



MAKING CHOICES

The 1997 Pre-Budget Public Consultation

An Information Paper
on our financial situation with
an invitation for you to participate in
making choices for the 1997 Budget

Government of Newfoundland and Labrador
January 1997



Contents

Your Invitation To Take Part	2
1. Preparing our Budget	3
2. Our Economic & Financial Situation	4
Our Economic Outlook	4
Our Financial Situation	4
3. Revenue Sources	6
Federal-Source Revenues	6
Own-Source Revenues	8
Sales Tax Harmonization	9
Our Choices	9
4. Programs & Services	11
Program Review	12
Our Strategic Social Plan	17
Our Choices	17
5. Our Debt and Credit Rating	19
Our Debt	19
Our Credit Rating	20
Our Choices	21
6. Making the Right Choices	22
Our First Three Year Plan	22
Our Choices	22
7. Your Choices - A Questionnaire	23



YOUR INVITATION TO TAKE PART

Last year, for the first time in the Province's history, Government opened to the public the decision making process leading to the annual Budget. Many people told Government about high taxes and where public monies should be spent. This input was invaluable in preparing the 1996 Budget.

During the coming weeks, a series of public meetings, chaired by the Minister of Finance, will be held around the Province. You can attend one of these **meetings, write, phone, fax, e-mail** or visit us on the **internet**. You may also fill out the **questionnaire** at the back of this paper. Help us prepare the 1997 Budget.

This paper outlines the sources of Government's funds, where our money is spent, our debt 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 phone number **1-800-563-7442**
- e-mailing us at **choices@fine.gov.nf.ca**
- visiting us on the internet at **<http://www.gov.nf.ca/choices.htm>**
- faxing us at **709-729-2095**
- writing us at

Making Choices

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For those with special needs, this paper also is available in alternative format.

Please join us in

"Making Choices".



1. PREPARING OUR BUDGET

Preparing Government's budget is similar to personal budgeting. Each year we have income and expenses. If expenses exceed income, the difference may be borrowed and paid back with interest. Government is limited in the amount it can borrow by its accumulated debt. An alternative for Government is to raise taxes. When expenses are greater than revenues, the difference is "*the deficit*".

All governments in Canada have found it necessary to reduce deficits. We also have reduced our deficit, while maintaining essential public services. It is important that we continue this progress.

Until last year, Government budgeted for one year at a time. During last year's consultations many spoke of the need for longer term planning. Government responded by providing the health care sector with a three year funding commitment. Government proposes to expand multi-year budgeting to as many parts of its operations and programs as possible.

During 1996 Government undertook program review to facilitate three year budgeting. This detailed examination of Government's operations weighed programs against three criteria: whether they are in the public interest, efficient and affordable. How would you apply these criteria to programs and services that affect you?



2. OUR ECONOMIC & FINANCIAL SITUATION

Our Economic Outlook

The Provincial economy was weaker in 1996 than in 1995, and is expected to decline again in 1997. The main factors are the winding down of Hibernia construction and the continued closure of the groundfishery. The impending closure of the Hope Brook gold mine and ongoing restraint by all levels of government also will contribute to a lower level of economic activity. Other sectors of our economy should perform well. Tourism should enjoy a banner year in 1997 with the Cabot 500 celebrations. Hibernia production is scheduled to commence in late 1997, heralding a new era for the Province as a petroleum producer.

Economic growth should resume in 1998. The development of the Terra Nova oil field, and possibly the Whiterose field, will follow Hibernia. The Voisey's Bay mine site will be complemented by the construction of a nickel-cobalt smelter and refinery at Argentia. The groundfishery may re-open on a limited basis. Our challenge will be to take advantage of our opportunities to provide the people of the Province with a sustainable and prosperous future.

Our Financial Situation

In the past, governments borrowed money to pay for programs and services. We realize that borrowing is really delayed taxation since the money plus interest must be paid back from future tax revenues. Most governments accumulated large debts, which today hamper their ability to continue borrowing.

This Province faces a financial dilemma. We have little ability to borrow or raise taxes, yet to continue existing programs and services requires more money every year. If taxes do not increase and we continue to provide programs and services in the same way, our shortfalls for the next three years would be:



<u>Fiscal Year</u>	<u>Shortfall</u>
1997-98	\$130 million
1998-99	\$180 million
1999-00	<u>\$235 million</u>
Total	<u>\$545 million</u>

If nothing is done, our Provincial debt will increase by \$545 million over the next three years. This is almost \$1,000 for every adult and child in the Province.

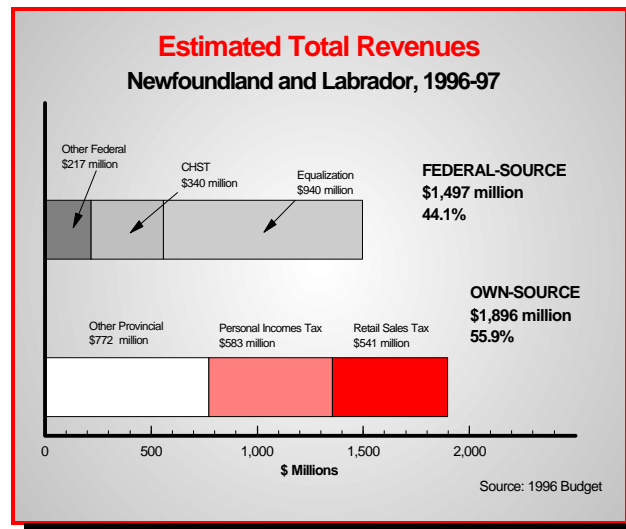
There are only three ways to lower a deficit: raise taxes, reduce spending or do both. These are the choices we must make in preparing the Budget.



