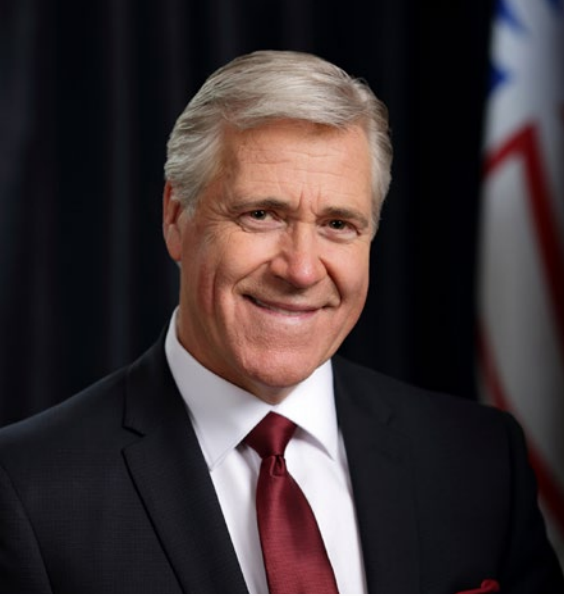


Our FISCAL Future

Starting the Conversation

January 2016





Message from the Premier of Newfoundland and Labrador

Newfoundland and Labrador is at a critical juncture. Our province is facing a difficult fiscal reality that requires a new approach – one that is open, transparent and engages the public in meaningful ways.

The Provincial Government is embarking on a comprehensive multi-year Government Renewal Initiative that will help us identify measures to increase revenues and reduce expenditures; eliminate waste and do things more efficiently; assess the role of government in providing public services; and establish multi-year fiscal targets.

Throughout this initiative, as we move toward reshaping our fiscal future, we will be working closely with all Newfoundlanders and Labradorians, and the public service, business, labour and community groups to tackle this together.

Tackling this problem together is going to take time and will require that we embrace engagement, consider our investments, and look at revenue opportunities as well as how we spend and borrow.

Addressing our current fiscal reality is a top priority for us. We will engage with Newfoundlanders and Labradorians to generate ideas that will allow us to deal with these challenges and re-calibrate our economy as we plan for Budget 2016 and beyond. This is a difficult fiscal reality and we are going to have to work together to correct the course.

We will be working hard to maintain our credit ratings and we will be accountable and transparent with the choices we have to make. We will provide the stronger leadership and better management that we promised Newfoundlanders and Labradorians.

We will get this under control. The situation is difficult, but not impossible. Our first priority continues to be the provision of quality services to the residents of our province. We can and we will do that in a fiscally responsible manner.

We will need to have difficult discussions about where we spend our money and how we can deliver critical services like health care and education in a more efficient and cost effective manner. We will remain open and welcoming of innovative ideas.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dwight Ball'.

Honourable Dwight Ball

Government Renewal Initiative

Without action, Newfoundland and Labrador will face mounting debt, increasing interest and borrowing costs, a credit rating downgrade and restricted ability to support key government programming. In response to this difficult fiscal reality, the Provincial Government is launching the multi-year Government Renewal Initiative to identify a combination of measures to eliminate the province's deficit and move forward with a sustainable budgetary framework for Newfoundland and Labrador. As part of a Legacy Plan, the Provincial Government will establish a sovereign fund once it has moved back to surplus by using revenues from natural resources to build a stronger legacy for the province's children - a stronger tomorrow.

This initiative will be guided by the following principles:

- Affordable and sustainable public services;
- Evidence-based decision making;
- Natural attrition will be the primary and preferred means of workforce reduction;
- Using innovative approaches to deliver more effective and efficient public services; and
- Openness and transparency including engagement of all public bodies, stakeholders and residents in identifying solutions.

All Newfoundlanders and Labradorians are being asked to participate in this process, and help define the actions the Provincial Government plans to take. All of us can contribute ideas, suggestions and solutions to get the province back on track and working towards fiscal sustainability.

