

# Fiscal Outlook

2021–22 Budget (revised)

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## Introduction

Yukon has weathered the COVID-19 crisis better than most jurisdictions in Canada, both in terms of public health and the economy. Support from various levels of government has helped keep Yukon COVID-19 cases low and provide assistance to individuals, businesses and key industries.

The rollout of vaccinations offers hope for an eventual return to normal. When Yukon reaches high population vaccination rates, some of the public health measures that have weighed on economic activity for almost a year could start to be lifted. However, travel restrictions may still be needed as long as COVID-19 activity remains high in neighbouring jurisdictions.

While the impacts of the pandemic will cast a shadow over the medium term, Yukon's outlook has improved and is less uncertain than when the October 2020 Interim Fiscal and Economic Update was developed, largely due to ongoing vaccination efforts in the territory and around the world. The Government of Yukon remains ready to continue to support Yukoners so that the economy is well positioned for further growth.

This revised fiscal outlook updates the fiscal outlook prepared in March 2021. Updated fiscal data is based on the revised 2021-22 Budget. Unless otherwise noted, all other assumptions remain unchanged. An updated economic outlook, along with an updated fiscal outlook, will be provided in fall 2021.

## Yukon's finances

The 2021–22 Budget (revised) presents a plan for investing in the future of a growing territory while meeting the challenges of a global pandemic. The fiscal summary in Table 1 shows a forecast deficit of \$6.6 million in 2021–22. This is a change of \$10.7 million in the fiscal position from the 2020–21 Main Estimates. Leveraging funding from all available sources has allowed Yukon to continue investing in Yukoners' well-being as well as key infrastructure, while mitigating impacts on the fiscal position.

Net financial debt is forecast to increase over the next three years. This is driven primarily by two factors – forecast deficit spending in response to COVID-19 in 2020–21 and 2021–22 as well as major investments in needed infrastructure.

The 2021–22 Budget (revised) represents a significant increase in spending as Yukon continues to support businesses, families, and individuals through COVID-19 while also delivering on significant government commitments, including a universal child care program. Increased spending is partially offset by increased transfers from Canada. The impact of record capital spending on the fiscal position is also mitigated by the fact that much of these costs are spread out over the entire life of these assets. Revenue is expected to continue to increase over the following two years and this, combined with an assumption of fewer COVID-19 responses and supports being required, is forecast to help Yukon return to surplus in 2022–23.

From the 2021-22 Main Estimates tabled in March 2021, the revised fiscal position has improved. The 2021-22 Budget (revised) forecasts the annual deficit decreasing from \$12.7 million to \$6.6 million and net debt decreasing from \$175.4 million to \$169.6 million. Spending increases from the Budget tabled in March of \$5.8 million in health and social services are offset by \$11.9 million in federal recoveries recently identified under the Territorial Health Investment Fund and COVID-19 supports.

Table 1. Fiscal summary<sup>1</sup>

(\$millions)	2020–21 Main Estimates	2020–21 Supplementary Estimates #2 (revised)	2021–22 Main Estimates (revised)	2022–23 Plan	2023–24 Plan
Revenue <sup>2</sup>	1,307.2	1,305.7	1,374.3	1,453.3	1,506.1
Expense <sup>3</sup>	(1,405.9)	(1,441.1)	(1,519.7)	(1,575.6)	(1,637.6)
COVID-19 Contingency <sup>4</sup>	-	-	(15.0)	(10.0)	-
Accounting Adjustments <sup>5</sup>	102.7	128.3	153.8	198.1	180.6
Surplus/(Deficit) <sup>6</sup>	4.1	(7.0)	(6.6)	65.8	49.0
Net Financial Assets/(Debt), end of year	(81.5)	(88.5)	(169.6)	(249.5)	(324.7)

Source: Department of Finance

Spending in the amount of \$33.9 million is included in the 2021–22 Main Estimates(revised) for COVID-19 supports and responses. There is also additional room in the fiscal plan in recognition of the potential for changing circumstances amid the ongoing pandemic. In 2021–22, \$15 million is set-aside for unexpected expenses and \$10 million is set aside in 2022–23. These COVID-19 contingencies are not included in departmental budgets, and would still need to be presented to the legislative assembly for approval to spend. They are included in the fiscal plan so that if there are unexpected expenses, they will not affect Yukon’s forecast fiscal position.

