 than what it would have been in the absence of IICP.

Similar to provinces, territories also decreased their own contribution to capital spending relative to the federal government's funding for infrastructure. On average, for each dollar of federal contribution received in 2017-18, territories spent $3.7 on capital, down from $6.0 in 2015-16.

1. Introduction

In Budget 2016, the Government of Canada announced the introduction of the Investing in Canada Plan (IICP) with the objective of creating long-term economic growth, supporting a low-carbon, green economy, and building inclusive communities.[2]

The IICP is being delivered in two distinct phases between 2016-17 and 2027-28: Phase 1 for short-term infrastructure needs during the first two years, and Phase 2 starting in 2018-19 for longer-term investments. In addition to an existing envelope of $92.2 billion until 2027-28, the IICP provided another $95.6 billion in new funding, bringing the total to $187.8 billion for the 2016-17 to 2027-28 period.

Federal infrastructure investments require cost sharing with other levels of government, such as provinces, territories, and local governments. These levels of government are therefore key actors of the IICP, especially since they own and maintain the majority of public infrastructure.[3] Previous reports from the Parliamentary Budget Officer (PBO) on Phase 1 of IICP found that federal spending on infrastructure was behind schedule, partly due to implementation by the other levels of government.

On March 13, 2019, the PBO published a report entitled "Infrastructure Update: Investments in provinces and municipalities" to identify the incremental impact of the IICP on provincial and municipal capital spending in 2016-17 and 2017-18.[4] As a supplement to that report, this note examines capital investments in the Northwest Territories, Nunavut and Yukon with the same objective of identifying the incremental impact of the IICP on their capital spending over the same period.[5]

2. Investments in territories

Territories have spent $1.3 billion in capital over 2016-17 and 2017-18 (Table 2-1).[6] This investment included $274 million in infrastructure-related transfers from the federal government identified over the same period.[7]

Table 2-1 Territories' capital spending has increased since 2015-16

millions

	2015-16	2016-17	2017-18	2016-18 Total
Net capital spending	$460	$515	$494	$1,009
Federal transfers	$103	$109	$165	$274
Total capital spending	**$563**	**$624**	**$658**	**$1,283**

Sources: Parliamentary Budget Officer, Public Accounts of Canada, territories' Public Accounts.

Notes: Net capital spending is the difference between total capital spending and federal transfers.

Excluding federal transfers, capital spending in territories has increased by $34 million in 2017-18, relative to 2015-16 (Table 2-2). However, this increase was not uniform across jurisdictions as the Government of Yukon significantly reduced its capital spending.

Table 2-2 Territories' capital spending in 2017-18

millions

	Net Spending		Federal transfers	
	2017-18	Change since 2015-16	2017-18	Change since 2015-16
Northwest Territories	$203	$8	$77	$10
Nunavut	$203	$60	$29	$13
Yukon	$88	-$34	$58	$39
Territories	**$494**	**$34**	**$165**	**$62**

Sources: Parliamentary Budget Officer, Public Accounts of Canada, territories' Public Accounts.

Notes: A positive (negative) figure represent an increase (decrease) in capital spending. Net capital spending is the difference between capital spending and federal transfers.

On the other hand, federal transfers for infrastructure grew faster than net capital spending in territories, increasing by $62 million between 2015-16 and 2017-18, which is approximately double the increase in net capital spending.

Similar to what has been done to assess the incremental impact of the IICP on provincial capital spending, the PBO has compared actual spending in territories to its benchmark for capital spending prior to the introduction of the IICP. This benchmark is constructed to reflect capital investment plans prior to the introduction of IICP, as well as historical lapses (with respect to planned spending).[8]

As shown in Figure 2-1, the level of capital spending in the territories was $34 million lower than the PBO's pre-IICP benchmark in 2016-17, and $77 million lower in 2017-18. In aggregate, the data indicate that territories did not spend according to their plans prior to the introduction of the IICP.

Furthermore, the Northwest territories and, to a lesser extent, Nunavut appear to have revised their planned capital spending downwards following the start of the IICP. In the case of the Northwest Territories, this downward revision was necessary given that its Fiscal Responsibility Policy requires annual cash surpluses from the operating budget to fund at least half of the infrastructure investments.[9]

Calculating a benchmark for capital spending

The PBO's calculates two types of benchmarks:

1. A *pre-IICP benchmark* that reflects capital spending plans prior to the announcement of the IICP;

2. A *post-IICP benchmark* that reflects updated capital spending plans following the announcement of the IICP.

For each fiscal year and for each territory, planned capital spending (pre- and post-IICP) is multiplied by the lapse rate, to obtain PBO's capital spending benchmark.