What is our current financial state? (\$ Millions)

	2015-16 Budget	2015-16 Update	Variance
Revenue	6,567.3	5,725.7	(841.6)
Net Income of Government Business Enterprises	409.1	363.0	(46.1)
Total Revenue	6,976.4	6,088.7	(887.7)
Gross Expenses:			
Program Expenses	7,182.0	7,229.8	47.8
Debt Servicing Expenses	887.8	821.8	(66.0)
Total Expenses	8,069.8	8,051.6	(18.2)
Deficit	(1,093.4)	(1,962.9)	(869.5)

The current fiscal reality, if left unchecked, will only worsen. In consultation with Newfoundlanders and Labradorians, the Provincial Government will move forward on a plan to deal with these challenges.

Newfoundland and Labrador Economy... A Reality Check

In only seven of the last 30 years did the size of the province's economy (as measured by real Gross Domestic Product) decrease from one year to the next, but four of those years have been since 2007. In the past three decades, Newfoundland and Labrador's economy grew by an average of 2.4 per cent per year. However, for the last five years (2010-14) it increased at a slower pace of 1.5 per cent per year.

Over the 2015 to 2018 period, the provincial economy is expected to shrink due primarily to declines in investment as development activity on several major projects (e.g., Hebron, Muskrat Falls, and Long Harbour nickel processing facility) winds down. This will be characterized by negative or very weak growth in many economic indicators, including real GDP, employment, household income and retail sales. Furthermore, low commodity prices have dampened short-term resource development prospects.

Newfoundland and Labrador is also facing demographic pressures resulting from an aging population and out-migration that may constrain future economic growth potential.

Prolonged weakness in commodity prices will present significant challenges for the Newfoundland and Labrador economy. However, improvements in the Canadian and American economies, combined with a weaker Canadian dollar, are positive for manufactured exports.

There are also potential major investment projects in the natural resource and energy sectors on the horizon that could stimulate future economic growth.

Labour Market

With the increase in major project development, employment increased from 189,600 person years in 1997 to a record high of 242,700 in 2013, representing an annual average increase of 1.5 per cent. However, employment decreased by 1.7 per cent to 238,600 in 2014 and was down by a further 1.0 per cent to 236,200 in 2015.

Newfoundland and Labrador's unemployment rate remains high in a national context. Rural areas of the province have higher unemployment rates because of the seasonal nature of much of the employment in these regions.

Income Growth

Over the past decade, income growth in Newfoundland and Labrador has outperformed general economic growth due to a combination of higher employment levels, wage increases and a transition to higher income jobs. From 2005 to 2014, real household income increased by an annual average of 3.8 per cent in comparison to real GDP growth of 1.3 per cent per year.

Demographic Trends

Demographics are a key consideration to the economy and government revenues, as well as program design and delivery. Newfoundland and Labrador's population increased in 2008 for the first time in 15 years as more people entered the province than left. In total, the population grew by approximately 18,700 from 2007 to 2015.

Natural population change turned negative for the first time in 2006-07 with more deaths than births and it has been negative in each of the past four years.

The provincial population was estimated at 527,756 as of July 1, 2015, down 0.2 per cent from the previous year. However, this estimate is subject to revision. Newfoundland and Labrador's share of the national population has also fallen over time, from 2.4 per cent in 1971 to 1.5 per cent in 2015.

Newfoundland and Labrador now has the oldest population in Canada. In 2015, the median age of Newfoundlanders and Labradorians was 45.0 years (44.4 years for males and 45.6 years for females). That is 4.5 years older than the national median age of 40.5 years. Seniors (65 and over) accounted for 18.4 per cent of the province's population in 2015 in comparison to 16.1 per cent for Canada. This aging trend is more pronounced in rural areas of the province. For example, the percentage of seniors on the Avalon Peninsula is below the provincial average at 15.5 per cent while almost one quarter of the population (24.4 per cent) are seniors on the Northern coast of the island. In fact, most areas of the province outside the Avalon Peninsula and Labrador have a senior population greater than 20 per cent.

What do these numbers mean?