In 2019–20 and 2020–21, Yukon received significant funding from Canada for COVID-19 responses and supports. Yukon continues to work with the federal government on ongoing collaboration in response to the global pandemic, and \$5.5 million is identified to support Yukon’s public health and vaccination efforts in 2021-22. If Yukon receives additional federal funding for COVID-19 measures, if COVID-19 expenditures are lower than anticipated, or if the COVID-19 contingencies are not required, this will improve Yukon’s forecast fiscal position.

Growth in spending has generally kept pace with the growth in total revenue. Chart 1 shows forecast spending and revenue for Yukon from 2020–21 through 2023–24 as compared to actual historical spending and revenue as reported in Yukon’s Public Accounts. Between 2011–12 and 2020–21, annual growth in spending was generally in line with the annual growth in total revenues, with spending growing at an average of 6 per cent per year and total revenue growing at an average of 5.4 per cent per year. Spending and revenue growth are expected to stay in line over the next three years, however, revenue is forecast to grow at a higher rate than spending.

1. To align with the presentation in Yukon’s Public Accounts, revenues and recoveries do not include those collected by Yukon Housing Corporation, which are included in the Accounting Adjustments in this table.

2. Revenue is the sum of “Transfers from Canada,” “Tax Revenue,” and “Other Revenue” as found on Pages S-14 and S-15 of the 2021–22 Main Estimates (revised), and equivalent pages of budget documents for other periods.

3. Expense is “Total Appropriated Amounts” minus “Recoveries from Canada” and “Third-Party Recoveries” as found on Pages S-9 and S-8, respectively, of the 2021–22 Main Estimates (revised), and equivalent pages of budget documents for other periods.

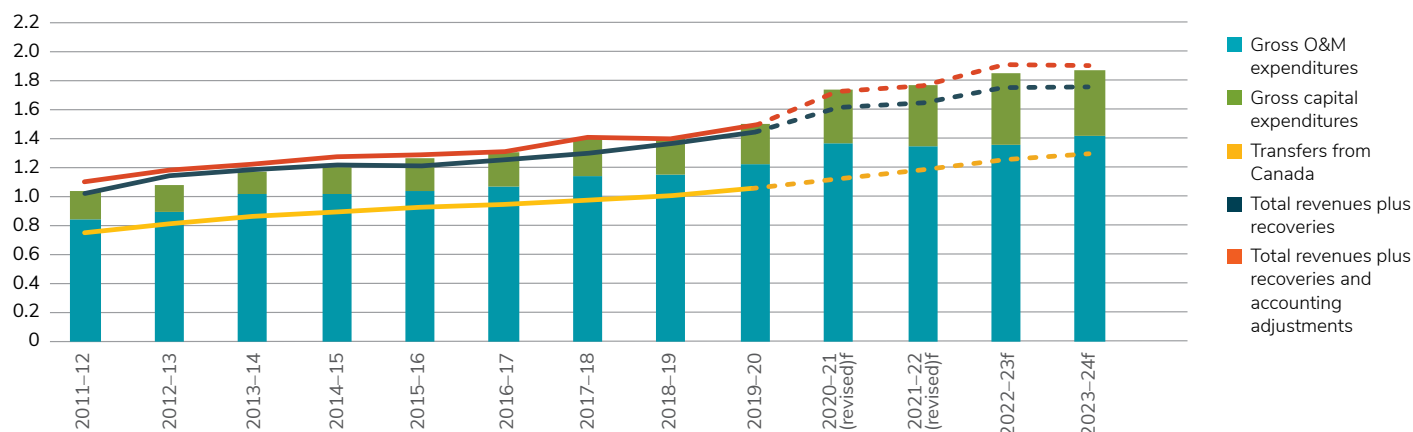
4. Found on Page S-9 of the 2021–22 Main Estimates (revised).

5. Accounting Adjustments are the sum of “Tangible Capital Assets (net),” “Investment in Land Development,” “Expenditures on Loan Programs,” and “Other Adjustments (net),” as found on Page S-9 of the 2021–22 Main Estimates (revised), and equivalent pages of budget documents for other periods.

6. Surplus/(Deficit) is the sum of Revenue, Expense, COVID-19 Contingency, and Accounting Adjustments.

## Chart 1. Government of Yukon's fiscal indicators<sup>7,8,9</sup>

Expenditures and revenues (\$billions)



Source: Department of Finance

## Revenue

Total government revenue is forecast to be \$1.37 billion in 2021–22, as shown in Table 2. This is an increase of 5.1 per cent from the 2020–21 Main Estimates—primarily the result of economic and demographic growth. Total revenue is also expected to increase over the following two years, at 5.8 per cent in 2022–23 and 3.6 per cent in 2023–24.