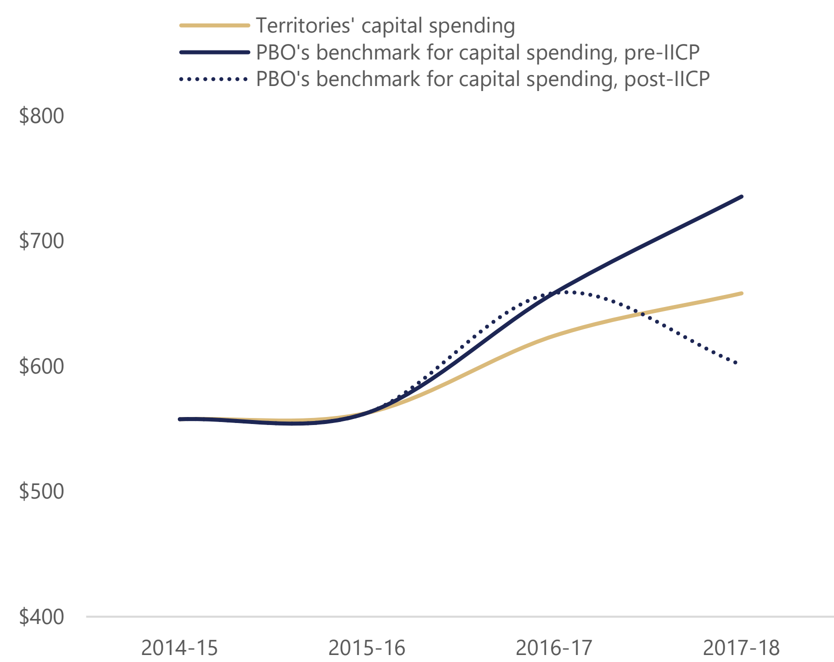
The PBO's estimates for capital spending therefore rely on governments' spending plans. All things equal, whenever a government increases or decreases its planned capital spending, the PBO's benchmark will follow the same path.

In Figure 2-1, the decrease in the PBO's benchmark for post-IICP capital spending results from the decrease observed in some territories' capital plans following the start of IICP. Appendix A presents a summary table of Figure 2-1 data.

Figure 2-1

Capital spending in territories lower than the PBO's benchmark

millions



Sources: Parliamentary Budget Officer, territories' capital budgets and Public Accounts.

Note: The PBO's benchmark for capital spending post-IICP is presented for illustrative purposes only. The assessment of the effect of the IICP on territories capital spending is performed by comparing actual spending to the PBO's pre-IICP benchmark.

Findings presented in Figure 2-1 are consistent with the fact that most territories have also spent slightly less than budgeted since the start of the IICP. For instance, according to their 2016-17 and 2017-18 budgets, territories were planning to spend $1.5 billion in capital. Instead, they invested $1.3 billion, which is $193 million lower than they initially budgeted, mostly because of lower spending in the Yukon (Table 2-3).

Table 2-3

Spending lapses in territories for 2016-17 and 2017-18 (actuals compared to budgets)

millions

Northwest Territories	$12
Nunavut	-$4
Yukon	-$201
All territories	**-$193**

Sources: Parliamentary Budget Officer, territories' capital budgets and Public Accounts.

Note: A negative (positive) number indicates spending below (above) budget.

However, the spending lapses observed in Yukon following the start of the IICP are in line with those noted for the years prior to the IICP.

Analogous to provinces, territories have also reduced their contribution to capital spending since the start of the IICP. On average, for each dollar of federal contribution received in 2017-18, territories spent $3.7 on capital, down from $6.0 in 2015-16.[10]

Table 2-4 Net spending per dollar of federal contribution

millions

	2015-16	2017-18	Change
Northwest Territories	$6.3	$1.5	-$4.8
Nunavut	$2.9	$2.6	-$0.3
Yukon	$8.9	$7.0	-$1.8
Average	**$6.0**	**$3.7**	**-$2.3**

Sources: Parliamentary Budget Officer, territories' Public Accounts.

Appendix A: Data for Figure 2-1

Due to the lack of data on planned capital spending in 2017-18 for the Northwest Territories and Nunavut, the PBO has estimated planned capital spending using historical growth (between 2014-15 and 2016-17) in planned capital spending.

It is important to keep in mind that the PBO's pre-IICP benchmark is based on the estimated data for those territories, for the specified years. This approach is consistent with that adopted in the PBO's analysis for the provinces.[11] Furthermore, the estimated figures obtained are also consistent with the trend observed in revised estimates for capital spending in those two territories.

The following table shows the data used to plot Figure 2-1.

	2014-15	2015-16	2016-17	2017-18
Actual spending	$557,717,000	$562,749,000	$624,382,000	$658,266,000
PBO's pre-IICP benchmark	$557,717,000	$562,749,000	$658,527,633	$735,557,293
PBO's post-IICP benchmark	$557,717,000	$562,749,000	$658,527,633	$601,104,909

Notes

1. Office of the Parliamentary Budget Officer. Infrastructure Update: Investments in Provinces and Municipalities. March 2019 (accessed March 20, 2019).
2. Infrastructure Canada. Investing in Canada — Canada's Long-Term Infrastructure Plan. April 2018 (accessed January 28, 2019).
3. 2016 Canadian Infrastructure Report Card. 2016 (accessed February 15, 2019).

   Standing Senate Committee on National Finance. Smarter Planning, Smarter Spending: Achieving infrastructure success. February 2017 (accessed February 15, 2019).
4. Office of the Parliamentary Budget Officer. Infrastructure Update: Investments in Provinces and Municipalities. March 2019 (accessed March 20, 2019).
5. The methodology used in this report is identical to that of Infrastructure Update: Investments in Provinces and Municipalities, published on March 13 2019.
6. We used the acquisition of tangible capital assets as a proxy for actual capital spending.
7. The federal transfer payments considered for the territories are the following: Gas Tax Fund, New Building Canada Fund, Clean Water and Wastewater Fund, Canada Strategic Infrastructure Fund, Post-Secondary Institutions Strategic Investment Fund, Early Learning and Child Care Framework, Municipal Rural Infrastructure, Airports Capital Assistance Program, Capital Assistance Program.
8. See Note 1, Appendix A for details on the construction of the benchmark.
9. Northwest Territories. 2017-2018 Budget papers – Fiscal Review. February 1, 2017.
10. Federal cash transfers are compared to territories investments on capital reported in the Statement of Cash Flows.
11. Note 1.