Backgrounder – Formula Financing Grant

The formula financing grant is the largest source of revenue for the Government of Nunavut, representing approximately 83% of the government's total revenues.

In October 1998, the Interim Commissioner of Nunavut and the Federal Minister of Finance signed Nunavut's first formula financing agreement. This agreement will expire on March 31, 2001. By extending this agreement to March 31, 2004, Nunavut will be on the same five-year track for major transfer agreements as all provinces and territories.

The formula financing grant calculation attempts to take into account many of the very high expenditure requirements in Nunavut. This is accomplished by basing the grant on the difference between the estimated expenditure needs and the estimated revenue raising ability of the Government of Nunavut.

- The transfer is unconditional and is determined by means of a complex formula. This calculation takes into account a number of factors such as:
- Nunavut's population growth,
- the growth in spending of provincial and local governments,
- the growth of the Canadian economy, and
- the ability of Nunavut to raise it own revenue through taxes and fees.

In simple terms, Nunavut's grant is determined by using the following formula:

Grant = Gross Expenditure Base (GEB) - Eligible Revenues

- Nunavut's expenditure needs are measured by determining the *Gross Expenditure Base* (GEB), while the revenue generating ability of the territory is measured by determining *Eligible Revenues*.

- The GEB is an approximation of Nunavut's expenditure needs based on Nunavut's share of historical expenditures of the former GNWT. It is not equal to the government's actual expenditures. Similarly, Eligible Revenues are an estimate of the territory's revenue-raising capacity, and do not measure actual territorial revenues.