



OPPORTUNITIES
& SOLUTIONS

BRIEFING NOTE FOR THE PROVINCIAL LIBERAL
GOVERNMENT

December 18th, 2015

Advocating to enhance the ability of employers to contribute to the economic growth and prosperity of Newfoundland & Labrador.

Established in 1982, the NL Employers' Council (NLEC) enables employers to present a strong collective voice on issues impacting business.

We are a vocal advocate for competitive taxes, competitive regulations, and fiscally responsible government budgets. Our membership consists of the province's largest and most economically significant employers, including companies from all major economic sectors. Collectively, they are responsible for the majority of all non-government jobs in Newfoundland & Labrador (NL).

Currently, the organization's key advocacy objective is to:

Affect public policy change that will make Newfoundland Labrador one of the most competitive jurisdictions in which to do business, by 2020.

Some believe that resources alone will ensure prosperity for current and future generations, and that corporations will invest in our province simply because they want these resources. This logic is flawed. We are not the only jurisdiction in the world with "stuff in the ground." In order to maximize the opportunity presented to us by our resources, we must create a competitive business environment that encourages outside investment, and encourages local business to grow and expand. NL is presented with some unique challenges due to our remote geographic location and ageing population. We need to work harder to differentiate ourselves in a global marketplace.

Successful private sector businesses operating in Newfoundland & Labrador are responsible for the province's GDP growth. Policy that creates a globally competitive business environment is the only known way to grow our economy and ensure prosperity for all Newfoundlanders & Labradorians, now, and for future generations. If growth in the private sector is constrained through uncompetitive government policy the entire province will suffer.

The Employers' Council works hard to develop responsible and well researched positions on issues of importance to the business community and the economic success and prosperity of all Newfoundlanders and Labradorians. We advocate for big picture, but specific, policy change on root issues that will remove barriers to doing business in this province and unlock opportunity. Some of our most important current advocacy issues are highlighted here. For more information on these and other initiatives, please visit our website: www.nlec.nf.ca.

The need to increase our province's competitiveness

True competitiveness of a jurisdiction is measured by productivity. Productivity allows a jurisdiction to support high wages, attractive returns to capital - and with them, a high standard of living.

NL has room to improve our competitive position. The Employers' Council recently commissioned the Conference Board of Canada to benchmark the business and economic environment in NL against peer jurisdictions. They graded NL against nine national and international competitor jurisdictions in the areas of innovation, investment, education and skill level, labour market and the business and policy environment. The report *Achieving Sustainable Prosperity: Benchmarking the Competitiveness of Newfoundland and Labrador* was released on April 16th, 2015. In it, the Conference Board found that NL's competitiveness has come a long way in the last 15 years but is still weak compared to our direct competitors. The report provides a "reality check" for the province and indicates that some economic restructuring is needed to maintain productivity growth and sustain economic prosperity. In fact, out of 32 benchmarking indicators used, NL came in the bottom half of all peer jurisdictions in 21.

This report and recommendations have been very well received by members of your party and senior bureaucrats in multiple departments. If you have not yet read this report we encourage you to do so. These recommendations will form the basis of the NLEC's lobby efforts for the coming years.

The need for fiscal discipline

The state of our province's finances is of great concern to the business community. A low debt-to-GDP ratio, a "right size" public sector, and reasonable government spending allow government the flexibility to respond to unexpected economic downturns, and provide security to business investors. Responsible fiscal management and competitive tax policies encourage employers to invest, grow, create jobs and contribute to a higher standard of living for all Newfoundlanders & Labradorians. The general public also wants government to show fiscal discipline. In a survey done by Corporate Research Associates (CRA) for the Employers' Council in August 2015, 71% of NLers said it is important that government reduce spending and 80% said it is important to reduce provincial government debt.

For the last five years the Employers' Council has been vocal about unsustainable provincial spending. Expenditures have grown from \$5.1-billion (2001) to \$7.7-billion (2013) - an increase of 51%. According to our Auditor General in early 2014, government spent about 40% more per person than any other province in Canada and the province would have to cut \$2.3 billion from its budget to reach the national average of spending per person (Canadian Press, 2014).

The previous government attributed much of the increased spending to an infrastructure deficit. But the Conference Board found that despite an increase in infrastructure spending, NL's public investment in infrastructure is still the lowest as a percentage of GDP in the country. The real driver of our province's over-spending is program spending. We have the highest per-capita expenditures on programs and services in the country. These costs have grown dramatically over the last decade and have ballooned since the recession. A large part of this is due to the size of our public service. NL has the highest

average provincial and local government employment as a percentage of total employment of any jurisdiction in North America, at 26% (Fraser Institute, 2012). From 1997-2013 the number of provincial workers per 1000 residents grew by 40% - despite already being the second highest in the country (Conference Board, 2015). If NL's public sector employment rates matched the national average, it would have reduced the province's wage bill by **\$880 million** in the 2012-13 fiscal year (AIMS, 2014).