3. REVENUE SOURCES

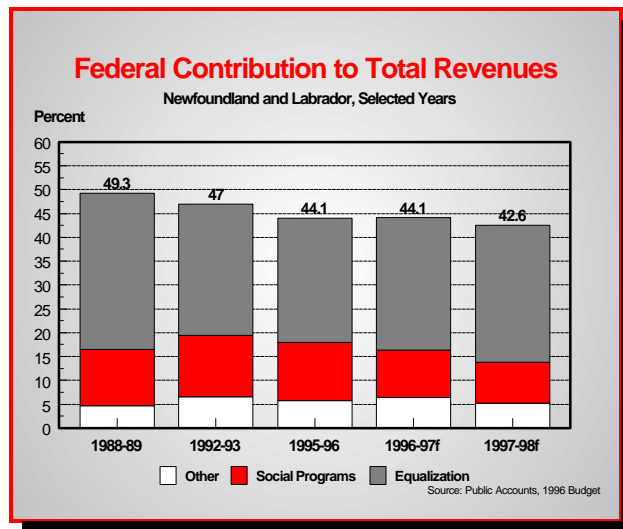
Your Provincial Government has two main sources of revenue:

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



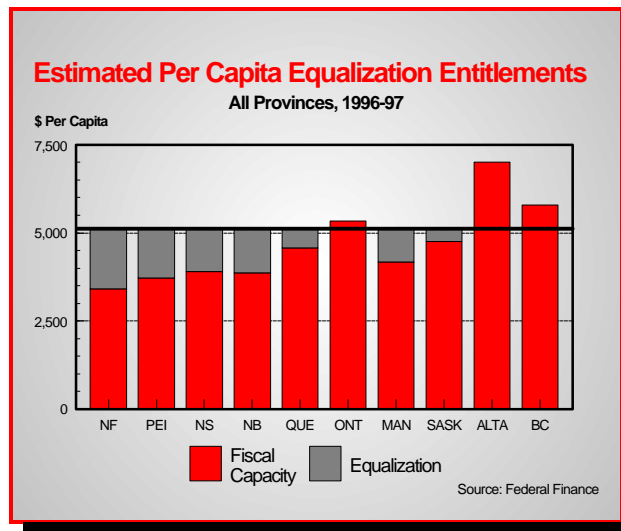
Federal-Source Revenues

In recent years, the federal government, similar to other governments in Canada, has had to deal with its deficit problem. In part, it has done so by reducing transfers to all provinces. In our case, this will mean that in 1997-98 federal transfers will account for 42.6 percent of our revenues, down from almost half in 1988-89.



In 1996-97 the two major transfer programs are:

- (1) Equalization - \$940 million, and,
- (2) the Canadian Health and Social Transfer, or CHST - \$340 million.

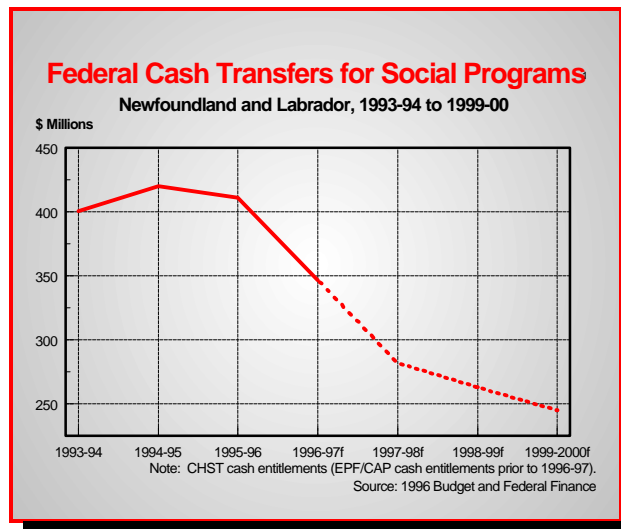


Equalization payments are made to the seven provinces that have below average capacity to raise revenues from their own taxes. After Equalization payments, the per capita revenues of these provinces is raised to about 93 percent of the Canadian average.

The second major federal transfer, the CHST, is a payment made to every province in support of health care, post-secondary education and social assistance.

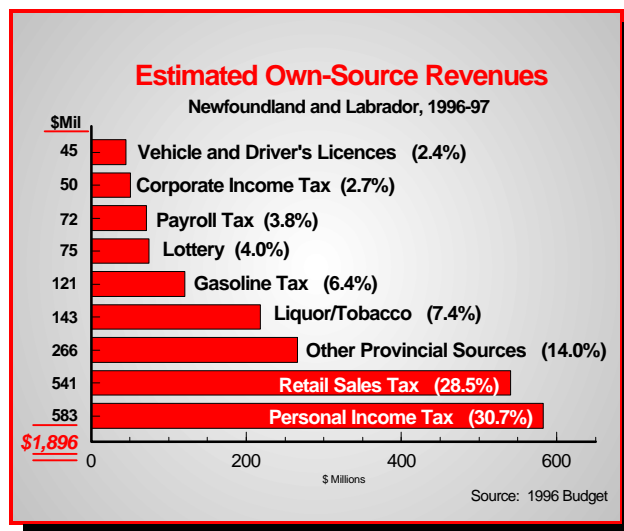


The federal budget plan calls for the CHST payment to decline for the next several years. Our CHST will fall from \$340 million in 1996-97 to about \$280 million in 1997-98, and will decline further by about \$35 million over the next two years.