Table 2. Revenue by type<sup>10,11</sup>

(\$millions)	2020-21 Main Estimates	2020-21 Supplementary Estimates #2 (revised)	2021-22 Main Estimates (revised)	2022-23 Plan	2023-24 Plan
<b>Transfers from Canada</b>	<b>1,116.7</b>	<b>1,116.7</b>	<b>1,183.3</b>	<b>1,252.4</b>	<b>1,293.5</b>
<b>Tax revenue</b>	<b>131.5</b>	<b>136.0</b>	<b>134.2</b>	<b>142.3</b>	<b>146.7</b>
Personal income tax	80.3	78.5	76.4	77.8	79.7
Corporate income tax	13.7	22.5	17.6	21.6	23.4
Property tax	6.0	6.0	6.9	6.7	7.1
Fuel oil tax	9.6	7.4	8.6	9.8	9.4
Tobacco and alcohol taxes	17.9	17.7	18.3	19.5	19.9
Insurance premium tax	4.0	3.8	6.4	6.8	7.2

7. Fiscal years 2011–12 to 2019–20 represent actuals as reported in Yukon's Public Accounts. For comparability, forecasts for fiscal years 2020–21 to 2023–24 use the same methodology, which differs from the presentation in Table 1 above.

8. To align with the presentation in Yukon's Public Accounts, revenues and recoveries do not include those collected by Yukon Housing Corporation, which are netted out of the gross expenditures presented in this chart.

9. For years 2020–21 through 2023–24 an 'f' denotes a forecast.

10. All revenue figures are found on Pages S-14 and S-15 of the 2021–22 Main Estimates (revised), and equivalent pages of budget documents for other periods.

11. To align with the presentation in Yukon's Public Accounts, revenues do not include those collected by Yukon Housing Corporation.

(\$millions)	2020–21 Main Estimates	2020–21 Supplementary Estimates #2 (revised)	2021–22 Main Estimates (revised)	2022–23 Plan	2023–24 Plan
<b>Other revenue</b>	<b>59.0</b>	<b>53.0</b>	<b>56.8</b>	<b>58.7</b>	<b>65.9</b>
Liquor profit	8.9	7.2	9.2	9.3	9.5
Licenses, fees, registrations and permits	16.6	16.1	17.3	18.6	18.6
Sale of land	22.5	22.5	21.8	18.2	15.7
Other revenue	11.0	7.2	8.4	12.5	22.2
<b>Total revenue</b>	<b>1,307.2</b>	<b>1,305.7</b>	<b>1,374.3</b>	<b>1,453.3</b>	<b>1,506.1</b>

Source: Department of Finance. Numbers may not add due to rounding.

## Transfers from Canada

Total revenue growth is primarily driven by transfers from Canada, including the Grant from Canada, the Canada Social Transfer (CST) and the Canada Health Transfer (CHT).

The Grant from Canada, which includes the Territorial Formula Financing program, represents more than 80 per cent of Yukon's total revenue in 2021–22. The grant is responsive to changes in economic circumstances and helps reduce the gap between Yukon's ability to collect revenue and its spending needs for core services. The grant also contains a reduction in its formula for Yukon's revenues from forestry, oil and gas, land, minerals and water. Beginning in 2023–24, the growth in the Grant from Canada is forecast to slow, mainly due to projected royalties from Victoria Gold's Eagle Gold mine that are expected to begin in 2022–23. No other changes to transfers from Canada are forecast other than those driven by economic and demographic growth.

The COVID-19 pandemic is not expected to have a material impact on major transfers from Canada in 2021–22 as the Grant from Canada is not calculated each year, but rather, using a two-year lag period. As well, growth in the CST and CHT are guaranteed at an annual minimum rate of 3 per cent. Despite this minimum threshold, Yukon's CST and CHT grants are expected to grow at a higher annual rate than 3 per cent as a result of faster population growth in the territory compared to the rest of Canada.

## Own-source revenue

Income tax revenue forecasts are currently subject to a higher degree of uncertainty as a result of COVID-19. The impact of the pandemic on personal earnings, corporate profits and tax-filing behaviours is difficult to predict. In addition, tax deferral provisions implemented in response to COVID-19 have delayed the receipt of 2019 income tax assessment data, which is the main input for income tax revenue forecasts.