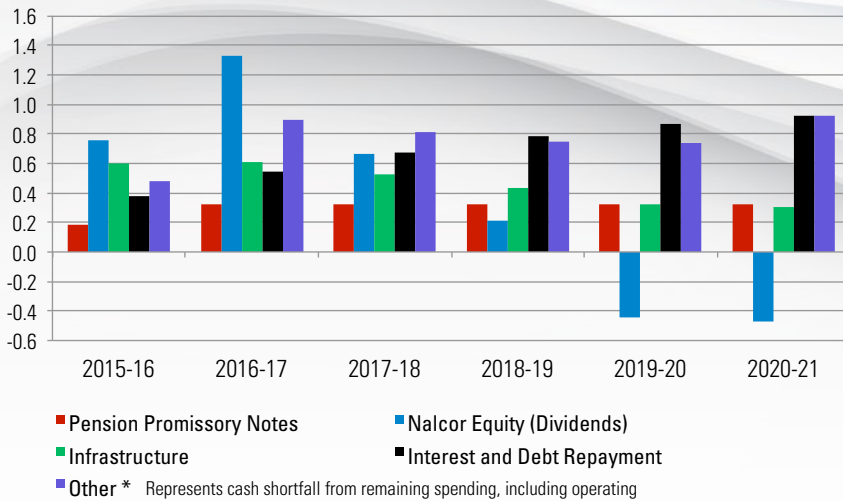
- Newfoundland and Labrador is experiencing an increase in long-term/senior care and health care costs;
- Newfoundland and Labrador is seeing migration to the urban centres from rural areas; and
- Newfoundland and Labrador continues to face labour market challenges in the face of increasing retirements and changing demands for the types of skilled workers.

Fiscal Challenges

The 2015 budget delivered on April 30, 2015 forecasted a deficit for 2015-16 of \$1.093 billion. Since that time, principally two related developments, lower than expected oil prices and oil production, have led to an increase in the deficit forecast. Revenues this year are now forecast to be \$887.7 million lower than indicated by the previous administration at Budget 2015. This brings the revised deficit to \$1.963 billion.

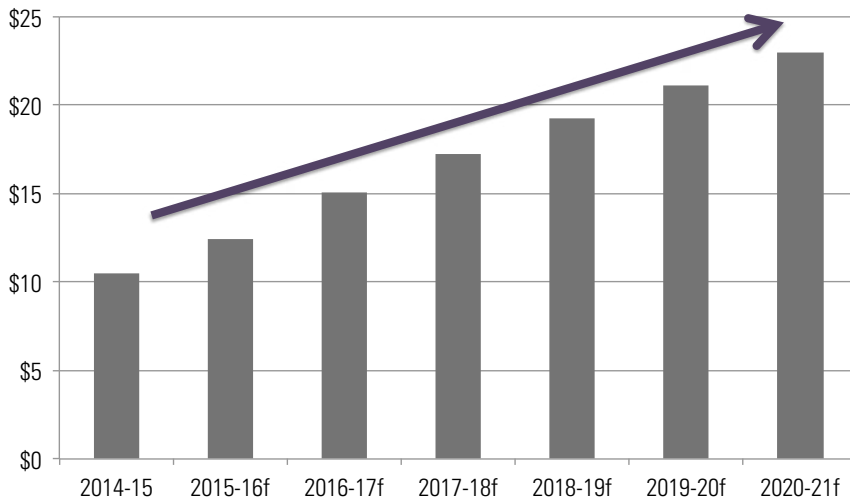
The reality is, if nothing changes, this government will have to borrow at least \$1 billion dollars for each of the next five years just for operations, which includes debt servicing expenses and interest on what is borrowed. Total required borrowing will be \$15.4 billion to 2020-21.

How much will we borrow? 2015/16 – 2020/21 (\$ Billions)



In our current situation, if we do nothing, it would be like borrowing over \$7 million a day, every day for six years. That is close to \$300,000 an hour — essentially a new home mortgage every hour of every day until 2021. Think of it as maxing out your \$5,000 credit card limit — every minute of the day.