Own-Source Revenues

In 1996-97, the Provincial Government will receive \$1.9 billion, 56 percent of our total revenues, from individuals and businesses in the Province. The largest sources, at over \$500 million each, are retail sales tax and personal income tax where we have some of the highest tax rates in Canada. Sales tax harmonization will reduce the sales tax rate by almost 5 percentage points. While petroleum and mining exploration and development are creating new employment and business opportunities for individuals throughout the Province, these projects will not yield substantial revenues for the Province in the next three years.



Sales Tax Harmonization

Newfoundland and Labrador, together with Nova Scotia and New Brunswick, have agreed with the federal government to implement a new Harmonized Sales Tax (HST) on April 1, 1997. The combined sales tax rate in our Province will decrease from almost 20 percent to 15 percent. This will be the largest tax reduction in the Province since 1949. The vast majority of families in all income categories will pay less tax. The tax reduction will stimulate our economy during a difficult period. The federal government will provide transitional assistance totalling \$348 million over four years, allowing us to reduce taxes without increasing our deficit. Therefore, for the transition period, harmonization will not have a negative impact on our fiscal position. Harmonization will boost economic growth and improve our financial situation over the longer term.

Our Choices

Should Government raise additional revenue to address the budgetary shortfall by

- *raising existing taxes or fees, licenses and fines?
If so, which ones should go up? By how much?*



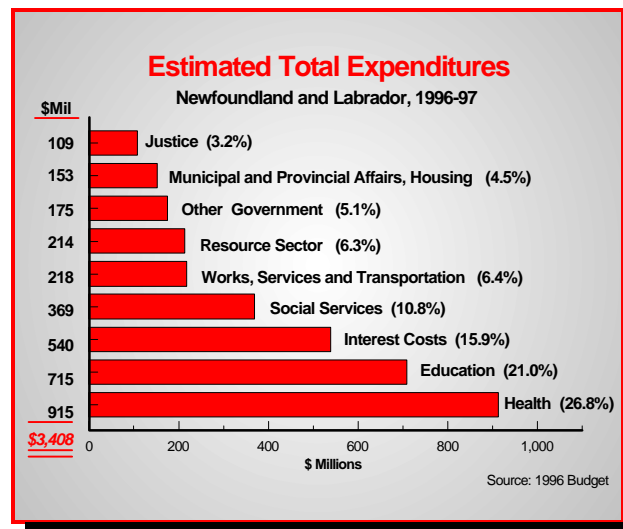
- *imposing new taxes?*
If so, what kind, and at what levels?
- *imposing fees/greater cost recovery for services not everyone uses, particularly services of a commercial nature?*
If so, for which services? How much should we charge? Should the fees apply to only those who have the ability to pay?



4. PROGRAMS AND SERVICES

The Provincial Government will spend about \$3.4 billion in 1996-97. Of each dollar:

- 66 cents is spent in the social sector, which includes health care, education, social assistance, policing, housing and supporting municipalities
- 16 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.



Government spending has been restrained for some time. However, we still do not have adequate revenues to continue to provide the same level of programs and services. To address this, in 1996 Government initiated a process of program review, the results of which will be incorporated into the 1997 Budget.



Reducing services will inevitably result in some reduction in the number of public employees, whose wages make up 65 percent of the cost of providing services. How should we balance the social and economic costs of staff reductions against the alternatives of increasing our debt or taxes?

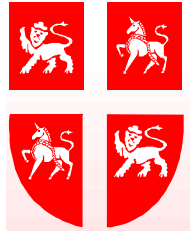
Program Review

Program review is a key component of our efforts to introduce multi-year financial planning to Government. Program review comprehensively evaluates all of our programs and services to establish priorities, and determine the most efficient delivery methods. Three tests are applied to all government programs:

1. a public interest test - does the program continue to serve a valuable public purpose?
2. an efficiency test - how can this program be provided most efficiently and effectively?, and,
3. an affordability test - is the program still affordable?

Program review recognizes that to achieve any reasonable deficit reduction over the next three years it is essential for the social sector - education, social services, justice, municipal affairs and housing - to bear a significant share of the expenditure reductions. This is unavoidable when this sector now consumes 66 percent of the Provincial budget.

Last year, in response to the pre-budget consultations, the Department of Health was given a three year budget that was actually increased slightly from the previous year. It was the only department not subject to spending reductions in the 1996 Budget. It also is excluded from the expenditure reduction aspect of program review. Even though this department has the largest budget, it is Government's intention to maintain this three year funding commitment.



The Department of Education has the second largest budget. Accomplishing expenditure reductions without lessening the quality of education requires creative solutions. Could one possible approach be to have some reduction in school board budgets, while giving the boards more autonomy in decision making? This would involve transferring decision making responsibility for many school board activities from the Department of Education to the boards, while giving the boards more flexibility to spend money as they see fit.

There are other alternatives. This Province has one of the lowest pupil-teacher ratios in the country. Other provinces with stronger economies and better financial positions have more students per teacher than we have. In light of our financial situation, can we afford to retain a pupil-teacher ratio that is one of the lowest in the country?

