

# Making Choices

“The Future is in Our Hands”

1998

Pre-Budget Public Consultation

An Information booklet on our economic and financial situation.

March 1998

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### **YOUR INVITATION TO PARTICIPATE**

The Pre-Budget Consultations give the public the opportunity to have a say in the decision making process leading up to the annual Provincial Budget.

The Minister of Finance, on behalf of the Government, is soliciting submissions from interested groups and individuals on budget issues. To participate in the consultation process, you can make a written submission, phone, fax, e-mail or visit us on the internet. We extend to you an invitation to help us prepare the 1998 Budget.

To assist you in participating, this booklet outlines the sources of Government's funds, where this money is spent, our debt situation and the economic outlook for our Province.

If you wish additional information about the pre-budget public consultation process, please contact us by:

- ◆ calling our toll free number 1-888-336-7442
- ◆ e-mailing us at [choices@fine.gov.nf.ca](mailto:choices@fine.gov.nf.ca)
- ◆ visiting us on the internet at <http://www.gov.nf.ca>
- ◆ faxing us at 709-729-2095
- ◆ writing us at

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***Please join us in "Making Choices".***

### **PREPARING OUR BUDGET**

The federal and provincial governments for many years had large deficits. When government expenses are greater than revenues, the difference is “the deficit”. These deficits forced governments to borrow large amounts of money and greatly increased the size of the public debt. The cost of making interest and debt payments began to erode the ability of governments to maintain essential public services.

All governments in Canada found it necessary to reduce their deficits and strived to eliminate them. In 1997-98 five provincial governments are forecasting a balanced budget or surplus. The federal government now too forecasts a 1997-98 balanced budget.

We have also reduced our deficit. By taking prudent measures, we have accomplished this while ensuring essential public services are protected. Last year we implemented multi-year budgeting, bringing forward our first three year budget plan. This plan calls for us to move toward a balanced budget by 1999-2000. We can attain this goal only if we keep expenditures under control. Yet there is pressure in many areas for increased spending.

This is the challenge of budget preparation. On one hand, we must eliminate the deficit if we are to have sustainable public services over the longer term. On the other hand, many public services could be improved by funding them at higher levels.

The art of budget preparation is striking a balance between the legitimate needs of the people for public programs and services and the need for prudent financial management to ensure those services can be maintained and improved over time.

## OUR FINANCIAL SITUATION

Our three year plan calls for continuing progress on deficit reduction. With 1997-98 behind us, the challenge will be to make progress toward achieving our deficit targets for the coming years. Our longer term objective is for sustainable balanced budgets.

### Our Three Year Plan for Deficit Reduction

<u>Years</u>	<u>Fiscal Year</u>	<u>Deficit Target</u>
1.	1997-1998	\$ 20 million
2.	1998-1999	\$ 10 million
3.	1999-2000	\$ 0
	2000-2001	\$ ?

Our deficit has been reduced every year since 1990-91. This consistent improvement in our financial situation has made the greatest contribution to ensuring our essential public services can be maintained.

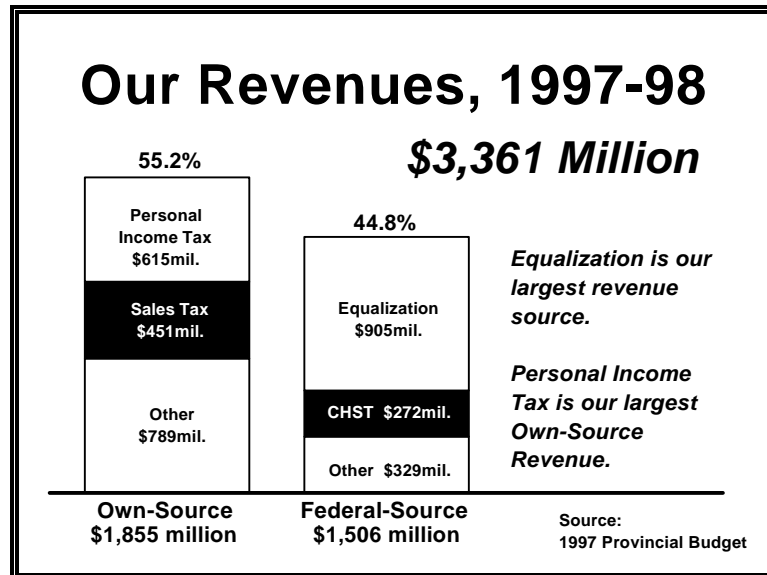
There has been much talk lately about the federal "fiscal dividend". The combination of federal expenditure cuts and revenue growth should create growing federal financial surpluses in the coming years. These surpluses are the so called fiscal dividend and the debate revolves around what to do with any uncommitted money.

