

Pre-Budget Consultations

2020



A Balanced Approach

Introduction

In 2015, our province was faced with a dire fiscal reality based on years of fiscal mismanagement. Since 2016 we have worked hard to correct our approach to fiscal management, to create more efficient operations in the public service and to identify areas for long-term cost savings.

These efforts have involved difficult decisions, some of which were very unpopular. Given the state of our economy in 2015 and 2016, these decisions were unavoidable.

In recent years we have focused on a balanced approach that has not been as fast as some would like, but which recognizes the need to maintain service delivery and seeks to avoid shocking the economy while continuing on our path to surplus.

Our progress so far

Our government set an ambitious plan in 2016 to return to surplus in 2022-23. Despite recent setbacks in the mid-year fiscal update for 2019-20, we have made significant progress against this plan between 2015-16 and 2018-19. Consider:

- **Annual Deficits:** In 2015-16, the annual deficit reached \$2.2 billion dollars. The fiscal update provided in December of 2015 projected the annual deficits for 2016-17 at \$2.4 billion and projected deficits of \$1.9 billion for each year between 2017-18 and 2020-21. To reverse this situation, we focused on what we could control, and while unfortunately this included increasing several taxes, it also included placing restrictions on hiring and the use of consultants, discretionary travel and the reallocation of savings, and eliminating non-essential spending. We also undertook line-by-line analysis of the entire budget, allowing us to reduce spending, find efficiencies and driver savings. This, along with savings from pension reform helped us reduce the annual deficit in 2018-19 to \$552.1 million.
- **Stabilizing Spending:** Between 2005-06 and 2015-16, provincial government spending increased by over 50 per cent, from \$5.4 billion to \$8.2 billion. In the four years since 2015-16, expenses have held steady, with 2018-19 expenses marking an increase of just over two per cent at \$8.38 billion. Considering the current rate of inflation is two per cent per year, an increase of two per cent over four years is significant cost-control.
- **Flat Health Care Spend:** Health care accounts for an estimated 37.7 per cent of all government spending in 2019-20. With continuous increases to the price of prescription drugs and a growing-by-necessity workforce, health care delivery means managing cost pressures. We were one of the only provinces in Canada that kept healthcare spending relatively consistent over the past four years by finding efficiencies to offset rising costs.

- **Size of the Public Service:** Over the ten-year period between 2005 and 2015, positions in provincial government departments grew by 1,236, reaching 10,464 positions by 2015. Getting this under control required layoffs in 2016 and 2017, but such layoffs are often a shock to the provincial economy, and the threat of layoffs often has a negative impact on consumer confidence and spending. Today government is focused on attrition, which allows for a gradual reduction of government positions without forcing younger employees out of the public service and sometimes out of the province. As of 2018-19, the number of positions in government departments had been reduced to 9,503.
- **Savings in Collective Agreements:** In negotiations with public sector unions for the 2016-19 agreements, government achieved several cost-saving measures, including four years of no wage increases, the payout and elimination of severance and changes to post-retirement benefits for employees, all of which were also carried over to non-union staff.
- **Stimulating the Economy:** Government has worked closely with industry, and over the last two years (2017-2018), there have been over \$18 billion in investments announced for mining and oil and gas in our province. We have also collaborated with industry partners in agriculture, aquaculture, advanced technology and the tourism sectors, and have released action plans to expand operations in these key industries. This work is creating employment opportunities in areas across the province, and is ongoing. We are also continuing to focus on new and upcoming areas to further stimulate the economy, such as the Ocean Supercluster, the Deepwater Drilling Centre of Excellence and maintenance repair and overhaul operations in the airline and aerospace industry.

	Budget 2015 Projections for 2018	Actual / Preliminary Estimate 2018
Employment	222,800	225,300
Employee Compensation	\$14.8 billion	\$15 billion
Capital Investment	\$8.5 billion	\$9.7 billion
Retail Sales	\$8.96 billion	\$9.01 billion)

Source: Budget 2019

Challenges

Despite this progress, we have faced and continue to face big challenges. In the recent mid-year fiscal update, revenue projections decreased by \$393 million as a result of several factors outside government's control. At the same time, we continue to face systemic issues that are unique to our province, and are working to address challenges relating to the Muskrat Falls project. Consider:

- **Muskrat Falls:** Muskrat Falls remains the single biggest pressure we face as we work to fix our finances. We are currently spending close to \$100 million in interest on the borrowings for Muskrat Falls, and since 2015 government has had to borrow \$2.9 billion to fund Muskrat Falls equity investments. This is in addition to the money we borrowed to pay the interest on our borrowings for Muskrat Falls, and does not include Nalcor's borrowings for the project. This is money that we could have used for other government priorities.
- **Rate Mitigation:** In April 2019, government released its plans to protect residents from increases to electricity rates and taxes resulting from the Muskrat Falls project. Approximately \$725.9 million is expected to be required to address Muskrat Falls costs in the first full year of electricity generation. Work remains ongoing with the Federal Government on addressing this, and those discussions have been positive and collaborative.
- **Decline in oil royalty revenues:** Temporary shutdowns of the Hibernia project in July and August caused an estimated deferral of \$185 million in revenue for this fiscal year, and the impact of lower than anticipated oil prices is expected to reduce revenues by \$46 million. This follows a temporary shutdown at the White Rose FPSO in 2018, which had an impact of \$80 million. Although this oil will be produced at a later date, the short-term impact on the province's finances is substantial.
- **Savings Timelines:** We have put in place several cost-saving measures that grow over time. Programs like shared services and zero based budgeting, and changes to service delivery like the Digital Government Plan create short-term cost savings that grow significantly over time. While government has realized cost savings in the first three years of this plan, the pace of savings has not been as fast as originally projected, and the anticipated cost savings by 2022-23 will be lower than projected when the plan was introduced in 2016. We remain committed to these plans, and are exploring all possible means of speeding up the anticipated savings.
- **Service Delivery for a Dispersed Population:** Our province has a relatively small population, spread out over a large landmass – while we have a lower population than Nova Scotia, for instance, Newfoundland and Labrador is larger than the other three Atlantic provinces combined. This is a challenge for service delivery that other provinces do not face. While the province is continuously looking for ways to make service delivery more efficient and less costly, the geographic realities of our province make it difficult to cut costs.

- **Population Challenges:** With Canada's most rapidly-aging population and lowest birthrate, the province is experiencing a decline in its working-age population. This limits growth by reducing the number of workers contributing to the economy while also reducing the tax revenues required to support government social and economic programs. We are working to increase our population through the Immigration Action Plan, and have had success: as of 2018, we have achieved 90 per cent of our target to welcome 1,700 newcomers annually to the province, and in 2018, 1,530 individuals became permanent residents in our province. This is a 25 per cent increase in immigration since 2017.
- **Net Debt:** As of 2018-19, the provincial net debt reached a record of \$15.4 billion. The Atlantic Accord agreement reached in 2019 is expected to reduce the net debt to \$13.95 billion in 2019-20. We have worked to slow the rate of growth by reducing our annual deficit for four years in a row, but each year that government runs deficits the net debt will continue to increase. This continued growth leads to a yearly increase to the cost of debt interest, and in 2018-19 debt expense totaled more than \$1.0 billion.

Where do we go from here?

Budget 2016 was something that nobody wanted, but it was necessary after years of fiscal mismanagement. While these difficult decisions needed to be made in 2016, we recognize that these measures shocked the provincial economy, a shock from which we are still recovering.

As a government, our priority is ensuring that we are never again forced to bring forward a budget like we did in 2016.

Our plan to return to surplus in 2022-23 was ambitious, because our fiscal situation required ambition. Rather than making drastic cuts to services, our approach involved finding efficiencies and putting in place savings programs that grow over time.

But as with any long-term plan, there are certain challenges that will arise over the course of the plan that are not anticipated at the outset.

While our progress to date is undeniable, and while we are still focused on our balanced approach, the challenges we have identified have put pressure on our ability to return to surplus by 2022-23.

Balanced approach

No decision is made in a vacuum, as every decision we make has significant impacts in countless other areas. Cuts to services can be particularly damaging to the day-to-day lives of the people of the province, and in many cases the financial savings incurred through cuts are outweighed by the negative impacts these cuts would cause to the economy and the quality of life of residents in the province. As a government, we are focused on changes that will not shock the economy – this is our balanced approach.

In Budget 2020, residents can expect us to maintain our focus on cost control, efficiencies and savings that grow over time. We will continue to focus on expanding opportunities in high-growth sectors to grow our economic base. We will also work to address the slipping timelines on our cost-saving initiatives to get us back on track, and will provide an update on our future year projections including our path to surplus.