To what extent should taxpayers subsidize Memorial University? Are there greater efficiencies to be found in the university's operations? How should these be achieved? Should tuition, which is low compared to other universities, be increased?

The Department of Social Services concludes that there needs to be more coordination in service delivery. To accomplish this, should certain functions of the Department of Social Services be aligned with those of other departments? Could social assistance programs be combined with employment and labour market programs? Should the remaining community services of the department be integrated with the community health programs of the Department of Health? We are experiencing a reduction in federal support for social programs, like social assistance, through transfer payment cuts. Should these cuts be passed on to social services recipients through reductions in basic social assistance benefits when our benefit rates are already among the lowest in the country?

The Royal Newfoundland Constabulary and Royal Canadian Mounted Police are both excellent police forces. Both have given proven service to the Province in



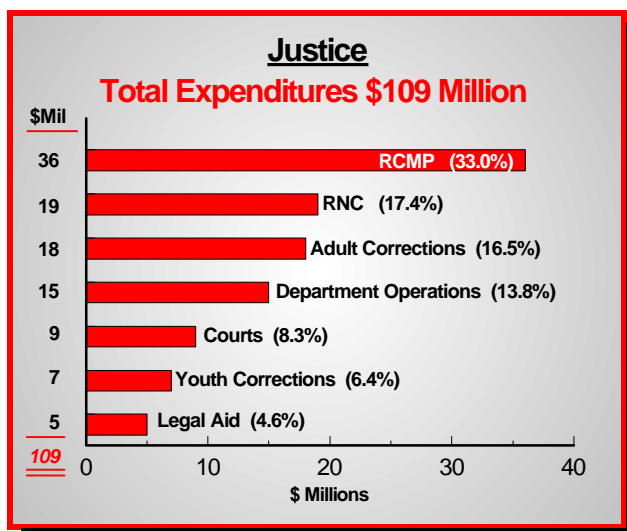
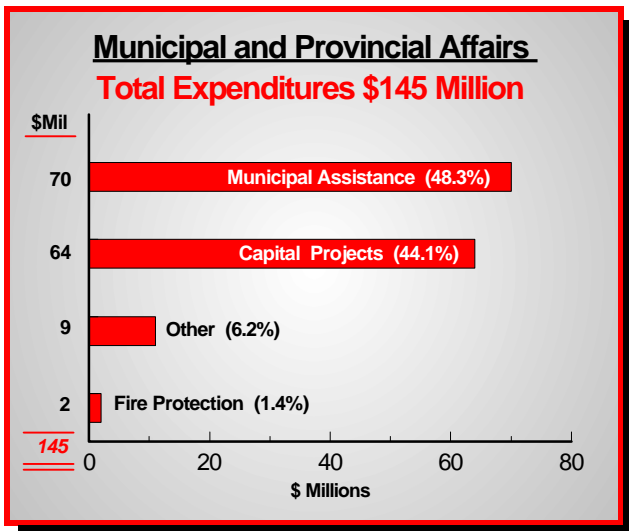
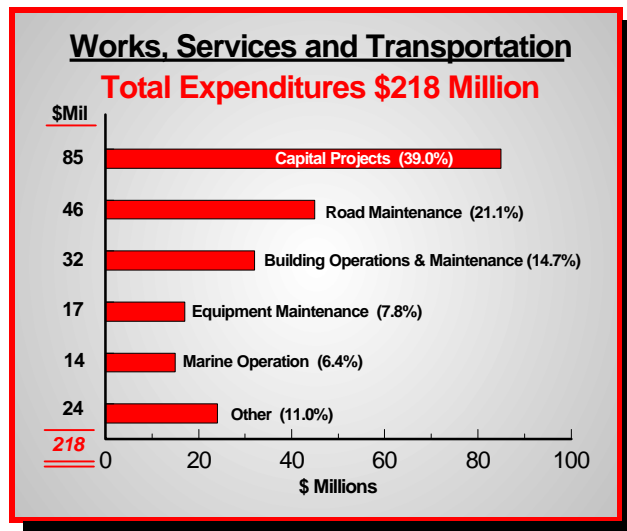
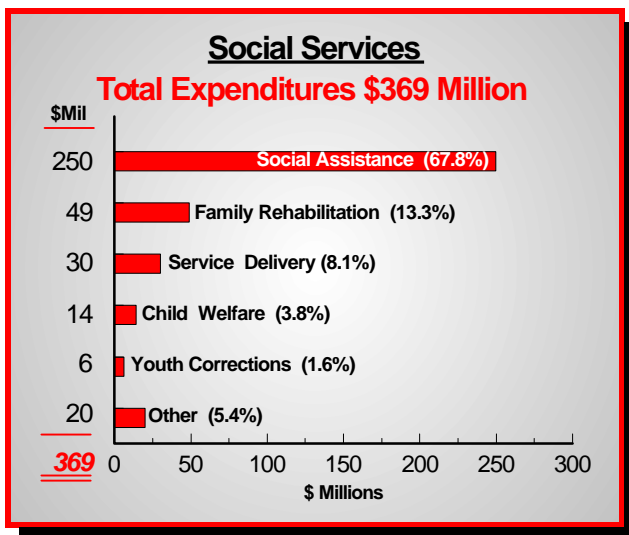
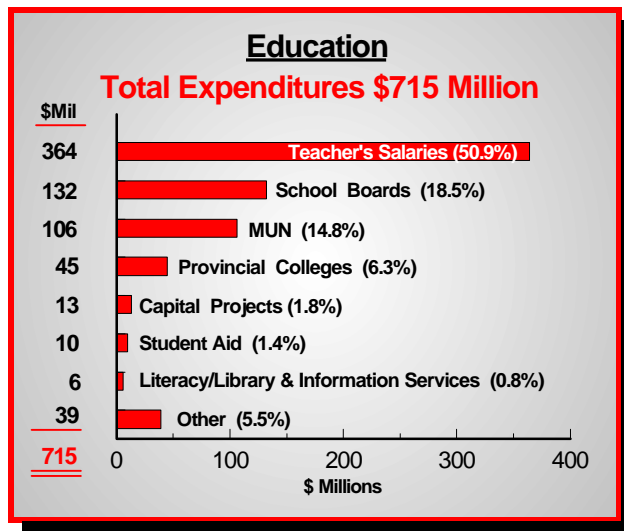
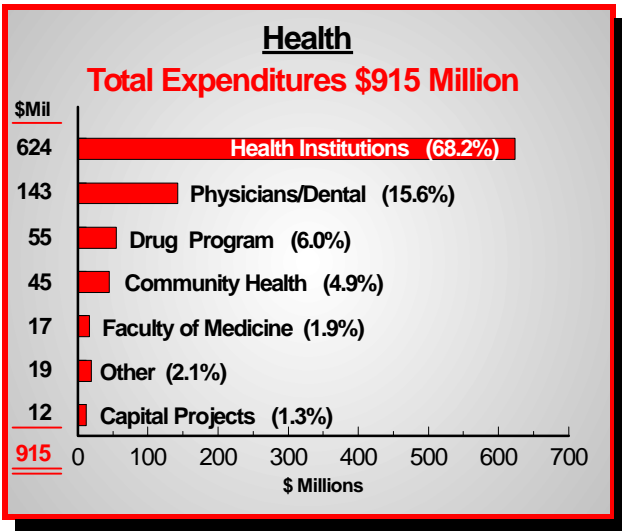
their respective jurisdictions. However, can one expanded force with an expanded mandate operate more efficiently than two? Or, as an alternative, should the geographical areas which each force now serves be redistributed to increase efficiency?

