CANADIAN FEDERATION OF INDEPENDENT BUSINESS
In business for your business™

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April 12, 2018 Sent by email

Honourable Tom Osborne
Minister of Finance and President of Treasury Board
MHA for Waterford Valley
Confederation Building, East Block
P.O. Box 8700
St. John's, NL
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Dear Minister Osborne,

The Canadian Federation of Independent Business (CFIB) is a non-partisan and not-for-profit organization that represents independently-owned small- and medium-sized enterprises. We represent 110,000 members across the country and have over 2,000 members in Newfoundland and Labrador.

CFIB has heard from the membership in recent days and they find the 2018 Budget to lack any meaningful measures to address the seriousness of their concerns. In November 2017, we asked our members to rank what they felt to be the greatest problem facing the government in the next five years. Small business owners in Newfoundland and Labrador ranked unsustainable government spending (32 per cent) as the greatest problem, followed by increasing government debt levels (28 per cent), low economic growth (20 per cent), government's lack of understanding of entrepreneurship (11 per cent), and declining tax base (six per cent).

The Budget has done very little to instill confidence in small business owners that the government is doing all it can to address the province's serious fiscal situation, despite the government's attempt to provide some tax relief. CFIB's analysis shows the plan for a reduced Retail Sales Tax on automobile insurance will provide the entire small- and medium-sized business community approximately $5 million on January 2019 and nearly $2.5 million for each of the next three years, such that the community will save an accumulated $12.5 million a year beginning in 2022. The government's Estimates suggest the Health and Post-secondary Education Tax threshold increase to $1.3 million will save small- and medium-sized business owners about $3 million.

To put the effect of these tax reduction initiatives into perspective, Newfoundland and Labrador Hydro (NL Hydro) currently has a General Rate Application (GRA) before the Board of Commissioners of Public Utilities. NL Hydro is proposing a 13 per cent increase in electricity rates in 2018 and 2019, but the Consumer Advocate suggests the rate increase will be 22 per cent over those two years. Based on this information, CFIB analysis shows small- and medium-sized enterprises in the province will collectively pay between $25 million and $43 million more by 2019.

Further to this, the 2018 Budget speech noted the government's "vision does not include the doubling of electricity rates," and also included the options being pursued. One option is importing cheaper power through the Maritime Link and Labrador-Island Link. However, the GRA proposes a deferral account for any savings realized from cheaper power transmitted over the Labrador-Island Link and the Maritime Link. Colloquially, the proposal is simply taking from Peter now to pay Peter later. As noted above, this approach will have a significant financial consequence for small- and medium-sized business owners in 2018 and 2019.

We note the government's commitment on the carbon pricing is to phase out the Temporary Gas Tax, of which there is four cents per litre remaining. Independent information suggests for Newfoundland and Labrador the new price on carbon will generate two to two-and-a-half cents per litre per year over the next five years for the government. Aside from the Temporary Gas Tax reduction, it is important for the provincial government to outline how it plans to ensure any new carbon pricing mechanism will be truly revenue neutral for Newfoundlanders and Labradorians. CFIB is very interested in learning more about what the government plans to do regarding the implementation of a made-in-Newfoundland and Labrador approach to carbon pricing.

CFIB members also expected more related to government expenditures. Our record on holding government to account on its spending problem has been consistent. In February 2015, we released a report highlighting government spending during the decade prior. Further, on September 28, 2015, we wrote the former Minister of Finance urging him not to adopt a Harmonized Sales Tax increase. We also asked for updated financial and economic data prior to the 2015 provincial general election, which was not forthcoming. Yet, CFIB recognized the province was in a precarious fiscal position, so our election requests included the need for a plan to reduce government spending to pre-2008 recession levels over a three-year period.

In its *The Way Forward* document, the government recognized it has a spending problem. However, Premier Ball told a national audience in early February that the provincial government is dealing with a cost of service issue due to unique demographics and geography in Newfoundland and Labrador. This is an indication the government no longer thinks it has a spending problem. A further indication is the 2018-19 expenditure budget is expected to be $8.4 billion, the largest in the province's history. Notwithstanding, in applying the data presented in the Budget documents to CFIB's methodology, real (inflation-adjusted) operating spending will increase by 17 per cent between 2008 and 2019, while population is expected to grow two per cent during the same period.

