

Finance

April 14, 2016

Budget 2016

Restoring Fiscal Confidence and Accountability Through Budget 2016

Today, the Honourable Cathy Bennett, Minister of Finance, and President of Treasury Board outlined the Provincial Government's action plan towards achieving fiscal stability and accountability as part of Budget 2016. As a result of an unprecedented deficit, created by the previous administration's failure to plan, the \$8.48 billion budget identifies measures to increase revenue, measures to reduce spending and clear multi-year fiscal targets in order to return Newfoundland and Labrador to a surplus position.

"Newfoundland and Labrador is at a critical juncture. The problems we are facing are institutionalized and structural, exacerbated by a lack of planning by the former administration. Since 2004, the former administration doubled the public sector debt despite peak oil production in 2007, peak oil prices in 2008 and a high of \$2.8 billion in oil royalties coming into the province. They continued to spend at a rate that was 20 per cent to 36 per cent higher than other provinces and put no plans in place to deal with the fiscal reality we are now facing. Budget 2016 faces those realities head on and takes the first difficult, but necessary, steps to achieving our vision of long-term sustainability for our province."

- The Honourable Cathy Bennett, Minister of Finance and President of Treasury Board

The budget for 2015-16 forecasted a deficit of \$1.09 billion. The deficit for 2015-16, projected at mid-year to be \$1.96 billion, is now revised to \$2.2 billion. Due to the work of the current government, the 2016-17 deficit is now decreased to \$1.83 billion. If no action was taken, that deficit could have been worse, at \$2.7 billion.

"Today, in our government's first budget, we are laying out a fiscal plan that allows our province to regain control of government finances. It is a credible plan, with clear objectives, transparent goals, and targets to which we will hold ourselves accountable. Given the bold actions announced today, we are able to cut that deficit by one-third to \$1.8 billion. Our government is presenting the people of Newfoundland and Labrador and our investors with a credible plan forward. And by establishing clear targets for future years, our government is laying the blocks for building a solid foundation for the future. A foundation that will see us return to a surplus position in seven years."

- Minister Bennett

Budget 2016 includes revenue measures totaling \$647 million in 2016-17, annualizing to \$882 million; the Government Renewal Initiative and the line-by-line review have saved \$243 million in 2016-17, annualizing to \$251 million. Taking into account entities and accrual adjustments, the impact on the deficit is \$282 million in this fiscal year.

To ensure Newfoundland and Labrador is positioned to return to a surplus position in Budget 2022, the Provincial Government has implemented a series of fiscal targets as part of Budget 2016, including:

- Borrowing targets that over the seven year period will require \$8.2 billion in new debt, compared to \$17.6 billion if nothing had changed.
- The net debt as of March 31, 2023 will be targeted to be \$16.5 billion, compared to \$27.3 billion if we did not take definitive actions.
- Instead of a deficit of \$1.9 billion if no action was taken, the Provincial Government is targeting a small surplus in 2022-23.

Given the seriousness and scope of the current and forecasted fiscal situation, a new approach is required that moves beyond the traditional single year budget efforts. Budget 2016 contains decisive actions, and will be followed by more actions in a supplemental budget later this fall in conjunction with the Fall Fiscal update.

QUICK FACTS

- Through a total investment of \$8.48 billion, Budget 2016 identifies clear multi-year fiscal targets, measures to increase revenue and to reduce spending in order to return Newfoundland and Labrador to a surplus position.
- Tax measures and fee changes total \$647 million in 2016-17, annualizing to \$882 million.
- The Government Renewal Initiative and the line-by-line review have saved \$243 million in 2016-17, annualizing to \$251 million. Taking into account entities and accrual adjustments, the impact on the deficit is \$282 million in this fiscal year
- Budget 2016 allocates \$570.9 million for infrastructure projects.
- Decisive actions will be implemented through Budget 2016, followed by more actions in a supplemental budget later this year, and then longer-term actions in Budget 2017.

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Revenue Measures and Expenditure Reductions in Budget 2016

Revenue Measures

Budget 2016 includes a number of measures to increase revenue, including tax measures and fee changes, totaling \$647 million in 2016-17, annualizing to \$882 million.

To ensure the impact of the tax burden is reduced for the most vulnerable, Budget 2016 includes \$63.7 million annualized for the delivery of enhanced benefits to help reduce the impact of additional measures on low income seniors, individuals, families and persons with disabilities. The Newfoundland and Labrador Income Supplement will be paid to those eligible in quarterly installments. Eligibility will be based on family net income. The Provincial Government is also investing \$12.7 million to enhance the existing Seniors' Benefit. More information can be found at www.gov.nl.ca/budget2016.

Expenditure Reductions

As a result of the comprehensive line-by-line review, the Provincial Government has been able to realize savings totaling \$113 million. Savings are the result of reductions due to eliminating vacant positions, delayed recruitment, reduction in discretionary spending and reviewing operating and programming expenses in departments and bringing them in line with historical spending.

A full list of the decisions made through this phase of the Government Renewal Initiative can be found on the Government of Newfoundland and Labrador website. These decisions have resulted in \$130 million in savings in this year's budget, and will generate \$189 million in savings on an annualized basis.

Today's budget outlines the decisions resulting from both the line-by-line review and the Government Renewal Initiative.

Some of these decisions include:

- Facilitating the Newfoundland and Labrador English School Board to save \$1.2 million annually on office rental.
- Changing ferry schedules and increasing ferry fees for annualized savings of \$3.5 million. We continue to subsidize ferry operations at a rate of 91 per cent.
- Reducing the operational grant to the Research & Development Corporation by \$3.2 million.
- Reducing the regular operational grant to Memorial University by \$14 million.
- Reducing advertising budgets for a variety of departments and Crown corporations.
- Saving approximately \$1.3 million annually by restructuring the court system. This will be achieved in consultation with the judiciary.
- Reducing the grant portion and increasing the loan portion of Student Financial Assistance for Newfoundland and Labrador students, including medical students, for annual savings of \$5.5 million.
- Identifying cash management opportunities in various entities that will allow surplus cash to be used to lower our borrowing.

- Increasing class size caps for Grades 4 to 12 saving \$8.8 million annually.
- Removing coverage in the Newfoundland and Labrador Prescription Drug Program for over the counter drugs and introducing limits to diabetic test strip that are consistent with national guidelines for annualized savings of \$5.5 million.
- Increasing the dividend being paid to the Provincial Government from the Newfoundland Labrador Liquor Corporation by an additional \$3 million but cutting expenses in the corporation.
- Reorganizing units within some departments, and closing some government offices. All affected locations will be informed of these decisions by no later than tomorrow, after which time all office locations will be made public.

Responsible Decisions

Newfoundland and Labrador is facing an unprecedented financial challenge, however, the Provincial Government has a responsibility to continue to make targeted investments to improve social outcomes. That is why, through Budget 2016, \$4.4 billion is being invested in health, K-12 education and post-secondary education, including operations and infrastructure.

Budget 2016 also highlights the value of continued investment in infrastructure projects with the allocation of a total of \$570.9 million to help stimulate local economic activity.

Economy

The impacts of poor planning by the previous administration, combined with irresponsible spending that the province could not afford and unsustainable tax measures coupled with commodity price decreases, has impacted, and continues to negatively impact, the provincial economy.

While economic activity remained at high levels in 2015, many indicators recorded declines:

- Real GDP fell by 2.3 per cent as oil production fell by 20.5 per cent due to lower output from all three projects – Hibernia, Terra Nova and White Rose.
- Employment fell by 1 per cent and the unemployment rate increased by 0.9 percentage points to 12.8 per cent in 2015.