



**CANADIAN FEDERATION  
OF INDEPENDENT BUSINESS**

***In business for your business.***

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January 31, 2020

Sent by email

Minister of Finance  
c/o Pre-Budget 2020  
P.O. Box 8700, Main Floor  
East Block, Confederation Building  
St. John's, NL A1B 4J6

**Re: Provincial Budget 2020**

Dear Minister Osborne,

As part of the provincial government's consultation process for its 2020 Budget, the Canadian Federation of Independent Business (CFIB) would like to provide its input for consideration.

As you know, CFIB regularly surveys its membership to help shape its policy positions, with the flagship survey being the quarterly Mandate, which we regularly share with government. In July 2019 (Mandate 276), CFIB asked: "Should the Newfoundland and Labrador government give priority to deficit reduction over tax relief?" Based on 153 responses, 55 per cent stated yes, 31 per cent said no, 13 per cent were undecided, and one per cent had no interest.

As per the general direction provided in Mandate 276, the government's focus should be on balancing the provincial budget. We are pleased the Minister of Finance has stated there will be no tax increases in the next Budget, recognizing citizens and businesses in the province are unable to absorb additional burden. It stands to reason the government is therefore left to eliminate the deficit by concentrating on expenditures. Unfortunately, public discussion on provincial government spending is often conducted in negative tones. We contend, however, it is possible to reduce expenditures without adversely affecting public services and the economy. We therefore offer the following recommendations:

**Health care:** According to the 2018-19 Public Accounts, spending in the Department of Health and Community Services accounted for 38 per cent of overall government spending. According to the Canadian Institute for Health Information, Newfoundland and Labrador's per capita health spending is the highest in the country at \$8,190. If government is to make any progress on addressing its fiscal situation, health care must be part of the solution. The government should initiate an independent, comprehensive review of the health care system. In 2016, CFIB asked the government to consider finding efficiencies within the provincial health care system. At the time, Choosing Wisely NL had stated it would be possible to reduce health care spending by 20 per cent (approximately \$600 million) per year and improve health outcomes for Newfoundlanders and Labradorians.

**Public procurement:** Each year, the government spends approximately \$3.5 billion on goods and services, but much of that money leaves the province. A more transparent procurement system could result in additional government savings of tens of millions of dollars. Just as important, a fair,

competitive process of government procurement would provide growth opportunities for Newfoundland and Labrador businesses, which in turn could lead to more revenue for government.

**Oil equity:** Oil and gas companies make business decisions based on a number of factors over which government has very little influence. The government could re-consider its direct involvement in oil development. Generating revenues from oil developments through royalties should be the priority, not purchasing equity shares. In Budget 2019, government put aside \$112 million for the Bay de Nord development. Tying taxpayer dollars up to participate in oil development projects makes very little sense when the province has to deal with a large deficit. Further, there is an inherent conflict of interest as the government is put in the position of regulating an industry in which it is active.

**Tuition fees:** Enrollment at Memorial University has been fairly static (approximately 18,000 students) in the last decade. Low tuition may have played a role in maintaining those numbers. However, raising tuition fees should be considered. Even if tuition fees were increased by an average of \$2000 per student per year, NL would still have the third lowest tuition fees in the country and could generate \$36 million for the university, allowing the government to more sustainably reduce its contribution.

**Industry supports:** If the government eliminated the \$115 million it had earmarked for jobs and industry development in Budget 2019, would the economy be worse off? Likely not. Government is not well equipped to, nor should it be, choosing winners and losers.

**Government attrition:** The government has made substantial changes to the employee benefits it offers public servants. However, based on the Public Accounts, there is very little indication attrition is working. The government's pre-budget consultation document states the core public service has been **reduced** by close to 960 employees since 2016. Yet, salary expense has **grown** by \$51 million to \$2.731 billion between fiscal year 2016 and fiscal year 2019. Assuming the average government employee earns \$50,000 per year, a public service reduction of 960 should equate to an annual savings of \$48 million, all things being equal.

It is unlikely the current projected \$943 million deficit will be eliminated by 2022-23, but it will require some difficult discussion and work as challenges to maintaining future balanced budgets remain. Managing the province's debt is certainly one of them. In 2019-20, the government estimated debt servicing costs would increase by \$277 million compared to the previous fiscal year. According the Auditor General's 2019 report, the government expects to borrow up to \$4.8 billion between 2019-20 and 2022-23, which will carry further debt expense. Another challenge is the \$744 million needed in 2021 (and more beyond) to ensure electricity rates do not increase from current levels due to Muskrat Falls development. It is recognized efforts on Muskrat Falls rate mitigation continue, so it is difficult at this time to know what the fiscal effect will be.

CFIB looks forward to further engagement on how the government's budget can be balanced.

Sincerely,



Vaughn Hammond  
Director of Provincial Affairs, Newfoundland and Labrador