What is our Net Debt? (\$ Billions)



Net debt as of March 31, 2016 is now projected to be \$12.4 billion. If left unchecked, net debt is projected to grow to \$23 billion by 2020-21.

Net debt has increased by over \$900 million this year compared to what was budgeted by the previous administration. A simple explanation of net debt is total debt less cash on hand — our debt consists of borrowing and pension liabilities, while our cash or assets include loans and equity investments.

Considerations

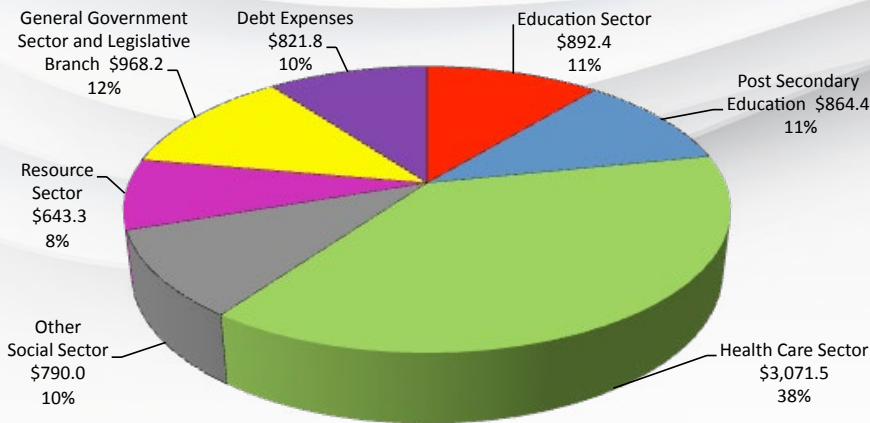
Newfoundland and Labrador can only move forward when the current reality is understood.

Currently the revised deficit is closing in on \$2 billion. This is serious and corrective action needs to be taken.

The current reality is that:

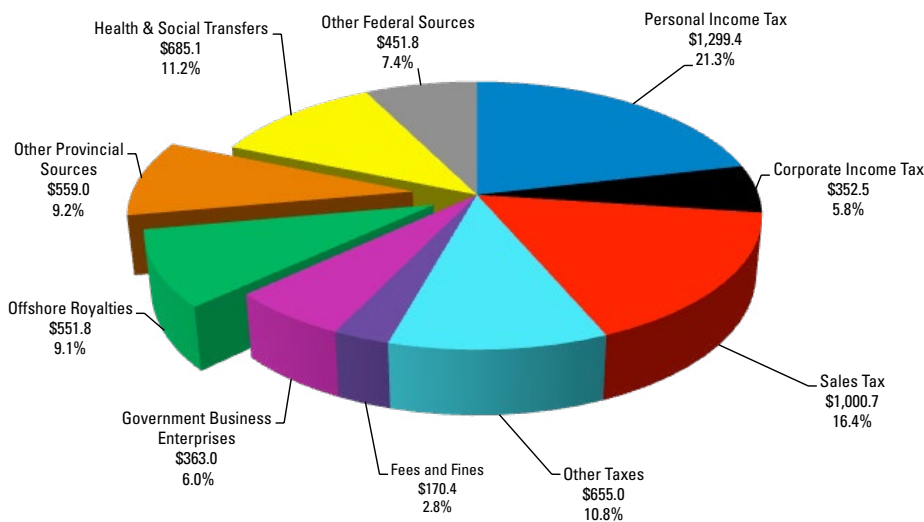
- offshore royalties are expected to be less than half of the \$1.2 billion budgeted in Budget 2015;
- total production is expected to be 15 million barrels lower than the budget forecast; and
- the average oil price is \$14 lower than budgeted and there continues to be volatility based on the global environment.