This kind of fiscal management amounts to nothing less than intergenerational theft. The solution is simple and necessary — your government must reduce spending in a responsible and sustainable way.

This is not a problem, it is an opportunity.

The people of the province want government to show leadership. Tough decisions must be made to right the ship and set our province up for long term economic success. Permanent spending reform is necessary to return spending to levels that allow for much needed debt reduction and a plan to save for the future. This is an opportunity to make real and significant change for the next generation.

The Employers' Council's 2015 provincial budget submission *A Plan for Sustainable Prosperity* and subsequent *Submission to the Liberal Economic Assessment Project (LEAP)* compiled research from the Conference Board of Canada report, the Employers' Council's commissioned public opinion polling, and multiple other sources to develop a number of recommendations. The Progressive Conservative government committed to many of these items in Budget 2015. However, many of these commitments did not go far enough. We look forward to discussion and collaboration with your government to find real meaningful solutions that meet the needs of citizens while ensuring a competitive and prosperous economic future for our province.

1. Significant spending reform must occur for a return to surplus budgets and debt reduction by 2018.

Spending reform will not devastate our province as some believe. The Fraser Institute calculated that a \$1 billion reduction in provincial expenditures would reduce the overall GDP by 1.4%-4.5%. Spread over a period of 3 years, they described the impact on the economy as a "rounding error" - meaning there is room for even further reductions given the current size of the deficit, without major economic impact. In the 1990s many governments across the country acted decisively to enact spending reductions. Such actions, while difficult in the short term, lead to better results in the medium and long term, including balanced budgets, declining debt, lower interest costs, and a more prosperous economy.

2. Do not increase taxes. Instead ensure that taxpayers dollars are being spent in the most efficient manner possible.

The business community is supportive and appreciative of your government's decision to reverse the proposed HST increase, and the recognition that is not in our province's best interest to be uncompetitive on taxation. We hope that you also maintain current rates of corporate, labour and personal tax. Given NL's high statutory labour costs, even a small increase in the corporate tax rate or sales tax would quickly make NL uncompetitive on total tax rate as compared to competing jurisdictions. Any tax increase, particularly during an economic downturn, will have a negative impact on the economy. Before increasing taxes to the hardworking citizens and businesses of NL, government ensure

tax dollars are being spent in the most efficient manner possible. In our 2015 CRA survey, 88% of NLers agreed with this statement.

3. Target the creation of and contribution to a sovereign wealth fund by 2018.

Eighty percent of NLers believe it is important that government establish a fund to save oil revenues for future generations (CRA, 2015). Your government has committed to such a fund. We hope you will honour this commitment within the next 2-3 years. Such funds have been highly successful in other jurisdictions and provide a means not only to save for the future but to restrain current spending to sustainable levels.

4. Invest more in strategic infrastructure and spend less on program and service delivery.

We currently have the second oldest infrastructure of any province in Canada. You must continue to invest in infrastructure, but do so strategically. Infrastructure investments should focus on economic multipliers, such as transportation or technology investments. Making it easier to move goods, services, and people in and out of our province will grow the economy. Given the need for fiscal restraint, infrastructure investment must be made by reallocation of funds from program and service expenditures. 84% of NLers believe it is important that government find cost savings in program and service delivery in order to invest more in public infrastructure (CRA, 2015).

5. Reorganize program and service delivery to reduce the size of public administration to sustainable levels in line with the Canadian average.

We simply cannot afford, and do not need to have, the largest public service in North America. Numerous studies show a negative relationship between government size and economic growth rates. They also show an association between smaller public sectors and efficiency in public service provision, and better performance outcomes (Di Matteo, 2013). It is time to reorganize program and service delivery and reduce the size of our public administration in NL to be more efficient and outcome focused. This does not mean cutting a percentage off the top for the sake of cutting costs. Across the board cuts to the public service are not an effective means to reduce spending. At a minimum, we ask you not to turn your back on the proposed attrition plan or the commitment to overhaul existing program and service delivery models to contain expenditure growth. Attrition can, and should, be utilized as much as possible to minimize the impact on the existing public service. We also encourage your government to be more thoughtful and long term in planning to reduce expenditures than the previous government, and to communicate effectively with the public on why this is necessary. More than ever, our province needs strong leadership on this issue.

6. Reorganization of program and service delivery must be based on improving outcomes to citizens.

Just because we spend more money on programs and services does not mean that we get better outcomes. Health and Education in NL are two good examples of that. Budgets of these departments have increased dramatically, yet citizens are not receiving the desired outcomes from these important services. Seventy-one percent of Nlers believe that the public sector could be reorganized and reduced to provide better value for tax payers dollars (CRA, 2015). To meet NL's fiscal challenges, we must re-evaluate the fundamental role of government in service delivery. Reorganization of program and service delivery should include consideration of different models of delivery and reengineering of work processes to be outcome oriented. Government systems should be proactive and centered on the outcome for the citizen, not on the institutions and practitioners within the system. Focus must be shifted away from processes and placed on how best to achieve desired outcomes. This will not be achieved by sticking with the old ideas. Innovative solutions including productivity focused goal setting, partnerships with the private sector, regionalization of programs and services and performance based incentives for government employees should all be considered. Access to and quality of services can be enhanced despite the need to restrain spending.

