



2017 Pre-budget Consultation

Presentation to the Minister of Finance and President of the
Treasury Board; Honourable Cathy Bennett

Association of Chartered Professional Accountants of Newfoundland and Labrador

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Disclaimer: The suggestions contained within this document are a collection of the general themes received from a call for feedback from the CPA membership with respect to the provincial government budget process and are not necessarily the specific views of the Association. Any suggestions contained within should be subject to the appropriate internal research, governance and financial assessment processes, generally accepted within the provincial government.

The Association of Chartered Professional Accountants of Newfoundland and Labrador, representing our 1,800 business leaders and trusted advisors; working in business, education, government, and public practice; is pleased to present to Government this pre-budget submission for the 2017 – 2018 consultation process.

Preamble

Public sector expenditures have increased by 70% over the last 10 years but budgets were balanced primarily due to oil royalties and taxes on higher personal and corporate incomes. A collapse in oil prices has dramatically reduced government revenues. Public sector expenditures must be reduced and controlled in the future to restore balanced budgets. This will require political will and courage, considerable management commitment and skill, inclusion and cooperation of public sector unions and employees, and active participation of the general public/taxpayers.

Communication and Vision

Communication and managing the message in the province has been a considerable challenge. As we move forward to 2017-18 and beyond, the focus should shift from the past administration's mistakes to this administration's solutions! With a vision for the future and a well delivered communication plan, the attitude in the province will improve. Positivity breeds positivity and this will help drive the economy, attract immigration and ultimately help government achieve its desired outcomes.

Instrumental to this shift in communication is a clear vision for the future, best supported by a robust long-term strategic plan for the province. There are a number of strategic changes that need to be made in the delivery of public services, a well-articulated plan that is supported by clear communications will help bring the province's population along on that journey.

Regional Infrastructure and Services

Newfoundland and Labrador's population is now roughly the same as it was in 1970 (~ 530,000 residents). However, the geographic dispersion and age distribution of our population has changed dramatically, as have certain expectations. These changes have a significant effect on the delivery of public services. These demographic and societal shifts will necessitate continued changes in public infrastructure and services. We note that in the last 10 years the rate of expenditure growth for long-term care and community services have outpaced the rate of overall health care expenditures, which has outpaced the rate of overall public expenditure growth, which has far outpaced general inflation.

We recommend that government develop a long-term plan for regional infrastructure and services, particularly for Health and Community Services and K-12 Education. Plans should reflect population and

demographic trends and provide a future view of public sector facilities and services. Long-term planning should eliminate the impact of election cycles on public sector investment and service delivery.

We recommend that government undertake a process to evaluate whether a regional hub model would be appropriate for public sector facilities and services (e.g. Avalon, Peninsulas, Central, Western, and Labrador). Regional facilities and services should be stronger, more efficient and more cost effective over the longer term. However, service delivery models may have to change to allow selected services from the regional hubs to be brought to rural communities on a scheduled basis. Families and businesses can then make plans and investments based on the long-term plans of government. Population shifts will likely continue, but perhaps within regions as opposed to out migration or continued movement to the Northeast Avalon.

Health Care

Health care accounts for 39% of the province's expenditures. It is strongly recommended that the Government focus on health care reform, with the goal of identifying and implementing both financial and process improvements, ultimately delivering a better client service at a lower cost.

We recommend that government evaluate the following as potential opportunities with respect to health care:

1. Alignment of the four regional health authorities under a shared vision and set of objectives is instrumental in achieving the desired healthcare outcomes. Focus of the regional alignment should:
 - Allow for a single strategic direction for long-term planning of infrastructure and service delivery.
 - Facilitate development and implementation of consistent policies, procedures and service delivery models province-wide.
 - Allow for a single strategic direction for mission critical Information Technology and Information Management investments.
 - Increase purchasing power for supplies and contracted services.
2. A working group or executive committee from each of the health authorities should be charged with the responsibility to develop a long-term infrastructure and service delivery plan for health care throughout Newfoundland and Labrador.
3. While all residents of Newfoundland and Labrador benefit from a publicly-funded health care system, we cannot equate "no immediate direct patient cost" with "free". We believe that taxpayers and patients will be more respectful of and responsive to a health care system when they have an understanding of the costs of selected services, procedures and technologies. Enhanced publication of information related to the cost of service delivery, operational statistics, performance metrics and benchmark information will provide patients and taxpayers with a better idea about its services and performance.
4. Newfoundland and Labrador has among the highest incidence of obesity and chronic diseases linked to unhealthy eating and sedentary lifestyles. We commend the Government, the Health Authorities and the Department of Education on its initiatives in promoting a healthier population. We suggest further investment in the areas of health education and to encourage more active living. Treating chronic diseases with costly medications and medical procedures should not be a substitute for tangible investment and real effort to reverse negative population health trends.