Our balanced approach builds upon numerous long-term cost saving and cost control initiatives, including:

- **Shared Services:** We are undertaking a government-wide review to identify opportunities to share services and improve government efficiency. This review is primarily examining models for the delivery of such back-office functions as human resources, information technology, finance and supply chain functions. We have already realized progress in merging certain collections and payroll processes for government departments and entities.
- **Operating Reductions:** Each year, we closely examine the budgets of departments and entities through the Treasury Board process in search of efficiencies and cost savings. In recent years we have set fiscal reduction targets for departments and entities, and have made corresponding reductions to operating grants and budgets. Departments and agencies have had autonomy to determine how best to achieve these reductions without impacting service delivery. Other opportunities are also being explored, such as fleet management for government vehicles to maximize the use of assets and the reduction of government leased space, which to date has been reduced by over 164,000 square feet.
- **Digital Government:** The Digital Government Plan is making it easier for residents and businesses to access the services they need online. This five-year plan will put government in a position to deliver on its vision of eventually offering all programs and services online. The plan is expected to realize cost savings over time by reducing the amount of paper government uses; allowing service staff to spend more time on value added activities and less time on manual work and rework such as data re-entry and filing; reducing the chances of error or overpayment resulting from incorrect or missing client information; and allowing for gradual workforce reduction through attrition.

- **Attrition:** Government remains focused on reducing the size of the public service. Attrition is a more gradual and planned means of reducing the number of employees in government. It ensures that those who are leaving the public service are at retirement age, and are less likely to uproot from the province than younger employees and their families who may leave the province for other opportunities.
- **Post-Employment Benefits and Elimination of Severance:** In recent collective agreements with public service unions, government achieved changes to group insurance for retired employees going forward, which has resulted in millions of dollars of savings in the short-term and will result in annual savings that will grow significantly over time. Government is also in the midst of eliminating severance, a major achievement that removes a significant financial liability for the province. Overall, the elimination of severance across the public service will result in \$25 million in savings annually and \$35 million annually once the debt is fully paid.
- **Zero Based Budgeting:** In previous years, departments had a base budget and justified funding requirements under the assumption that the base budget was already approved. Under the zero-based budgeting approach, departments must build their budget requests from zero and justify any continued investment in all areas of operation. In recent years, departments have found cost-savings to offset spending on important new initiatives, maintaining our course toward surplus.
- **Agencies, Boards and Commissions:** Given the spending reductions achieved in government departments since 2016, we remain focused on finding cost savings in agencies, boards and commissions, which are responsible for 59 per cent of all government operating expenses. We are in the process of starting consistent and ongoing collection of human resource information from these entities to ensure sound workforce planning. In 2018, we introduced the Public Bodies Reporting Act to remove barriers for the sharing of human resources information for the purpose of planning between agencies and government.

Result

While there are pressures on our ability to return to surplus by 2022-23, we remain focused on our fiscal approach and on returning to fiscal balance. This would set the province on a more sustainable path without creating undue hardship for the people of this province. It is with this understanding that government will evaluate all fiscal decisions in the coming years, and we will make decisions that are in the best interest of our economy and the people of this province.

These consultations

Every decision we make in our fiscal plan keeps you in mind. Returning to fiscal balance remains our primary goal, but the decisions we make to get there have an impact on the services that people rely on and the quality of life available in Newfoundland and Labrador.

Your feedback is important as we make decisions in Budget 2020. Please provide your feedback using one of the methods on the following page.

Ways to provide your feedback

- Fill out the engageNL.ca online feedback form (available from January 8 until January 31)
- Attend one of five (5) in-person sessions:

Date and Time	Location	Hosting Minister
January 22 7:00 - 9:00 p.m.	Avalon Region – Capital Hotel 208 Kenmount Rd., St. John's	Honourable Tom Osborne Minister of Finance President of Treasury Board
January 23 7:00 - 9:00 p.m.	Central Region – Albatross Hotel 114 Trans-Canada Hwy., Gander	Honourable John Haggie Minister of Health and Community Services
January 23 7:00 - 9:00 p.m.	Labrador Region – Hotel North Two 382 Hamilton River Rd. Happy Valley-Goose Bay	Honourable Lisa Dempster Minister of Children, Seniors and Social Development
January 27 7:00 - 9:00 p.m.	Northern Peninsula Region – Hotel North, 31-51 West St., St. Anthony	Honourable Christopher Mitchelmore Minister of Advanced Education, Skills and Labour
January 30 7:00 - 9:00 p.m.	Western Region – 1 Canada Games Place, Corner Brook	Honourable Gerry Byrne Minister of Fisheries and Land Resources

