

Listening to People, Working Together

Pre-Budget Consultation Document



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C A N A D A

2004-2005

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Pre-Budget Consultation Document 2004-2005

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Listening to People, Working Together

The 2004-2005 Budget will be the first budget of the Government's new mandate and the first budget of a new four-year budget cycle.

Achieving balanced budgets over the next four-year cycle is a top priority and a key objective of our government.

The people of this province know that we need a prosperous economy to pay for the social programs we want.

New Brunswickers know we have to strike a balance through the fiscal choices we make that allows us to grow the economy and pay for our social priorities while living within our means.

This is an important time to consult with New Brunswickers.

The minister of finance will do an eight-community tour from February 2 to February 12, 2004. While in each community, he will meet key stakeholders and community groups. He will also host public forums to outline challenges, and solicit ideas and recommendations from New Brunswickers.

During this time, all other ministers will meet stakeholders to solicit their input and counsel on how to improve and reposition current program service delivery.

This discussion paper will assist New Brunswickers in evaluating the challenges and the choices before us. Your suggestions and input will be taken into consideration as we build our 2004-2005 Budget, which will be tabled March 30, 2004.

Guiding Elements of Fiscal Policy in New Brunswick: Living Within Our Means

Achieving balanced budgets over the next four-year cycle is a top priority and a key objective of our government.

We need to make necessary investments in areas such as innovation and infrastructure to grow our economy, while we continue to invest in the priorities that matter most to New Brunswickers such as health care and education.

We are determined to maintain fiscal discipline and make the necessary choices to meet these objectives.

The 2003-2004 fiscal year will mark the end of the current four-year balanced budget period. Barring unforeseen circumstances, we will succeed in fulfilling the mandate contained in the legislation.

As we enter a new four-year cycle, new challenges have emerged.

In December, the minister of finance provided New Brunswickers with an economic and fiscal update. At that time, he indicated that, as we plan for the future, we are facing some significant challenges.

In particular, both here in New Brunswick and across Canada, spending on health care continues to increase dramatically.

Other challenges include a heavy collective bargaining calendar this year, lower federal transfer payments due to census-related adjustments, the lack of sustainable health care funding from the federal government, and an equalization formula that is insufficient.

New Brunswick is not alone in facing these challenges.

Because of prudent fiscal management, the clear investment choices we made in our first mandate and measures such as the Fiscal Stabilization Fund, New Brunswick is one of only five provinces projecting a balanced budget for 2003-2004.

Repeating that accomplishment in 2004-2005 is going to be a challenge.

That is why we want to hear from New Brunswickers.

2000-2001 to 2003-2004: Significant Progress

Since 1999, we have worked hard with New Brunswickers to live within our means and remain focused on priorities.

The plan has worked and New Brunswick has much to be proud of.

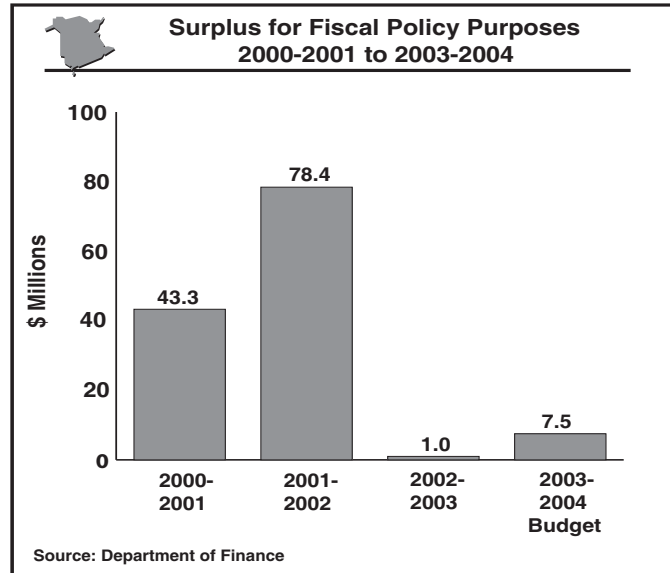
Our decisions have provided clear results. Instead of the massive deficits projected in 1999 by the Grant Thornton report, we have achieved:

- Record investments in health care
- Record investments in education
- Lower income taxes for people and businesses
- More jobs
- Balanced budgets

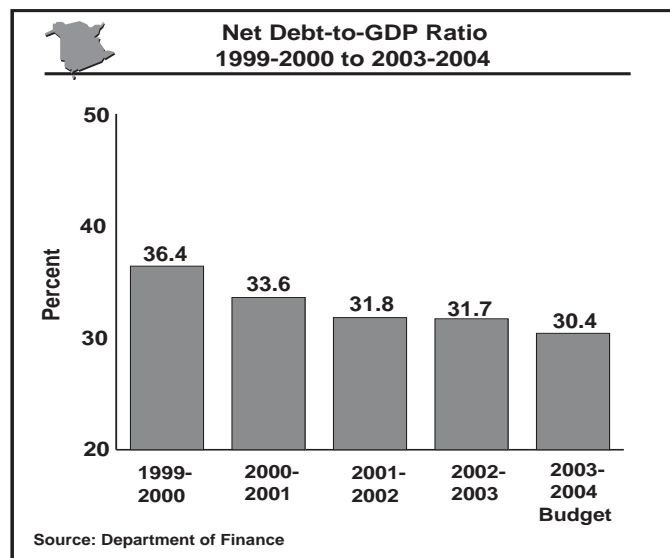
Our work – and those improvements – must continue.