Strategic Investment in Education

The stability and growth of our provincial economy relies on a well performing education system at all levels of a student's skill development. When considering other outcomes that the province should be striving for, namely improved health outcomes and an advancement of our knowledge based industries, we feel there are opportunities to support this at each level of the education life cycle.

1. The English School District should be charged with the responsibility to develop a long-term infrastructure and service delivery plan for the K-12 school system throughout Newfoundland and Labrador.
2. Allow increased tuition fees at Memorial University to enable a corresponding reduction in government grants. Typically, low cost is associated with low quality, however Memorial continues to enhance its rankings amongst Canadian universities, winning national and international recognition in Business, Engineering, Medicine and Ocean Technology yet tuition fees remain significantly below national and regional averages. While the goal of "affordable education" is commendable, consideration should be given to whether tuition should be increased to be marginally below average tuition at Atlantic universities.
3. Support and encourage investment in programs in Science, Technology, Engineering and Math (STEM) in order to support the development of knowledge-based industries in the province.
4. Support and encourage the operations and activities of incubators that aid in the development of knowledge-based businesses in the province. Past support in this area has resulted in many organizations commencing commercial operations for global markets while remaining based here in Newfoundland and Labrador. Some of these companies have attracted significant venture capital funding, a key milestone in the development and growth of a sustainable knowledge-based business.

Salaries and Benefits

Salary and Benefit costs have been a significant target of the government and that is to be expected given salaries and benefits account for 43% of the province's expenses. The reduction in the provincial government's workforce is inevitable. However, the loss of jobs will have a significant impact on the provincial economy. Alternatives that should be considered as the workforce reductions are implemented are allowing reduced work weeks, job sharing, reduction in overall benefits; etc.

It is important that the impact of workforce reductions on service levels be carefully assessed. Rather than cutting specific percentages from department budgets, an evaluation of the services being provided and related costs should be conducted. Services should be eliminated where the expense to provide the service outweighs the benefits. For functions that are outside of typical provincial government roles, consideration should be given to whether a public private partnership would serve the community better and more efficiently.

As the government reduces its workforce, we feel it is critical that appropriate incentives be provided for the business community to thrive and grow. Incentives should be streamlined and targeted toward specific outcomes that are critical to the province in the short and long term, like investment in resource based industries, growth in tourism and increased employment in the private sector. Our members have indicated that they and their clients are not fully aware of what programs are available to them. Current incentives programs should be re-evaluated to ensure they are accessible to those intended to benefit from them and that they are meeting their intended results.

We offer the following observations and recommendations with respect to salaries and benefits throughout government:

1. Other provinces have recently eliminated accrual of severance benefits. We recommend that the elimination of severance benefits for Newfoundland and Labrador's public sector workers be evaluated to determine its viability when considered as a complete benefit package compared to public sector employees in other provinces.
2. Based on current pension calculations (i.e. best five years' salary) management level employees can achieve a large increase in pension benefits when they experience significant late-career salary increases from promotions, reclassifications or benchmark adjustments. We recommend that this issue be examined in detail and that amendments be implemented where necessary to ensure that management employees contribute an appropriate share of pension contributions.
3. We recommend a comprehensive review of the benefits provided in collective agreements and employment policies to ensure that benefits reflect the differing workplace circumstances and conditions throughout the public service. Benefit packages tailored to suit specific jobs and working conditions will reduce negative impacts on productivity and cost.

Revenue Measure Considerations

We recognize that action had to be taken in the prior year to improve the province's revenue position and, in fact, we even recommended many of the options implemented. However, having implemented so many revenue measures at one time may have had a result of contracting the economy and possibly reduced the effectiveness of the tax measures taken. To help stimulate the economy and improve the morale of the province, we suggest that some form of reduction in tax be considered. The goal, should be to reduce the burden on low and middle income earners while having a minimal impact on overall revenue. Ideally this would promote an improvement in morale and spending in the province. Further research and evaluation will need to be done to determine how best to achieve this, but one suggestion would be a reduction, but not elimination of, the additional provincial gas tax, another consideration could be elimination of the controversial tax on books.