7. Increase involvement of the private and not-for-profit sectors in the delivery of government services.

Cost savings can be achieved in many areas without sacrificing service quality by partnering with the private and not-for-profit sectors to deliver public services. Partnerships with the private sector through Public Private Partnerships (P3s) and Alternative Service Delivery (ASD) will help reduce government spending while having the added benefit of expanding the private sector and growing our economy. Through recent public opinion polling we know that the majority of Nlers SUPPORT increased private sector involvement in the delivery of government services, provided there is no increased cost to citizens and service levels remain the same or better. The key to successful implementation is in the details of the agreements, and there are hundreds of successful

What are ASD and P3s?

The "privatization" aspect is actually a bit of a red herring, because basically everything the government does involves some sort of private-sector involvement.

James McLeod, The Telegram, August 21st, 2015

We can't let the over politicized language of 'private health care' hijack the important discussion we must have about expanding access to publicly funded services and addressing the fiscal and infrastructure challenges that our health care system is facing.

Stewart Kennedy, MD, President, Ontario Medical Association, 2011

Our province has a long history of private sector involvement in government service delivery. Despite what terminology is used, the discussion about increased private sector involvement in the delivery of government services is simply about changing the type of contracts entered into with the private sector.

Alternative Service Delivery (ASD) transfers responsibility for the delivery of public services to non-government entities, often through partnerships with the private and not-for-profit sectors, while government maintains regulatory control. ASD fosters innovation, improves outcomes and service delivery, and can reduce costs to taxpayers.

Public Private Partnerships (PPPs or P3s) is a term usually used for infrastructure projects. PPPs are beneficial when a better quality of infrastructure upfront can significantly reduce cost at the operational stage (including maintenance cost). In Canada, there are more than 200 successful P3s including roads, bridges, airports, hospital facilities, social housing and schools.

The province is familiar with simple outsourcing arrangements between government and the private sector. These typically focus on lowering input costs versus achieving desired outcomes. Focusing on the lowest cost provider in the short term, usually results in status quo solutions, inside the box thinking and, in the long run, higher costs to the taxpayer. In ASD and PPPs, government focuses less on driving down input costs and more on modernizing service delivery and improving outcomes and service levels. The private sector provides the technology and expertise best suited to deliver the desired outcomes. Government regulates, steers policy development, monitors outcomes against stated objectives, and holds the private partner accountable.

examples of ASD and P3s happening in Canada right now with best practices NL can model. Now is the time to partner with the private sector to deliver some of the low risk transactional government services that the public needs.

In 2015 the NL Employers' Council Board of Directors made the decision to focus on the need for P3s and ASD as the organization's key advocacy objective in the coming year. The NLEC has commissioned a study to research the benefits and pitfalls of P3s and ASD and to identify opportunities for successful implementation in NL. We also commissioned Corporate Research Associates to conduct public opinion polling on the general public's perceptions of ASD and P3s. The research is completed and the Employers' Council will release the findings publicly in early 2016. We look forward to discussing the findings with you in the New Year.

The need for increased immigration

More robust targets for Immigration and an improved Immigration Strategy are needed in this province immediately. NL has the fastest aging population and the lowest rate of in-migration of all of our competitors. If nothing is done, 30 percent of the population will be 65 or older by 2035. Not only will skill shortages worsen, our aging and shrinking population will squeeze the working age population economically, socially and fiscally. We simply need more people of child bearing age working and paying taxes to support the increased demands on health care and other social programs that will occur as our population ages. Immigration is the ONLY option that will give us the numbers we need in the timeframe we need it. Implementing solutions to successfully increase immigration will require resources within the Department of Advanced Education and Skills (AES) to be re-allocated towards its immigration responsibilities. Many current labour market programs within the Department of AES are not being utilized by employers, or simply not meeting their needs. Government should narrow the scope of the labour market initiatives currently offered by redirecting resources away from low priority labour market initiatives and towards immigration.

The need to reduce international and interprovincial trade barriers

Protected industries do not generally produce global leaders. In the Conference Board of Canada study, NL scored low on all innovation indicators. There is a strong link between competition and innovation. Sectors where competition is curtailed and foreign entrants are impeded have much lower levels of innovation. Lowering interprovincial and international trade barriers will increase competition while allowing the province's industries to integrate into global and national supply chains and expand their market reach. Our province's support of trade deals like the Comprehensive economic and Trade Agreement [CETA] with the European Union and Trans Pacific Partnership (TPP) is of great importance to the business community. These deals will increase opportunity for NL businesses in *all* sectors and have benefits that far exceed those provided by the disputed Fisheries Innovation Fund. We encourage both your government, and the Federal Liberal government, to reach a deal that allows NL to fully support these trade deals as quickly as possible.

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