We do not anticipate a provincial fiscal dividend at this time. We have prudently lowered our expenditures to be within reach of a balanced budget, but do not forecast the revenue growth needed to create surpluses. It will be a challenge for us, given our existing expenditure pressures, just to avoid returning to increasing deficits.

### OUR REVENUE SOURCES

Your Provincial Government has two main sources of revenue:

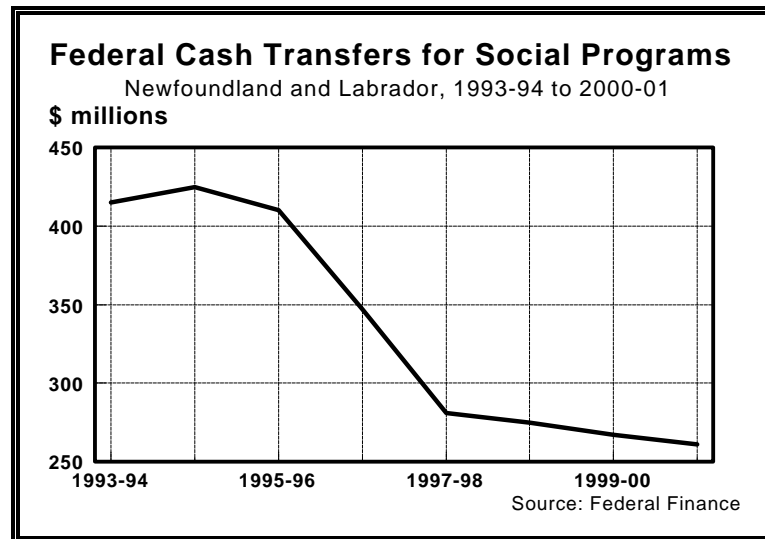
- (1) **federal-source revenues** - This is money we receive from the federal government, mainly Equalization and the Canadian Health and Social Transfer (CHST), and,
- (2) **own-source revenues** - These are Provincial taxes, such as the harmonized sales tax, income tax, gasoline tax and others, as well as revenue from various fees, licenses and fines.



#### Federal-Source Revenues

The federal government has dealt with its own deficit problem in recent years in part by reducing transfer payments to all provinces. While Equalization payments ( which are made to the seven provinces that have below average capacity to raise revenues from their own taxes) have not been affected, cash transfers for social programs have been cut significantly.

The CHST, the transfer to every province in support of social programs, has been reduced. Our CHST will decline from almost \$350 million in 1996-97 to about \$275 million in 1998-99 and to about \$260 million by 2000-01. For several years prior to 1996-97 this federal support for our social programs was over \$400 million.

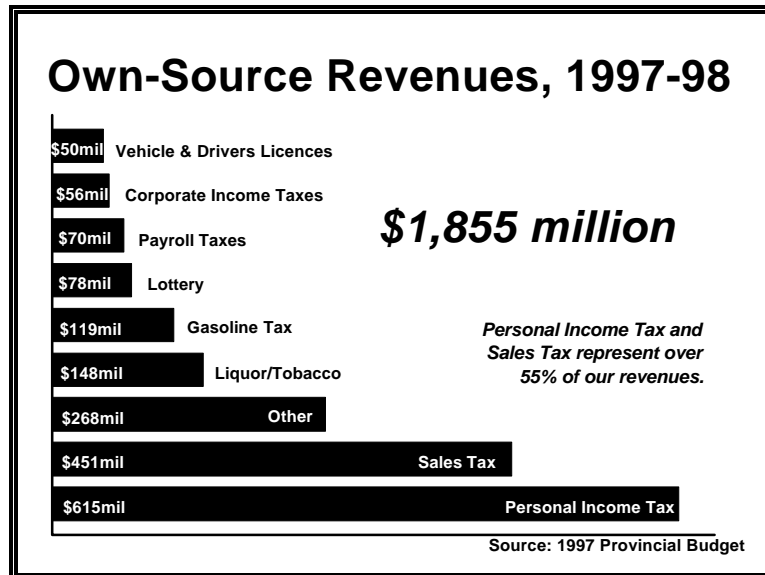


### Own-Source Revenues

The implementation of the Harmonized Sales Tax (HST) this year brought about a \$100 million tax cut, the first major tax reduction in the Province since 1949. Transitional assistance provided over four years by the federal government allows us to reduce taxes without increasing the deficit. This tax reduction is boosting our economy during a difficult period, and will improve our economic and fiscal situation over the longer term.