The fiscal plan presented in the Budget is unrealistic. For instance, the plan shows the deficit will be $654 million in 2020-21, which is $29 million lower than 2018-19. The government has presented a number of reasons why it cannot lower the deficit quicker, including the economic effect of reduced government spending. However, the plan essentially states the government will reduce the deficit by $710 million in two years. The economic indicators are not expected to improve much in the next three fiscal years, so one has to wonder what tough decisions will have to be made after 2020 that are not being made in 2018.

In the past, CFIB has asked for government spending reductions, but there has always been push back from government on the economic impact. While CFIB believes government should be able to balance its books and identify ways to eliminate the deficit more quickly, it is difficult to see how government will have the will to balance the budget in two years as the new fiscal plan outlines.

Similar to previous administrations, this administration has expressed concern about the economic effect a reduction in government spending can have, especially on consumer confidence. Unfortunately, governments fail to see the same consequence of raising taxes and fees. As a result of the 2016 budget, which included an increase of the Harmonized Sales Tax to 15 per cent, small business owners note that fewer consumers have the disposable income to spend. They also state their customers are trying to make their disposable income go further, whether it is, for example, through online shopping or delaying purchases until they are necessary.

Many small business owners will not appreciate the lack of attention given to the province's fiscal situation. In 2016, the government was at risk of not making payroll, for which the solution was to increase taxes and fees by $1,200 per Newfoundlander and Labradorian. Small business owners can commiserate with the government's situation. Some are putting their payroll on credit card or line of credit. The difference however is small business owners simply cannot raise their prices to the extent needed to cover growing expenses. Therefore, they have had to make tough decisions, like laying off employees; reducing business hours; or unfortunately, closing their business. They lament that governments have placed them in these situations and are not prepared to make the necessary, but tough, decisions.

Small business owners feel they have done their part, but are now expressing their concern government is delaying what needs to be done. Unfortunately, it is difficult to look at the new fiscal plan and not see government action being pushed into the future. Our members are also expressing concern over government deficits and debt and with this Budget those anxieties will be further heightened. The one piece of information that is most startling is the cost of debt servicing, hitting $1.4 billion in 2018-19. This represents nearly 25 per cent of the revenues government will generate, or, put more directly, equal to the value of the personal income taxes to be collected by government.

As one thinks about the current situation, it is difficult to envision the federal government not being involved sooner rather than later. The Official Opposition continues to pressure the government to press the federal government for Equalization program reform. However, it is a federal program that requires support from all provinces and the federal government to change. Even if it does change, a recent report from the Parliamentary Budget Officer suggests Newfoundland and Labrador would benefit by over $500 million under the best scenario, which does not cover the government's current deficit. Moreover, it is unknown whether the provincial government will get additional funding through the Atlantic Accord as part of the upcoming legislated review.

Regardless, one cannot foresee an instance where the federal government will not act as a "lender of last resort" for Newfoundland and Labrador, similar to Saskatchewan in the early 1990s. The federal government has presumably done an analysis of Newfoundland and Labrador's fiscal situation and has determined how much funding it is prepared to provide when necessary. The question is what, if anything, the Government of Newfoundland and Labrador will have to give in return for that financial support.

An in-depth analysis of the 2018 Budget shows significant shortcomings in the provincial government's vision for its finances. As a result, CFIB is requesting, on behalf of 2,000 members, for the provincial government to develop and release a real plan recognizing and addressing the fiscal and economic realities confronting Newfoundlanders and Labradorians.

To conclude, the Government of Newfoundland and Labrador's finances are in a precarious state and the plan presented in Budget 2018 appears to delay action to the future and maybe even set the stage for financial help from the federal government. Small business owners are deeply concerned about the future and, unfortunately, they will find very little in the 2018 Budget signalling the government intends to take the decisive action needed.

I look forward to your response.

Sincerely,

Vaughn Hammond
Director of Provincial Affairs, Newfoundland and Labrador

Copy: Members of the House of Assembly