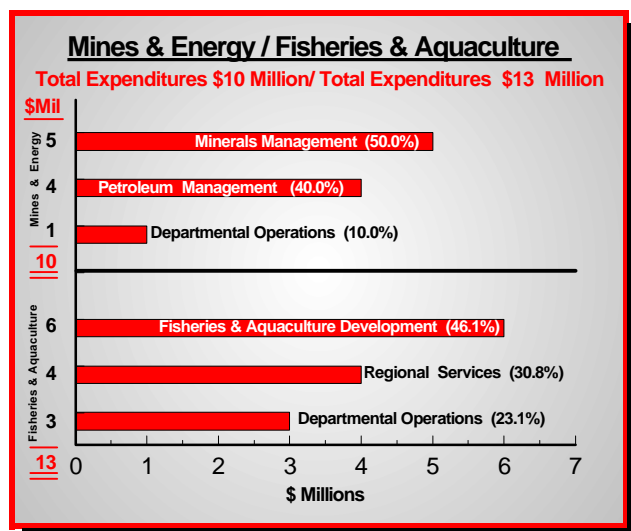
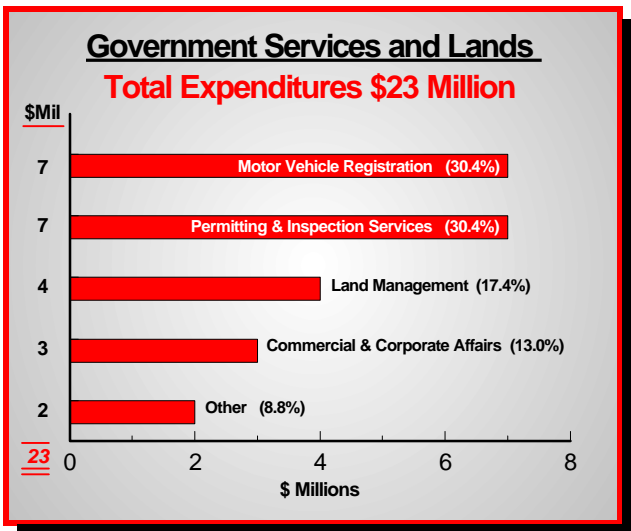
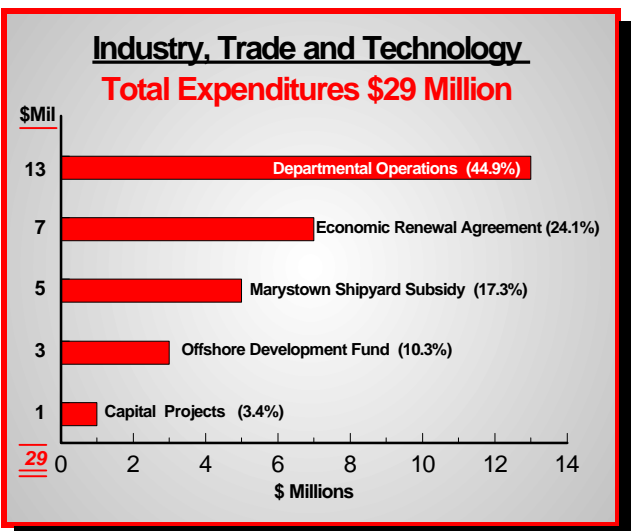
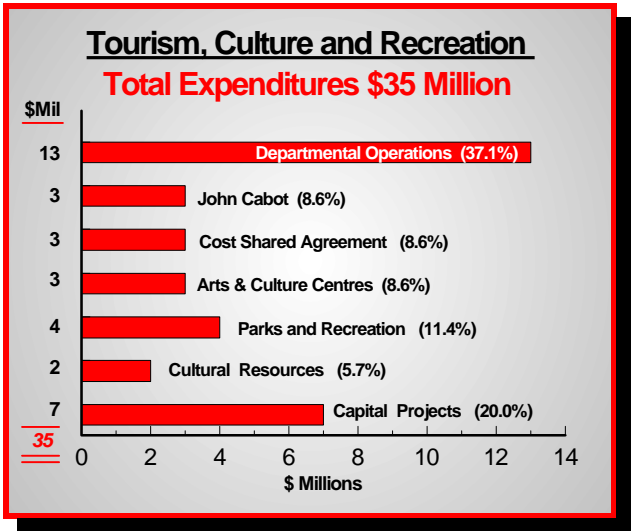
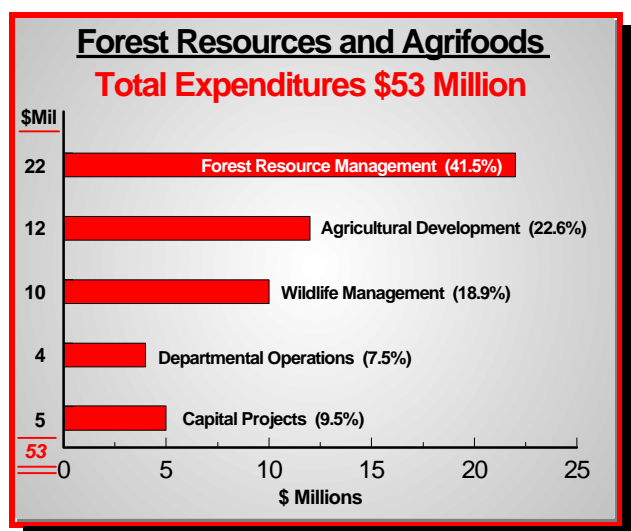
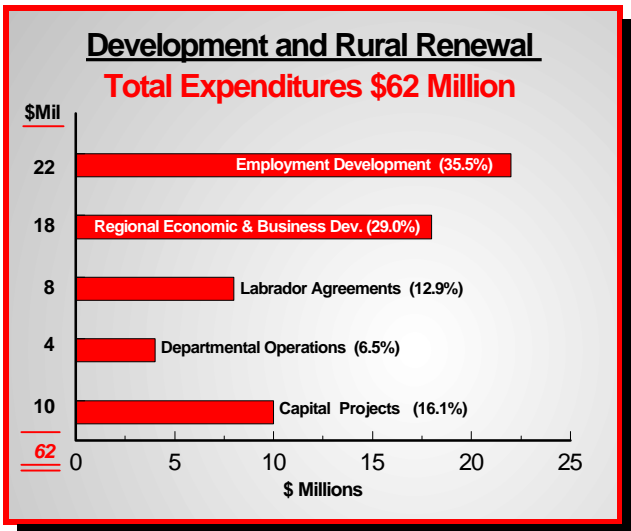
The resource sector - forestry & agriculture, mines & energy, fisheries environment, development & trade and tourism & culture - has two mandates: to manage the Province's natural resources, and to stimulate economic activity. To offset the cost of managing resources, should a broader range of charges be implemented, such as a license for trout fishing? Should Government continue to operate commercial or recreational ventures? Should it provide financial and other support to business in light of the difficulty we are having maintaining essential services?