The issue of tax cuts has become prominent nationally, particularly in personal income tax. Some provinces have already announced income tax cuts. We all would like to see taxes further reduced in this Province. We have limited flexibility to pursue this at this time, however, because our deficit has not yet been eliminated and we already have implemented a substantial tax cut with the HST.

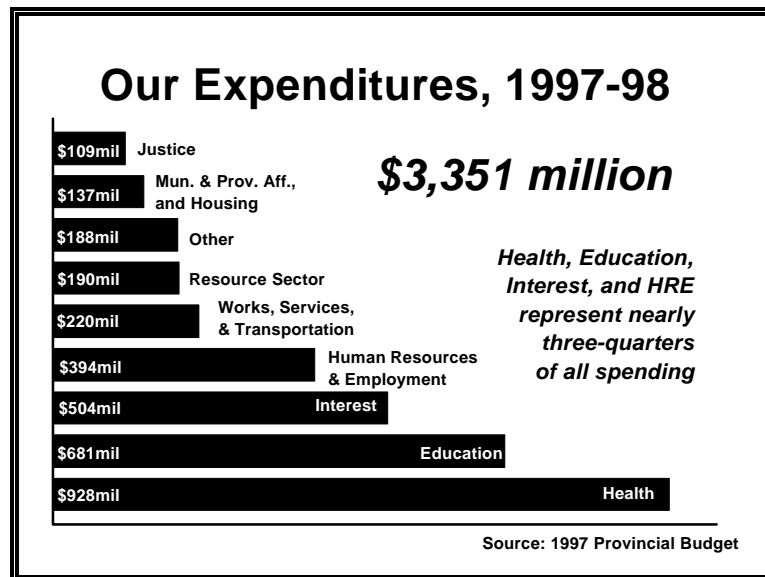
A potential source of future revenues to fund further tax reductions and other initiatives is from natural resource development projects. However, while petroleum and mining exploration and development are creating new employment and business opportunities throughout the Province, these projects will not yield substantial revenues for the Province in the next three years.



### OUR SPENDING ON PROGRAMS AND SERVICES

Your Provincial Government will spend about \$3.35 billion in 1997-98. Of each dollar:

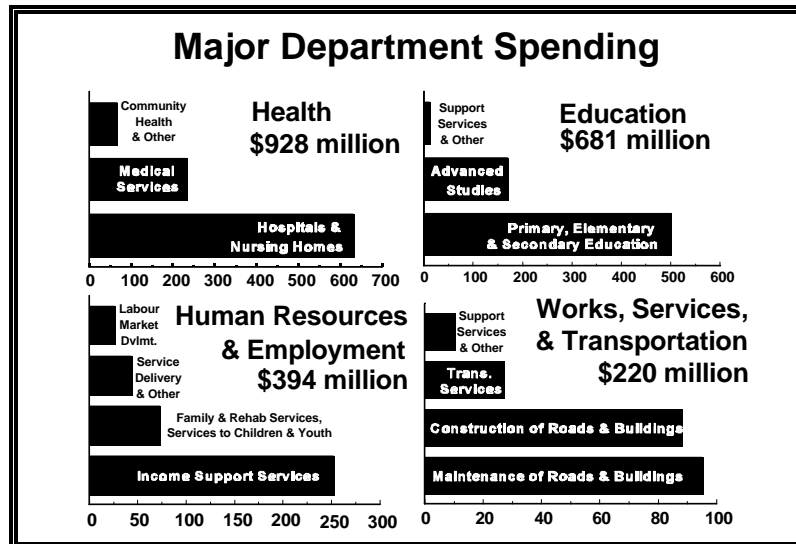
- 67 cents is spent in the social sector, which includes health care, education, social assistance, policing, housing and supporting municipalities
- 15 cents goes to pay the interest on our debt
- 12 cents provides for the general government sector, which includes maintaining roads and ferries, collecting taxes and managing Crown lands, and
- 6 cents is spent in the resource sector, encouraging economic development, managing our natural resources, protecting the environment and promoting tourism and culture.





