Developed with research conducted by the Conference Board of Canada

Responsible fiscal management and competitive tax policies encourage investment and economic growth, creating jobs and contributing to a higher standard of living for all Newfoundlanders & Labradorians. The current economic and fiscal situation in the province is the number one issue of concern for senior business leaders. Given the magnitude of the current fiscal crisis, the Employers’ Council commissioned the Conference Board of Canada to examine a variety of possible routes government could take in the 2016 provincial budget to return the province to a sustainable fiscal position.

The Conference Board examined spending in NL as compared to other provinces on a per capita or per GDP basis. They also measured the economic impact of tax increases and spending reductions to specific program categories, and made recommendations for NL. Based on this research the Employers’ Council has developed the following Shadow Budget, recommending expenditure and revenue targets for government over the next four years.

1 Reduce Program Expenditures by $1 Billion Over 4 Years

Reducing expenditures by just over $1 billion would bring spending levels back to approximately 2008/2009 levels.

It would also align spending more closely with the Atlantic Canadian Average.

This would be a reduction of about 15% from 2015-16 levels of spending.

This Shadow Budget recommends implementing the majority of these expenditure reductions upfront in the first two years. Program spending levels in this province have been unsustainable for most of the last decade. Cost savings are needed now. Every day that government waits means more money going towards debt servicing, and less towards programs and services.

Acting quickly and decisively will cause some short term economic contraction, but restructuring for long term success will allow the economy to adjust and rebound beginning in 2018.

Total yearly targeted savings:

- 2016-17 - $275 M
- 2017-18 - $525 M
- 2018-19 - $276 M
2 Biggest Area of Opportunity is Non-Health Spending

Excluding health, NL spends significantly more than other provinces in Canada.

NL spends $2300 per person more than the average of the other three Atlantic provinces on non-health areas of government. This gap has widened since 2009.

The Shadow Budget recommends reducing spending outside of health, education and social services by $524 million over four years. This is equivalent to reducing spending $1000 per person over 4 years.

This will return per person spending levels to approximately 2008/2009 levels.

Biggest Area for Savings is Non-Health Non-Education Spending – Reduce by $1000 pp

Targeted yearly savings:

2016-17 - $75 M increase
2017-18 - $392 M
2018-19 - $148 M
2019-20 - $59 M

Government’s December Fiscal Update contained significant spending increases allocated to this category in the Conference Board’s analysis. The small increase contained in 2016-17 still reflects a substantial reduction from government’s projected spending as released in the update.
3  Examine Public Administration Wages & Benefits

Average Wages in NL and Atlantic Canada
(Average weekly wage, $)

The average weekly wage in Public Administration is 27% higher in NL than the Atlantic Canadian Average — meaning about $300 a week higher than what is paid in the other Atlantic Provinces.

It is also slightly higher than the Canadian average.

A reduction in average weekly wages in public administration to the Atlantic Canadian average would save $126 million annually.

Wages in other sectors within government are also higher than the Atlantic Canadian average: Physician salaries are 27% higher, education is 21% higher, and other health care wages are 12% higher.

At a minimum, a wage freeze should be implemented. Other creative solutions such as job-sharing, incentivized leave, pension reform, and benefit reductions are currently being utilized within private sector companies faced with similar situations. These type of solutions should be explored within government to mitigate job losses.

4  Reduce the Size of Public Administration

In 2014 NL had 28 provincial government employees (excluding Health & Education) for every 1000 people in the province. This is in comparison to 25 in 2008, and significantly higher than the average in the rest of Canada, at 23 per 1000.

Government’s attrition plan announced in Budget 2015 planned to phase out 2 out of every 10 retiring positions over five years. This was estimated to save $300 million.

Given the large number of retirements due in the public sector over this time period, a more robust attrition program can help government reduce the cost associated with having the largest public sector per capita in Canada.
5 Adjust Education Spending to Reflect Declining Enrollment

Elementary Plus Post-Secondary Enrolments

Investments in both K-12 and Post-Secondary education are extremely important for the future of our province. Despite increased investments, outcomes in education including student skills, adult skills, and university completions lag behind other jurisdictions. The Employers’ Council recommends a full, outcome-based review of both Post-Secondary and K-12 Education to determine key cost drivers and identify opportunities for improvement.

Targeted Yearly savings:

- 2016-17 $187 M
- 2017-18 $98 M
- 2018-19 $89 M

6 Health Care Spending Must Also Be Reduced

Adjusting for age, NL spends $1000 per person more on health care than the other provinces in Atlantic Canada (25% higher). Reducing health care spending to the Atlantic Canada average today would save $549 million.

In fact, NL has the second highest per capita health spending of any province in Canada, behind Alberta. That gap has widened considerably over the last 7 years.

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NL spends the most per person in Atlantic Canada on: Hospitals, Other Institutions and Physicians. We spend the second highest on Drugs.