Where Does the Money Go? December 2015 – Expenses by Sector (\$Millions)



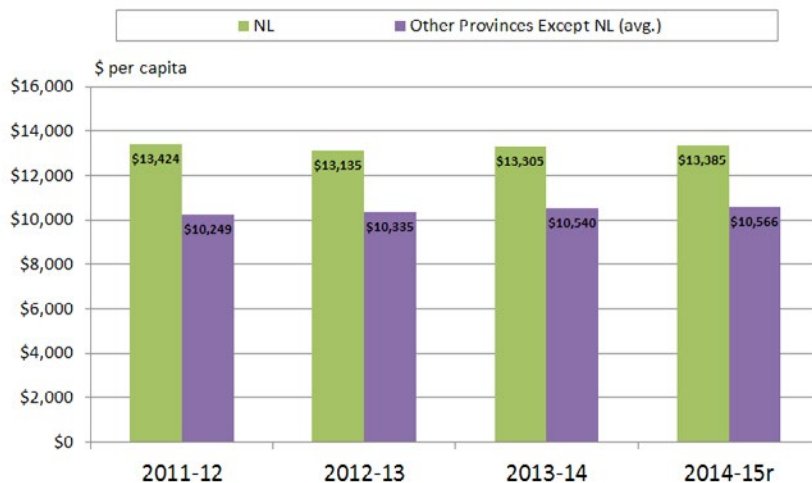
Where is your money being spent?
The answer is: mostly on health and education. As of December 2015, 38 per cent went to the health care sector and 22 per cent to education, including post-secondary education.

Where Does the Money Come From? December 2015 Estimate (\$Millions)



Where does government get its money? The bulk is from taxation. As for offshore royalties, in April 2015 that accounted for 17.4 per cent of the province's revenue. Now? It's only 9.1 per cent.

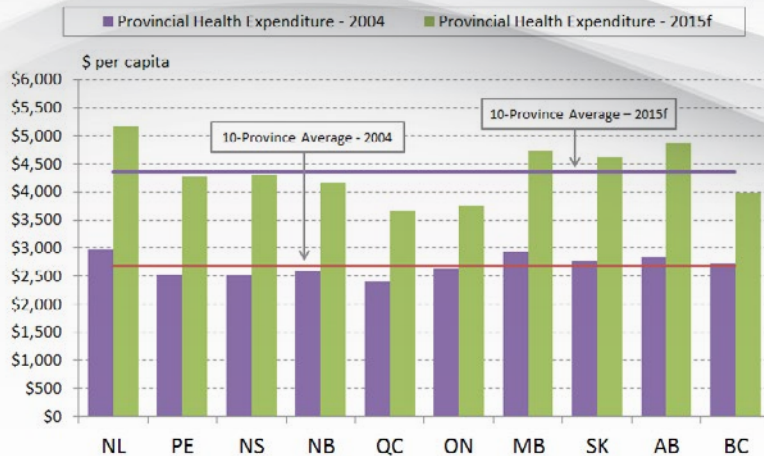
How much do we spend per person?



Newfoundland and Labrador's per capita program expenses have been 26-31 per cent greater than the average of all other provinces over the past four years.

Source: Provincial Public Accounts and Budget documents; Statistics Canada

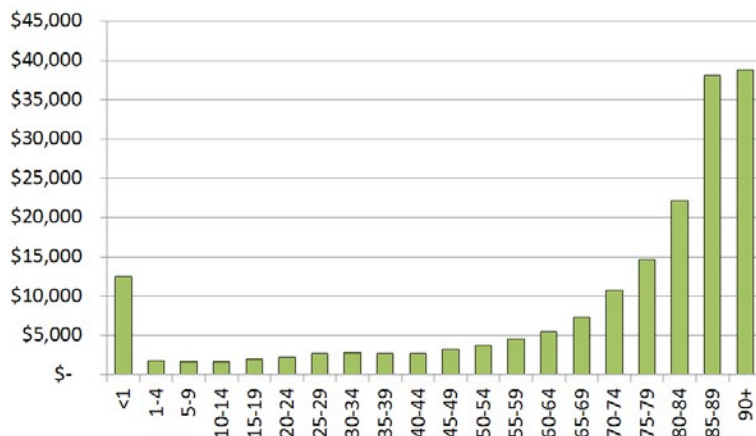
How much do we spend on Health Care?