Yukon's total own-source revenue is still expected to remain steady overall, despite some negative impacts from the global pandemic. Personal income tax revenue is expected to decline slightly in 2021–22 as a result of a planned increase in the basic personal amount in 2021 and lingering impacts of COVID-19. Earnings are expected to recover in 2022–23 and 2023–24, but growth in personal income tax revenue will be slower due to additional increases in the basic personal amount.

Conversely, corporate income tax revenue is expected to increase slightly in 2021–22 from the 2020–21 Main Estimates. Corporate income tax revenue forecasts in Yukon are tied to a number of factors, including local economic conditions and, more so, prior-year tax revenue. Higher revenue in 2019, combined with the impacts of federal and territorial economic relief and recovery supports during the pandemic, is offsetting reduced revenue as a result of the small business tax rate moving from 2 per cent to zero on January 1, 2021. This is driving the forecast for modest growth in corporate income tax revenue from the 2020–21

Main Estimates through 2023–24.

The 2020–21 Supplementary Estimates #2 (revised) forecast includes additional corporate income tax revenue as a result of a prior-year adjustment that reflects stronger than anticipated 2019 revenue. These prior-year adjustments are common and are due to the timing of final reconciliations of tax assessment information.

COVID-19 negatively impacted fuel oil tax revenue in 2020–21 as travel restrictions meant fewer travellers to the territory and less fuel usage. This is expected to continue through 2021–22. Assumed easing of public health measures will help fuel oil tax revenue recover to pre-pandemic levels in 2022–23, however, this remains uncertain. As Yukon begins to meet targets set under the *Our Clean Future* strategy, taxable fuel consumption is expected to decline. We anticipate noticeable changes beginning in 2023–24, though these should be offset by positive impacts of returning vehicle travel through the territory.

Tax revenue from tobacco products is expected to increase in 2021–22 as a result of tax changes. On January 1, 2021, the tax rate increased by one cent per cigarette and one cent per gram of loose tobacco. Tobacco tax revenue is expected to remain stable as the decline in smoking rates is offset by more people, and potentially more tobacco users, moving to the territory. Likewise, the tax rate on insurance premiums increased on January 1, 2021, bringing it in line with tax rates in other jurisdictions. Starting in 2022–23, insurance premiums are expected to keep pace with inflation and economic growth.

There are also anticipated fluctuations in other revenues over the next three years. Revenue from the sale of land is expected to remain strong in 2021–22 as residential lots in Whistle Bend go to market, tapering off in the following years. This aligns with demand for housing that has remained strong amid current economic conditions. Investment income is forecast to be lower than 2020–21 due in part to lower interest rates. Mining royalties are forecast to increase starting in 2022–23, when government expects to start receiving royalties from the Eagle Gold mine.

## Five-Year Capital Plan

The fourth iteration of the Five-Year Capital Plan continues to prioritize the needs of Yukoners through the capital projects that government procures, manages, delivers and funds in partnership with Canada, municipalities, Yukon First Nations, and non-governmental organizations. The 2021–22 Five-Year Capital Plan forecasts an investment of \$2.25 billion over the next five years, as shown in Table 3. Over one-third of these investments are anticipated to be recoverable from Canada and third parties.

**Table 3. Five-Year Capital Plan gross expenditures by category**

(\$millions)	2021–22	2022–23	2023–24	2024–25	2025–26	Totals
Climate change, energy and green economy	50	48	29	26	26	178
Land development, social development, education and health	111	105	102	113	92	523
Community and First Nations infrastructure	97	93	100	100	98	488
Transportation infrastructure	101	159	161	155	116	692
Real property and asset management	37	40	45	57	31	210
Information technology	39	59	28	16	15	159
<b>Totals</b>	<b>435</b>	<b>504</b>	<b>465</b>	<b>466</b>	<b>379</b>	<b>2,249</b>

Source: Capital Planning Office. Numbers may not add due to rounding.

Planned capital investments total \$434.7 million in 2021–22. This is an increase of \$65 million or 17.6 per cent from the 2020–21 capital plan. The Five-Year Capital Plan is intended to be flexible to respond to evolving needs and emerging opportunities. In the 2021–22 capital plan, additional investments are planned in the areas of health, education, and climate change, including renewable energy and green infrastructure. Emerging projects include the creation of a network of electric vehicle rapid charging stations, and protecting patients and staff at the Whitehorse General Hospital with a secure medical unit.