Health care spending has increased on average 5.3% each year over the last 10 years. Due to the continuing demographic challenges and demands place on health care, the Conference Board set targets for savings in health care at more modest levels than the other sectors.

The Shadow Budget targets $236 million reduction in health spending over 3 years. This represents a $450 per person reduction in spending, and would bring us closer to the Atlantic Canadian Average.

The NL Medical Association (NLMA) recently made some strong recommendations on ways to reduce cost on health care delivery, including centralization of services. The NL Employers’ Council supports centralization of services in all government sectors.

As with education, the majority of the savings in health care in this Shadow Budget come upfront in 2016-2017, to reduce debt servicing costs in future years.

Targeted Yearly savings:

- 2016-17 - $163 M
- 2017-18 - $35 M
- 2018-19 - $38 M

7 Implement a TEMPORARY Consumption Tax Increase

While the Employers’ Council generally does not support tax increases, given the magnitude of the current situation a balanced approach is necessary. This approach will keep pressure on government to restructure program and service spending to be sustaintable long term, while mitigating the short term economic impact of more drastic expenditure reductions.

Consumption taxes are widely known to be the least harmful taxes on the economy.

A two-point increase in the HST would generate an average of $170 million in revenues annually.

The Shadow Budget also includes a ten per cent increase in alcohol, cigarette and gasoline taxes, generating approximately $50 million annually.
The Conference Board estimated these increases could come into effect on July 1st 2016-17, meaning less revenue is generated in the first year.

The Employers’ Council is recommending that this HST increase be implemented temporarily to provide relief to government while achieving permanent cost savings. Once balance is restored this surcharge should be removed.

Revenue:

2016-17 - $192 M  
2017-18 - $246 M  
2018-19 - $229 M  
2019-20 - $216 M

Total: $883 million

8 Maintain Competitive Personal & Corporate Tax Rates

A two percentage point HST increase would give NL citizens the 3rd highest tax burden as a share of personal income in the country.

Further tax increases would make NL uncompetitive in terms of taxation and place undue hardship on citizens in challenging economic times.

Placing too high a tax burden on NL residents and businesses in a province with such high program spending would be viewed as unfair by many.

93% of NLers surveyed in a recent Corporate Research Associates poll agreed that before increasing taxes to citizens, government must ensure tax dollars are spent in the most efficient manner possible.
9 Don’t Just Cut – Restructure

The recent drop in commodities prices has shown clearly that the province cannot rely on unstable and fluctuating royalty revenues to finance permanent program spending.

For the last decade, spending levels in this province have growth to be unsustainable long term. Government must restructure public service delivery to make program spending sustainable, long term, without relying on royalty revenues.

While a rudimentary cut across the top of each sector through wage reductions, layoffs, or some combination of both could provide the necessary $1B in cost savings short term, the Employers’ Council does not support this approach.

Across the board cuts to the public service are not an effective means to reduce expenditures. Without restructuring, cuts across the board often result in an increase in expenditures long term. A more strategic, outcome based approach needs to be taken to reorganize the way government delivers programs and services. A wholesale review of government programs is necessary: If a program or service is not efficiently and effectively delivering targeted outcomes to citizens, it should be reengineered or eliminated altogether. Careful examination of spending should include consideration of different models of delivery and reengineering of work processes to be outcome oriented. Innovative solutions to providing government services more efficiently, including centralization of services, use of technology, and productivity focused goal setting within the public sector should all be considered.

Partnerships with the private sector should also be utilized to deliver programs, services and infrastructure. Partnerships will not only save jobs and maintain services, but will improve outcomes to citizens and grow the economy.

Somewhere, spending more money on a program or service doesn’t give you better outcomes – it just gives you a more expensive program or service.

Corporate profits in NL have seen an incredible decline and are now at a 15 year low. Business investment in NL is decreasing, and is expected to see negative growth over the next four years. Continued business investment is key to growing the economy. It would not benefit our province to increase costs to businesses when they are already suffering financially.

Business costs such as payroll, transportation and utility costs are exceptionally high in NL as compared to the rest of Canada. Increasing corporate tax rates would make NL uncompetitive.
The NL Employers’ Council Shadow Budget does not provide for any increase in infrastructure spending over the 4-year period considered, but holds it at levels projected by government. Strategic infrastructure investment is important for economic growth and productivity and should not be reduced. Government should look to the private sector to provide capital for new infrastructure projects through public-private partnerships, where appropriate, in the near to medium term.

10 Balance the Budget in 2019-20

Due to the combination of cost savings and revenue generation measures presented in this Shadow Budget, balance is achieved in 2019–20, with a surplus of $140 million.

Equalization would play a role in achieving a balanced budget.

In the Conference Board’s forecast, equalization would begin a year earlier than currently projected and increase further in 2019-20, due to a short term contraction of the economy.

The province’s Debt to GDP Ratio would peak in 2017–18 at 53.4%, falling to 51.6% in 2019–20, roughly 15% points lower than currently projected.

Interest Payments as a Share of Revenue Would Stabilize

(Per cent)

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