What are the core functions of government? Could enterprises such as parks, laboratory services, marine service centres and arts & culture centres be more efficiently run by the private sector? Should Government charge more for some of the services it continues to provide, particularly when current charges do not recover the costs of the service? Should all taxpayers subsidize the cost of services that benefit only a few, particularly services which are largely utilized by business?

Can our public buildings, roads and ferries be maintained more efficiently? Is it possible to reduce any of our service levels? Is there a greater role for the private sector in providing public services? Should Government own public buildings when adequate space could be rented from, and maintained by, the private sector?

Program review must focus on the sustainability of essential programs and services for the people of the Province, while stabilizing our public service at an affordable level.







Our Strategic Social Plan

The Strategic Social Plan document will set out the long term policy direction and priorities for social programs such as health care, education, social assistance, employment programs and child protection. The social plan consultations are bringing the scope and complexity of the social policy challenges the Province is facing into a sharper focus. The budget plan will set out the financial framework to implement the social plan. The Strategic Social Plan process illustrates how Government is approaching major issues of importance to everyone in the Province in an organized and comprehensive manner.

We are all concerned about the problem of child poverty. The provinces are working with the federal government to develop a National Child Benefit program. This program should enable both levels of government working together to provide harmonized benefits to families living in poverty, including the working poor.