As with previous years, the Five-Year Capital Plan focuses on six categories to illustrate how government investments are impacting Yukoners:

- \$178 million over five years for **climate change, energy and green economy** investments to help achieve the goals of the *Our Clean Future* strategy and reduce Yukon’s carbon footprint. In 2021–22 this includes green energy building retrofits for Yukon government and First Nations buildings.
- \$523 million over five years for **land development, social development, education, and health** to meet the needs of a growing and aging population. In 2021–22 this includes investments in the Whistle Bend elementary school, Old Crow Health and Wellness Centre and continued development of residential lots.
- \$488 million over five years for investments in **community and First Nations infrastructure** to ensure our communities are healthy and vibrant. In 2021–22 this includes investments in recreational and civic buildings such as the Tr’ondëk Hwëch’in Youth Centre, Pelly Crossing pool and Teslin fire hall.
- \$692 million over five years for investments in our **transportation infrastructure** to support safety and economic growth. In 2021–22 work will begin on the Nitsulin Bay Bridge replacement and continue on the Resource Gateway network and North Klondike Highway.
- \$210 million over five years for investments in **real property and asset management** to ensure Yukoners can access services and enjoy Yukon’s natural, cultural, and historical elements for generations. In 2021–22 this includes historic sites maintenance and campground infrastructure as well as retrofitting the Old Territorial Administration Building in Dawson City.
- \$159 million over five years for **information technology** investments to increase the ease, efficiency, and transparency with which Yukoners access services and agencies deliver services. In 2021–22 this includes health systems expansion and the Dempster Fibre project.

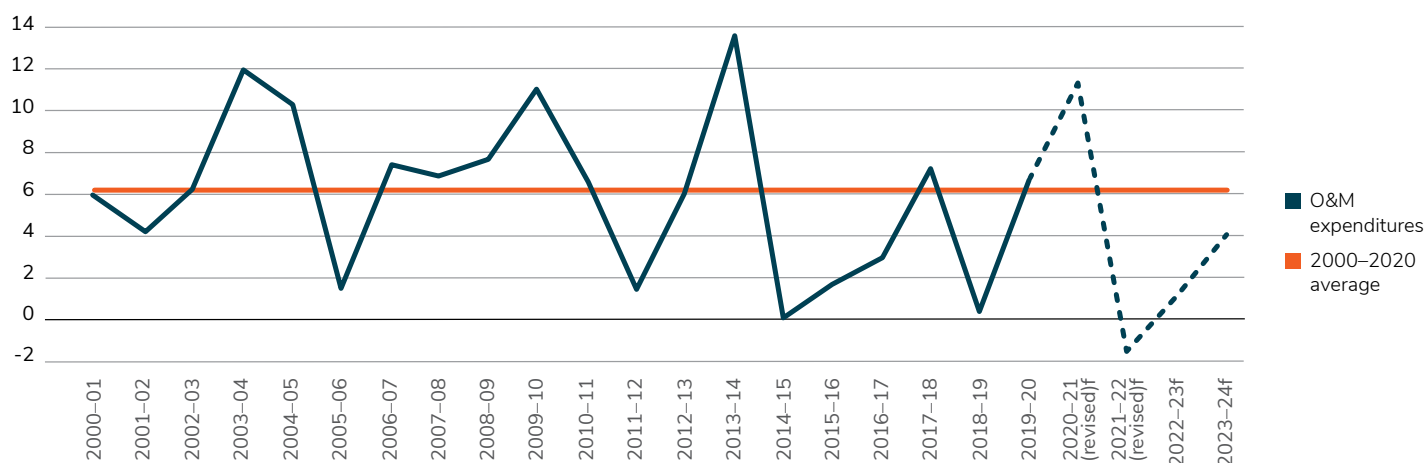
## Operations and maintenance expense

Operations and maintenance (O&M) spending in 2021–22 is expected to be lower than the amount currently forecast for 2020–21 in the Supplementary Estimates #2 (revised), showing a 1.4 per cent decrease. This is because 2020–21 is expected to be an outlier year, with significantly higher spending in response to COVID-19 than what is anticipated for 2021–22. Chart 2 shows forecast O&M spending from 2020–21 (including supplementary estimates) through 2023–24 compared to actual historical O&M spending as reported in Yukon’s Public Accounts. Future years assume lower growth in O&M spending, largely based on the assumption that the need for COVID-19 supports and responses will decrease.