- **Email** Budget2020@gov.nl.ca
- **Mail** Minister of Finance,
c/o Pre-Budget 2020
Department of Finance
P.O. Box 8700, Main Floor
East Block Confederation Building
St. John's, NL, A1B 4J6

Privacy statement

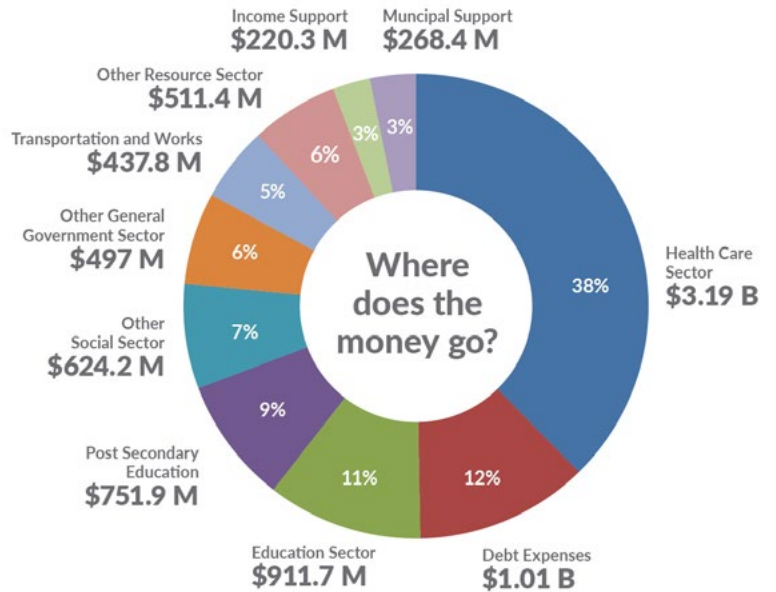
Please be advised that the information above is being collected for the purpose of obtaining your views to help inform the 2020 budget process, under the authority of section 61(c) of the Access to Information and Protection of Privacy Act, 2015. If you have any questions or require an alternate format, please contact Budget2020@gov.nl.ca or phone (709) 729-3166

It is important to note that to ensure your privacy, please do not include your name, address, or any other information that will identify you in the above questionnaire.

FEEDBACK FORM QUESTIONS

Question One:

As part of government's continued balanced approach to fiscal management, we have focused on reducing the deficit while also maintaining services. Keeping in mind significant reductions in spending beyond where we are today will have an unavoidable impact on service delivery, tell us in which areas you believe we could find savings.



Health care sector – Suggestions for savings potential:

Education sector – Suggestions for savings potential:

Post-secondary education sector – Suggestions for savings potential:

Other social sector (Department of Children, Seniors and Social Development; Department of Justice and Public Safety; and NL Housing) – Suggestions for savings potential:

Other general sector (Departments of: Finance; Service NL and Executive Council; Pensions) – Suggestions for savings potential:

Transportation and Works – Suggestions for savings potential:

Other resource sector (Departments of: Fisheries and Land Resources; Natural Resources; and Tourism, Culture, Industry and Innovation) – Suggestions for savings potential:

Question Three (A):

Budgets are about decisions. Government must balance its fiscal position with the need to fund services or initiatives that support families, seniors, children and/or businesses. Government is seeking your input on any potential spending on new programs or services or improvements to existing ones. If government can afford to do so which of the following would you support (please select your top 3):

- Further tax reductions for individuals and families.
- Further tax reductions for businesses.
- Exploring further initiatives to enhance affordable child care.
- Investments in high priority industries or startups (i.e. advanced technology, aquaculture, agriculture, mining and oil and gas, etc.)
- Investments in healthcare service delivery (i.e. medical transportation system, telehealth, etc.)
- Increased funding for NLHC/housing programs.
- Increased municipal funding.

Question Three (B):

Please list any other areas where you believe government should focus its spending, if it can afford to do so (e.g. new programs or services or improvements to existing ones).