All governments in Canada have faced the need to restrain expenditures in recent years. In 1996 we embarked on a program review exercise to comprehensively evaluate all our programs and services to establish priorities and determine the most efficient delivery methods. The results were incorporated into the 1997 Budget, the exercise being a key component of our efforts to implement multi-year financial planning and to reduce costs.

While departments and agencies have been given three year expenditure budgets, there is some flexibility within the overall framework to make adjustments for changing circumstances and new developments. However, generally, if more money is to be spent for one purpose, then offsetting cuts would have to be made to another area so total spending does not increase overall. The 1998 Budget will fine tune the remaining two years of the original three year plan, as well as consider the fiscal outlook for a new year three, 2000-01.



## **DEPARTMENTAL SPENDING SUMMARY**

*[Gross Expenditures From 1997 Budget Estimates]*

Health	\$928 million
Education	\$681 million
Human Resources & Employment	\$394 million
Works, Services & Transportation	\$220 million
Municipal & Provincial Affairs	\$130 million
Justice	\$109 million
Forest Resources & Agrifoods	\$47 million
Industry, Trade & Technology	\$37 million
Tourism, Culture & Recreation	\$35 million
Development & Rural Renewal	\$34 million
Government, Services & Lands	\$23 million
Fisheries & Aquaculture	\$17 million
Mines & Energy	\$9 million

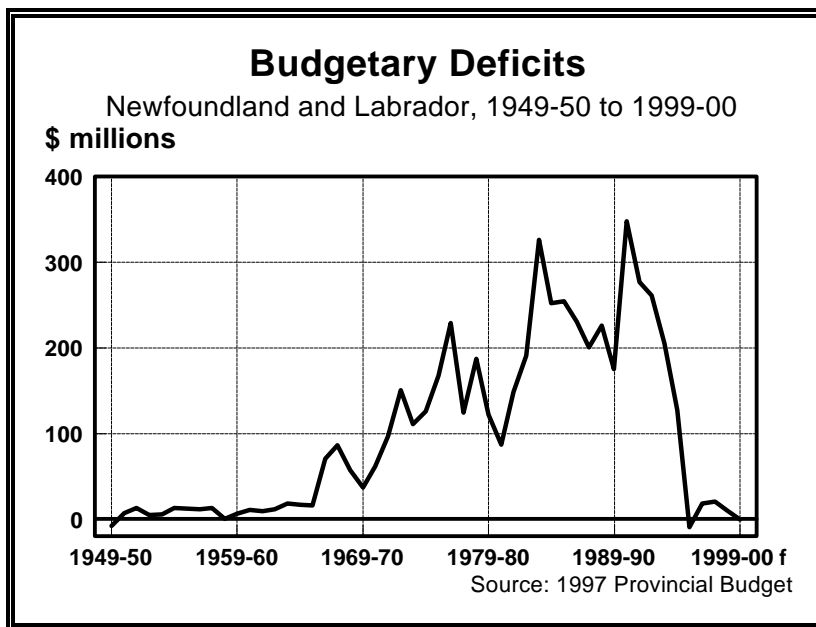
### **MHA Pension Plan**

One specific issue Government would like to give you the opportunity to consider is the MHA pension plan. The federal government and all provinces (except Alberta) provide pensions for elected officials. Many MHAs leave careers where they would otherwise be earning pensions to serve in the House of Assembly. The existing MHA plan provides for pensions based on a percentage of salary and the length of service. As with most pension plans, both the MHAs and their employer, government, make contributions to the plan. As the MHA pension plan is currently under review, you can offer your views on if, or how, it should be changed, and the extent to which it should be supported financially by Government.

**OUR DEBT AND CREDIT RATING**

Since Confederation our total public sector debt has grown to about \$6.3 billion. Adding the amount needed to fully fund our public sector pension plans increases the total debt to over \$9 billion, around \$16,500 for every adult and child in the Province. Interest and other costs of this debt are over \$500 million a year, money that could otherwise be directed to improve public services or lower taxes.

We must continue to effectively manage our financial affairs and control our deficit to protect our credit rating. If our credit rating, the lowest overall rating of any Province, slips below the current level, it will be much more difficult and costly for us to borrow money and to finance the existing debt.



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## OUR ECONOMIC SITUATION

As we anticipated, 1996 and 1997 were difficult years for our economy. The outlook for 1998 and following years is better. Although some sectors, such as the groundfishery, still face uncertainties, there are good reasons for optimism.