## Chart 2. Annual growth in O&M spending<sup>12,13</sup>

Change in Government of Yukon gross O&M spending (per cent)



Source: Department of Finance. Numbers may not add due to rounding.

The average annual growth in O&M spending between 2000–01 and 2020–21 was 6.3 per cent. Compared to the 2020–21 Main Estimates, O&M spending is forecast to be 8.2 per cent higher in 2021–22. However, when COVID-19 spending is removed, 2021–22 O&M spending is an increase of 5.5 per cent over the 2020–21 Main Estimates.

Increases in O&M spending over the 2020–21 Main Estimates unrelated to COVID-19 are driven by a number of significant initiatives. These include a universal child care program and expanded pre-kindergarten programming, as well as new and continuing actions in response to the Putting People First final report on health and social services in the territory, the Our Clean Future strategy and the Yukon Parks Strategy. Spending increases are also driven by growing demand and inflationary increases for core services. These allocations show that, despite the pandemic, government is continuing to deliver on its key commitments as well as core services.

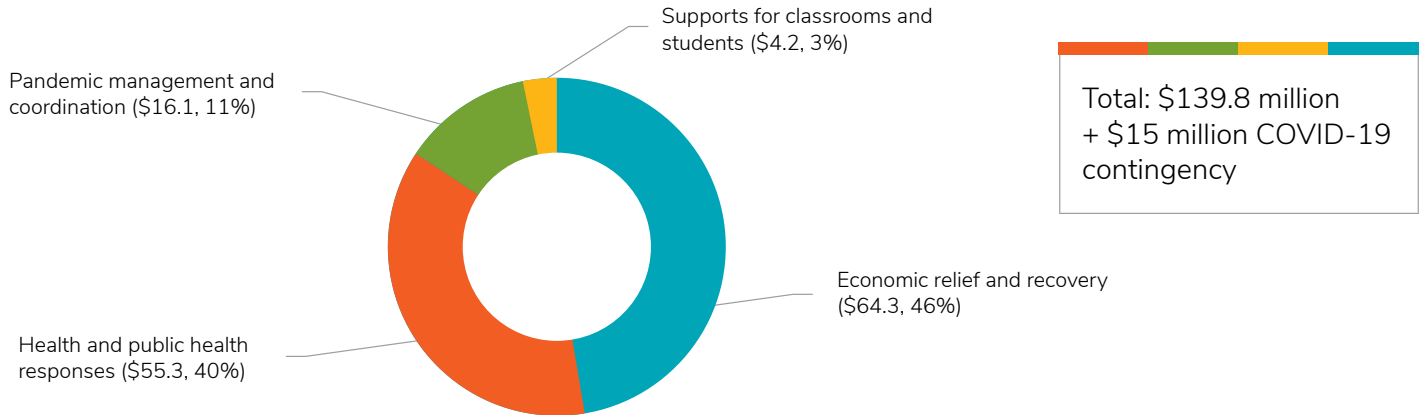
Yukon was quick to respond to the effects of the global pandemic, mobilizing existing and new resources for health care and public health responses, emergency management and coordination, and economic relief initiatives. Chart 3 shows the total O&M budget allocations in response to COVID-19 in 2020–21 and 2021–22. Over these two fiscal years, Yukon has allocated \$154.8 million towards the COVID-19 response—\$139.8 million in department O&M budgets and \$15 million set-aside as a COVID-19 contingency. This response has been enhanced by significant funding from the federal government. Of these budget allocations, \$82.6 million or 59.1 per cent is recoverable from Canada.

12. Fiscal years 2000–01 to 2019–20 represent actuals as reported in Yukon’s Public Accounts. For comparability, forecasts for fiscal years 2020–21 to 2023–24 use the same methodology, which differs from the presentation in Table 1 above.

13. For years 2020–21 through 2023–24 an ‘f’ denotes a forecast.

### Chart 3. COVID-19 budget allocations over the 2020–21 and 2021–22 fiscal years

Categories of budget allocations in response to COVID-19 (\$millions and per cent)



Source: Department of Finance. Numbers may not add due to rounding.

For the 2021–22 fiscal year, Yukon is allocating \$48.9 million in response to COVID-19—\$33.9 million in department O&M budgets and \$15 million set-aside as a COVID-19 contingency. Of the amounts included in departmental budgets, 46 per cent is dedicated to health care and public health responses, 34 per cent is dedicated to economic relief and recovery, 15 per cent is for management and coordination of emergency responses, and 5 per cent is supporting classrooms and students.