Our Choices

Considering the impact current spending levels have on our financial situation, the deficits we are facing, the essential nature of so many of our programs and services, and the effects of spending cuts

- *Can we avoid significant cuts in program and service spending?
If so, how?*
- *How far can we cut spending before we start to hurt ourselves more than we help ourselves?*
- *Should any program or service be excluded from further cuts, or not cut as much as other areas?
If so, why? Which areas could be cut more to make up the difference?*

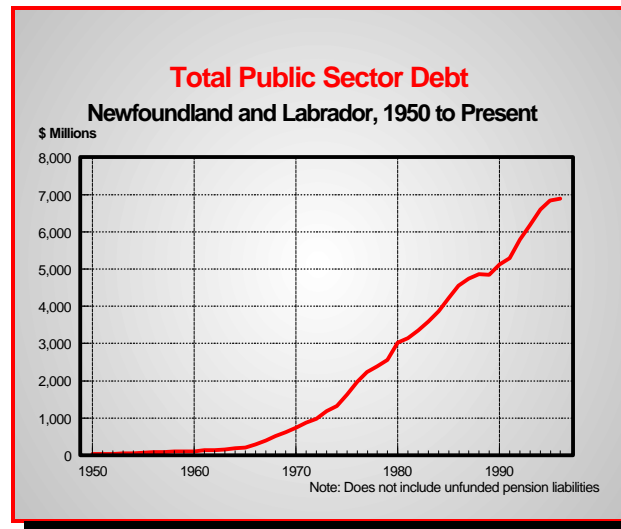


- *Should any cuts be across-the-board – that is, at the same level for all services – or should Government set priorities, with spending for some programs and services affected more or less than others?*
- *If priorities need to be set, what services should be reduced or eliminated? What services need to grow?*
- *Should we consider co-operation between Government and the private sector, if that arrangement will deliver the same quality of service at lower cost?*

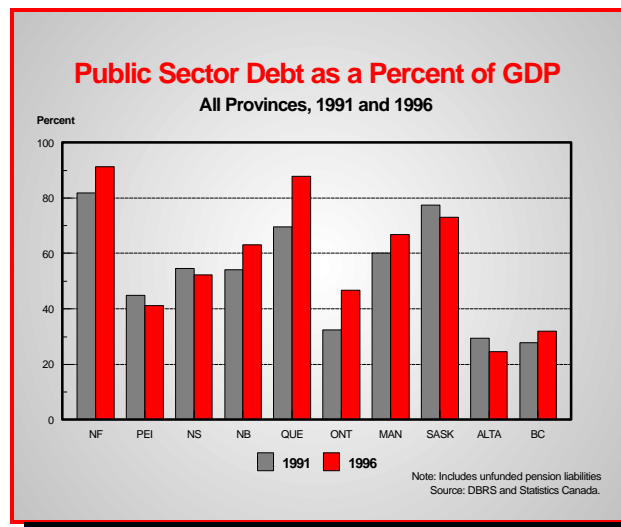


5. OUR DEBT AND CREDIT RATING

Our Debt



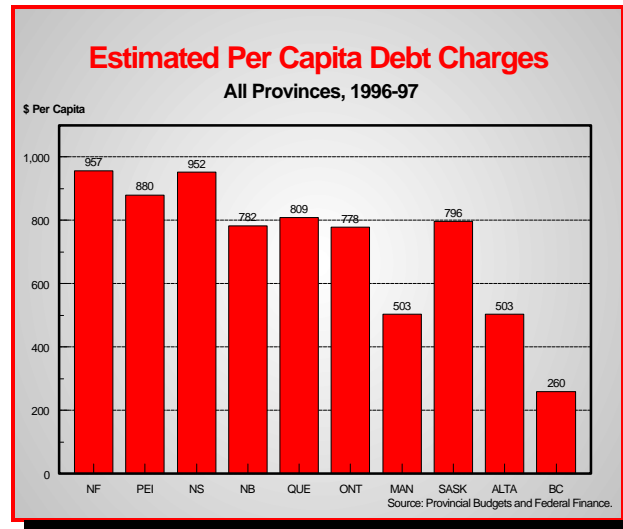
Since Confederation, our total public sector debt, which includes the debts of our Crown corporations and municipalities, has grown to almost \$7 billion. Adding the amount needed to fully fund our public sector pension plans brings the total debt to about \$9.5 billion, or about \$16,500 for every adult and child in the Province.





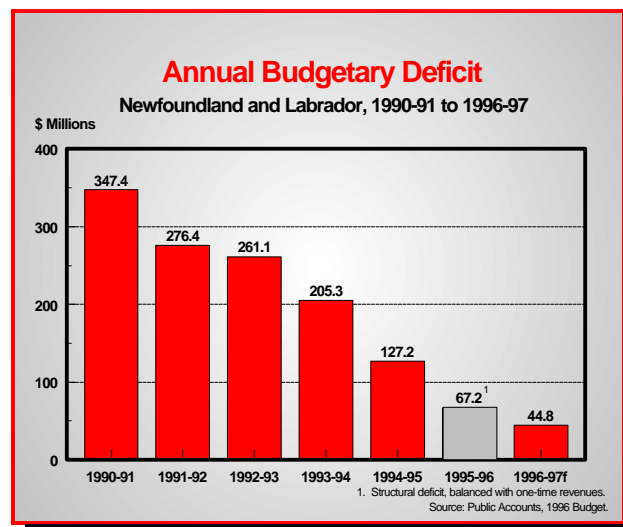
While our deficit has been decreasing since 1990-91, our interest charges will still total about \$540 million in 1996-97, around \$960 for every adult and child, the highest amount per person of any province in Canada.

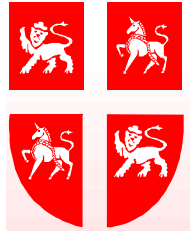
Our Credit Rating



It is important to protect our credit rating. Newfoundland and Labrador has the lowest overall credit rating of any provincial government in Canada. If our rating slips below its current level, it will be much more difficult and costly for us to borrow money.