We have made a major leap forward with the commencement of oil production at Hibernia in late 1997. Hibernia is the catalyst that will see development of Terra Nova and Whiterose, as well as a resurgence of exploration activity in the offshore. The delay in the Voisey's Bay development will push the economic benefits ahead to future years, with a lower impact in 1998 than first expected. While delayed, the project still promises to make a significant contribution to our economic growth and future prospects.

Offshore oil and mining developments do require large investments by their owners, which have positive impacts on our economy. However, during the payback period when developers are recouping their capital costs from production revenues, our tax and royalty collections are low. This is typical of royalty regimes and ensures we are internationally competitive in attracting investment. After payback, which can take several years, our resource royalties take a greater share of project revenues.

Other sectors expected to continue to perform well include tourism, information technology and manufacturing. Although the northern cod stock has not recovered, the shellfishery should see good growth in 1998 with increased production and employment. A replacement for the TAGS program remains an important issue to be resolved in 1998.

The tax cut implemented with the Harmonized Sales Tax in 1997 was followed by strong growth in retail trade and car sales. The HST should continue to stimulate the economy in 1998 and beyond, and fosters a better climate for business investment and job creation in the Province.

Although the economy could perform reasonably well over the next few years, this will not translate into significant new revenues for government or meaningful improvements in our fiscal position. This should be coming, but is still several years away.

As our economy expands from development, our tax base grows. But much of the new tax revenue is offset by decreases in federal transfer payments. Equalization, paid to us while we do not have the tax base to generate our own revenues at the

average level of other provinces, is reduced as our economy improves. For example, we could lose on average 84 cents of each dollar in tax revenues generated by major resource developments. This is the paradox of economic development for government, a stronger economy creates rising public expectations, but government revenues do not grow to meet these expectations.

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## **SOME CHOICES TO THINK ABOUT**

The Pre-Budget Consultation allows you to bring to the attention of government any matters you feel should have a bearing on the 1998 Budget. Many of the financial issues are well known and widely discussed. But you can also bring forward any new issues that are of interest or concern to you.

Government consideration of budget issues revolves around three main topics - the expenditure priorities, the appropriate level of taxation and the prudence of adding to the debt.

Issues you may want to comment on could include:

### **Expenditures**

- What is your view of the expenditure priorities? Where we are spending too little? Where may we be spending too much?
- What impact is expenditure restraint having on public programs and services, your community, organization or yourself?
- Should spending be increased in some area? How should this amount be made up from reduced spending in other areas?
- Should government increase partnering with the private sector if that arrangement would deliver the same quality of public service at lower cost?

### **Taxation**

- Where should government look to for more revenue if this is needed to address a budgetary shortfall; increase existing taxes, impose new taxes or greater cost recovery from government services not used by everyone?
- What impacts are taxation levels having on the economy or your personal circumstances?
- Following our HST tax cut, when our fiscal situation improves, which tax or taxes should see the next cuts?

**Debt**

- What is a responsible and prudent level of deficit and borrowing given our fiscal circumstances?

**Three Year Plan**

- To what degree does a multi-year budget plan contribute to more effective financial management and service delivery?
- Should we continue to move toward sustainable balanced budgets, even if this is not always possible given our economic and fiscal circumstances?

**MHA Pension Plan**

- What degree of support should Government provide for MHA pensions?

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### **“THE FUTURE IS IN OUR HANDS”**

*[Excerpts from “Prospects ‘98” - a speech by Premier Brian Tobin, January 7, ‘98]*

“The decisions we take this year must stand the test of time. We can no longer afford short term solutions to the long term problems we must face head on. In the 1997 Budget, we laid out a three year fiscal framework that will put our finances on the right track. Government made a commitment to prudent financial management, while making strategic investments in key areas - areas that people had told us were priorities - health, education and other social programs. We made difficult but responsible decisions that, at the end of this three year period, will move us toward a sustainable balanced budget.

Economic forecasts are encouraging, but a quick look around the Province is enough to see that the turnaround has already begun. There is a renewed confidence. This is a time for optimism, cautious optimism. There are important gains, but the larger gains in revenues and employment are still a few years away. It will be several more years before government begins to reap financial rewards in the form of significant royalties and taxes.

In the meantime, it is vital to stay the course. We must resist demands for major new expenditures in order to make sure the old cycle of deficit and debt is avoided. That way, when the benefits of Hibernia, Voisey's Bay and other developments are actually in Government hands, those revenues can be used for the benefit of the people of this Province.”