Source: National Health Expenditure Database, CIHI; Statistics Canada

Health care accounts for almost 40 per cent of the entire provincial budget – and this province spends more per person on health care than any other province in Canada.

How expensive is Health Care as we age? (2013)



Source: National Health Expenditure Database, CIHI

As residents age, their individual health care costs increase substantially.

How does our population growth and aging contribute to health care costs?

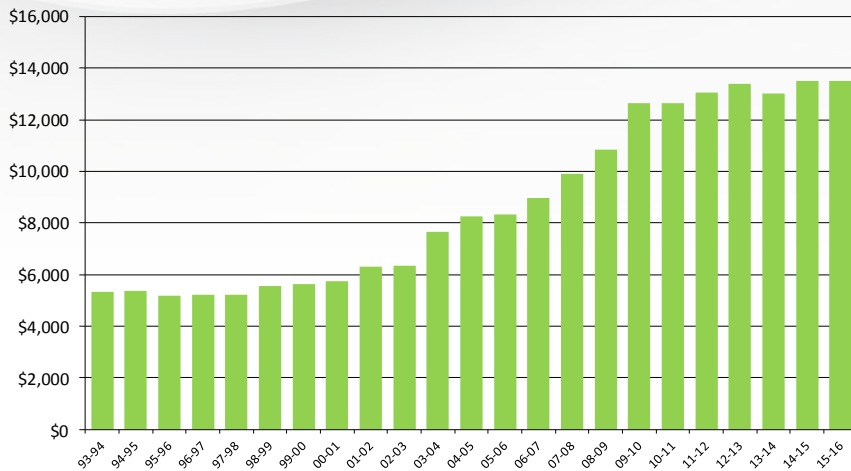
Contribution of Population Growth and Aging to Average Annual Growth in Provincial/Territorial Government Health Spending, by Province, 2002 to 2013



The impact of aging on health care costs is more significant in Newfoundland and Labrador than in most other provinces.

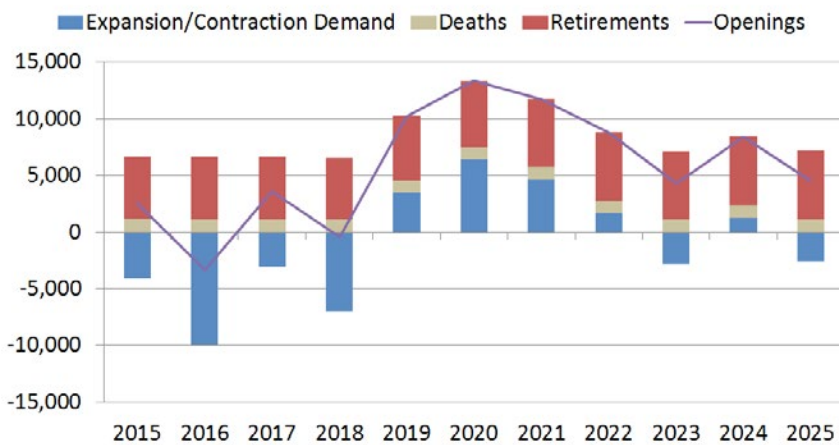
Source: National Health Expenditure Database, CIHI; Statistics Canada

What do we spend on Education? (K-12 cost per student)



The average cost per student has continued to increase over the past two decades, while the number of schools has decreased.

What will future labour demand stem from?



While in our current economic reality job growth has slowed, there needs to be a real plan in place to meet our labour market needs into the future.

Call to Action... Starting the Conversation

The status quo is not feasible and changes must be made. The unprecedented fiscal situation facing the province has led the Provincial Government to take decisive action to create a multi-year approach to address the situation. We all need to be part of that discussion.

The mandate of this approach is to:

- Identify a combination of measures to increase revenues and reduce expenditures;
- Eliminate waste and identify opportunities to do things better and more efficiently;
- Assess the role of government in the provision of public services; and
- Establish multi-year fiscal targets.