We have reduced our total budgetary deficit in each of the last six fiscal





years. To protect our credit rating we must continue to effectively manage our financial affairs and control our deficit.

Our Choices

Considering our accumulated debt, our annual interest costs, our credit rating, the size of our projected deficits and the impact of tax increases and spending cuts

- *Should we borrow more money to pay for higher deficits?
If so, what is a responsible level of borrowing?*



6. MAKING THE RIGHT CHOICES

Our First Three Year Plan

Government is considering implementing a three year budget plan for the Province. Resolving the situation for only 1997-98 does not address the full scope of the problem, which is clearly multi-year in nature. A three year plan would provide greater certainty about the level of public programs and services. It also should result in more efficient Government operations and bring greater job stability to the public service.

Our Choices

Making the right choices requires all of us to make an assessment of where we are as a Province and where we should be going over the next three years. The economy will be weaker in 1997, but will begin to improve in late 1998. This should continue into the foreseeable future, led by petroleum and mining developments, and helped by our economic policies. The financial situation of the Province, however, shows increasingly large deficits for each of the next three years. Declining federal transfers, a weak economy and growing expenditure pressures all contribute to this situation.

Economic growth does not have an immediate positive impact on government revenues since major resource developments have to recover their costs before paying substantial royalties. As well, federal Equalization payments decline as tax revenues increase. While the Province and our people are better off as the economy strengthens, this will not translate into a substantially better financial situation for the Provincial Government for some time. Our capacity to borrow more money is limited, and borrowing by itself is not a long term solution. We need to deal with our financial situation now, commencing with a sound and realistic three year budget plan.



YOUR CHOICES - A Questionnaire

Government wants to hear your views on how to prepare the 1997 Budget. One way to do this is to fill out this questionnaire, and send it to the Minister of Finance. Simply circle the number that best represents your opinion on each of the following statements about the taxes you pay, the government programs and services you receive, and what size you believe our debt and deficit should be. You can help in Making Choices.

1. The idea that Government should consult with the public before preparing the Budget is a good one, and it should become a feature of the annual budget process.
Strongly agree = 1 2 3 4 5 = Strongly disagree

2. Right now it is more important to make progress toward balancing the budget - progress towards not spending more than we take in and not adding to our debt - than it is to maintain all our present programs and services by borrowing more money.
Strongly agree = 1 2 3 4 5 = Strongly disagree

3. Although taxes on average families are already high, they should be increased to reduce our projected deficits and prevent some service cuts.
Strongly agree = 1 2 3 4 5 = Strongly disagree

4. If taxes have to be increased, I would prefer to see:
 - a) small increases in many taxes adding up to the amount needed,
Strongly agree = 1 2 3 4 5 = Strongly disagree

 - b) or, larger increases in only a few taxes, such as,

- personal income tax	1	2	3	4	5
- gasoline tax	1	2	3	4	5
- liquor & tobacco taxes	1	2	3	4	5
- business profit & payroll taxes	1	2	3	4	5
- fees, licenses & fines	1	2	3	4	5

5. Government should have more and higher fees for services not everyone uses, particularly commercial services, so the people benefiting pay more of the cost.
Strongly agree = 1 2 3 4 5 = Strongly disagree

6. Government spending must be reduced because our projected deficits are too high and we cannot increase taxes to make up the difference.
Strongly agree = 1 2 3 4 5 = Strongly disagree



7. Rather than cutting all services across the board, Government should establish priorities and provide a greater level of funding for some services than others.

Strongly agree = 1 2 3 4 5 = Strongly disagree

8. One way Government could reduce spending is to have some services delivered by the private sector rather than Government, as long as service quality would be maintained.

Strongly agree = 1 2 3 4 5 = Strongly disagree

9. There are 3 ways to address our projected budgetary shortfalls - raise taxes, cut spending or increase our debt. To deal with a shortfall of \$100 million, what amount would you choose for each one of these options [the three should total 100]? **Amount**

Raise Taxes	\$0	20	40	60	80	100	other	\$ _____
Cut Spending	\$0	20	40	60	80	100	other	\$ _____
Increase Debt	\$0	20	40	60	80	100	other	\$ _____
							Total	\$ _____

10. A three year budget plan should lead to more efficient program and service delivery and better management of the Province's finances.

Strongly agree = 1 2 3 4 5 = Strongly disagree

We would like to report on whether or not people who are in similar circumstances share similar views. Please consider answering a few short general questions about yourself.

In which region of the Province do you live? 1. Labrador 2. West Coast/Northern Peninsula 3. Central/South Coast 4. Eastern/Burin Peninsula 5. Avalon Peninsula

In which age group are you?

1. under 19 2. 19 - 24 years 3. 25 - 44 years 4. 45 - 64 years 5. 65 years & over

How many people are there in your household, including all adults and children?

1 2 3 4 5 6 7 8 9 10 & over

What is your annual household income from all sources?

1. under \$25,000 2. \$25,000 - \$49,999 3. \$50,000 - \$75,000 4. over \$75,000

Thank you for completing this questionnaire. Please mail to the following address: Making Choices, c/o Minister of Finance, P.O.Box 8700, St.John's NF, A1B 4J6; or fax to (709) 729-2095.

Please feel free to attach any additional comments on separate sheets.