We feel that alternative revenue sources were exhausted from a personal tax point of view in the prior year budget and should be avoided in the near term. Any additional burden on individual taxpayers will likely add to the already increasing rates of consumer proposals and bankruptcies experienced in the province over the last 12 months.

A careful review of tax measures imposed on business and industry in the province should be undertaken to ensure all industries/sectors are treated equitably. The retroactive elimination of the 9% Manufacturing and Processing Profits Tax Credit last year nearly tripled the manufacturing sectors tax burden. It is critical that future tax changes, like the carbon emissions tax, be carefully reviewed with a focus on the overall impact it will have on the industry and the competitiveness of the province for business growth in these sectors. Government should work with the business community to stimulate the economy and any revenue measures that would have a negative impact on business economic drivers should be avoided.

Overall, we recommend that rates of personal income tax, corporate income tax and HST remain competitive with other Atlantic provinces.

Nalcor/Muskrat Falls

Government has supported management's position that the Muskrat Falls project must be completed in order to meet contractual commitments and debt obligations and to create future operating revenues and cash flows. Given the mandate to move forward with the project, we recommend more disclosure and transparency to promote public acceptance going forward. Useful information for the public would include a representation from management about near term undiscounted cash flows from Nalcor and a complete discounted cash flow (DCF) analysis of the project, using current assumptions for capital costs, operating costs, island demand and pricing, capacity commitments to Nova Scotia and related pricing, and demand and market prices for excess power. Similarly, we suggest enhanced transparency about the future potential cash flows from the Upper Churchill assets.

Economic Development and Diversification

Private sector investment will typically support the development of natural resources where global markets exist for products and services. Governments may use incentives to encourage global enterprises to choose a local development from a global portfolio of development prospects. Governments may use permits and regulations to leverage investment in value-added processing of these resources for global markets. We believe that our abundant natural resources will continue to be the economic engine of the province and encourage government to continue investing to support the development of our natural resources.

We also believe that opportunities exist to diversify the economy to create employment opportunities and additional revenues to government.

We believe that education and workforce development is the key to any sustainable diversification of our economy. In recent years, government has made substantial strategic investment in workforce development to fill near-term labour market gaps but this has largely been focused on supporting construction-phase activities in major natural resource projects. Elsewhere in this document we have made recommendations with respect to specific long-term investments in education to develop and support knowledge-based business. These businesses are typically not location-specific and will tend to be located where the entrepreneurs reside and where there is a trained workforce to support development of products and services for global markets.

We believe that the recommended strategic investment in STEM education will also contribute to the development of an entrepreneurial culture in the province. This will also support rural development because studies show that it is more likely that a person from a rural area will settle permanently in a rural area after formal education than a person who grew up in an urban area.

Financial Management and Financial Reform

We commend government on several new initiatives aimed at controlling public sector expenditures. The implementation of zero-based budgeting should contribute to a culture of continuous program review rather than periodic program review (typically upon a change in government). The creation of a government-wide audit committee should contribute to best practices in governance and financial reporting.

We make the following recommendations with respect to financial management and financial reform:

1. Government is supporting the economy with an increasing number and value of grants and subsidies to external organizations. We acknowledge that this financial assistance generally leverages additional funding sources and significant volunteer and community resources. To ensure that government receives value for money in all cases, government should create guidelines for

governance and financial management of these organizations and include these guidelines in contractual agreements, which should include the right to be audited as necessary.

2. Government should consider the creation of a financial reform secretariat which would have a cross-functional, government-wide mandate to work with all departments, crown corporations, government agencies and public institutions to create a culture of financial prudence and identify tangible opportunities for alignment of policies, procedures, systems and controls aimed at controlling expenditures at sustainable levels.
3. Government should evaluate all assets and determine if opportunities exist to consolidate, sell or privatize. Such action should be undertaken where it would help with overall debt servicing and ultimately yield a better return on investment in the long-term than the asset is currently projecting to achieve.

Conclusion

In conclusion, we recognize that the reduction of the provincial debt is a very challenging process. As soon as the province has achieved a balance budget and starts to generate an annual surplus it is critical to start reducing the provincial debt.

We appreciate any opportunity to be involved in the solution as the government works through strategic changes to achieve a brighter future for the province, thank you!

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