In the first step of the multi-year initiative important conversations will take place. Government will provide opportunities for engagement through:

- Open, regionally-based public sessions led by the Office of Public Engagement;
- Open public town hall meetings;
- A guide will be made available to community groups, local governments, stakeholders and others so they can host their own conversations;
- Engagement sessions hosted by stakeholder groups such as academic institutions, high schools, community sector

and economic sector agencies or groups;

- Stakeholder sessions identified and led by the Minister of Finance, as well as by other ministers or government members; and
- The Office of Public Engagement's Dialogue Application to generate dialogue and share ideas on how to address the financial challenges faced by the province.

Over the short-term, these sessions will inform Budget 2016 and the mid-year fiscal update in late 2016 and will help strengthen the long-term plan, including Budget 2017.

Newfoundlanders and Labradorians are asked to reflect on the questions below and help shape solutions to the difficult fiscal and economic reality facing the province:

1. Thinking of all of the things government spends your money on to provide the residents of the province with services, what are three things that could be stopped in order to save money?
2. Given the financial challenges facing our province, what three things do you think government could do to raise money (increase revenue)?
3. How can government be more innovative or efficient to provide quality services at lower costs?

Over the longer-term, past Budget 2016 and over the course of the Provincial Government's mandate, the public service and in particular the senior leadership will be empowered to be innovative and to further identify and action ideas to address the fiscal reality, while balancing any potential impacts on the economy.

"We all have difficult choices ahead of us. The questions we will be asked will challenge us to think beyond ourselves as individuals. We are being asked to balance our wants against our needs. This is tough, but if we are to get our province back on track, we all have a role to play.

Our province, our communities and our families deserve our best efforts and nothing less."

Minister Cathy Bennett

Our Fiscal Future

STARTING THE CONVERSATION

Launch & Engage

Jan-Feb 2016

- Discussion document
- Dialogue App
- Regionally-based open public sessions
- Guide to Hosting Your Own Session
- Town hall style meetings
- Stakeholder roundtables

BUDGET
2016

Roll Up & Release

Mar-Apr 2016

Compile and publish summary of ideas, themes and actions.

Focus & Refine

May-Aug 2016

Conduct more in-depth engagement by sector and theme to identify options and develop best possible actions.

MID-YEAR
FISCAL
UPDATE

Report of Choices

Fall 2016

Publicly report on options generated by the in-depth engagement processes including costing analysis, benefits and impacts.

Validate & Prioritize

Jan-Feb 2017

Seek public feedback on choices presented.

BUDGET
2017

Release Results

March 2017

Engagement results will help inform Budget 2017 and future fiscal decisions.

Continuing the Conversation

Our province is entering a new era of engagement and is beginning a new conversation – one that does not have a singular focus on any one industry or source of revenue. Oil is a non-renewable resource that must be leveraged to ensure a more stable and diverse economic future and not be used in isolation to create fiscal policy.

The Provincial Government is urging all citizens to be engaged in the short, medium and long-term discussions. With full participation in an open, honest and transparent conversation about the difficult decisions facing government, the Provincial Government can continue to deliver stronger leadership, better management and long-term planning that will benefit each and every Newfoundlander and Labradorian today and into the future.

- 1. Thinking of all of the things government spends your money on to provide the residents of the province with services, what are three things that could be stopped in order to save money?**
- 2. Given the financial challenges facing our province, what three things do you think government could do to raise money (increase revenue)**
- 3. How can government be more innovative or efficient to provide quality services at lower costs?**

1. Thinking of all of the things government spends your money on to provide the residents of the province with services, what are three things that could be stopped in order to save money?

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- The top of the page features a decorative background with several overlapping, wavy bands in shades of light gray and off-white, creating a sense of movement and depth.
2. Given the financial challenges facing our province, what three things do you think government could do to raise money (increase revenue)

3. How can government be more innovative or efficient to provide quality services at lower costs?

Feedback can be sent to us by:

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