Based on audited financial statements of the Province, the Government has achieved three consecutive surpluses for fiscal policy purposes over the 2000-2001 to 2002-2003 period, totalling \$43.3 million, \$78.4 million and \$1.0 million respectively.

The 2003-2004 New Brunswick Budget projected a fourth consecutive surplus for fiscal policy purposes of \$7.5 million.



Over the same period, net debt has been reduced considerably, and the Province's net debt-to-GDP ratio – a key indicator of a government's fiscal health – has been reduced.



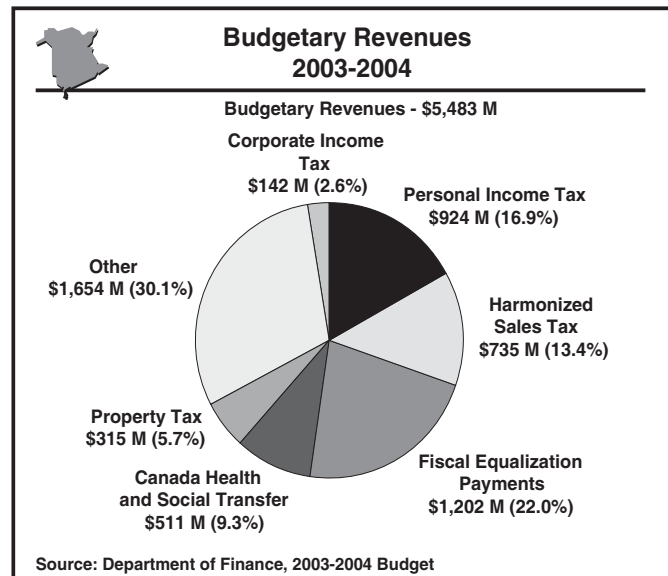
In addition to those accomplishments, approximately 20,000 more New Brunswickers are working than in June 1999. Over the same period, the number of social assistance recipients in New Brunswick has fallen by approximately 14,000, or 23%.

Revenue / Spending Profile

The major sources of revenues, and where the money is spent, are important considerations in understanding the fiscal challenge the Province is facing.

Where the money comes from

Personal Income Tax and Harmonized Sales Tax are the Province's largest own-source revenues, comprising 16.9% and 13.4% of budgetary revenues respectively. Other major own-source revenues include provincial Property Tax, Corporate Income Tax, Gasoline and Motive Fuel Tax and Tobacco Tax.



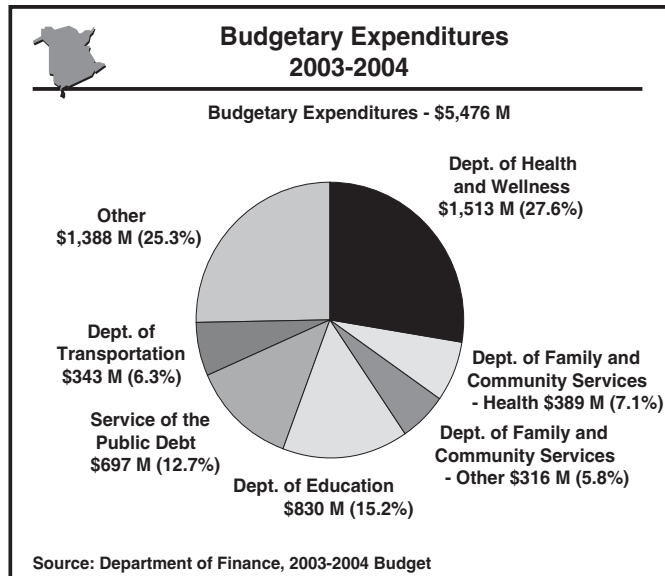
Federal transfer payments represent 35.8% of budgetary revenues. Equalization is the Province's largest revenue source representing 22.0% of budgetary revenues, while the Canada Health and Social Transfer comprises 9.3%.

The federal share of budgetary revenues has trended downwards over the past two decades, with the Province becoming more reliant on its own-source revenues to fund public services. In 2003-2004, the Province will receive 35.8% of its revenues from federal transfer payments, down from 45.3% in 1982-1983.

Where the money goes

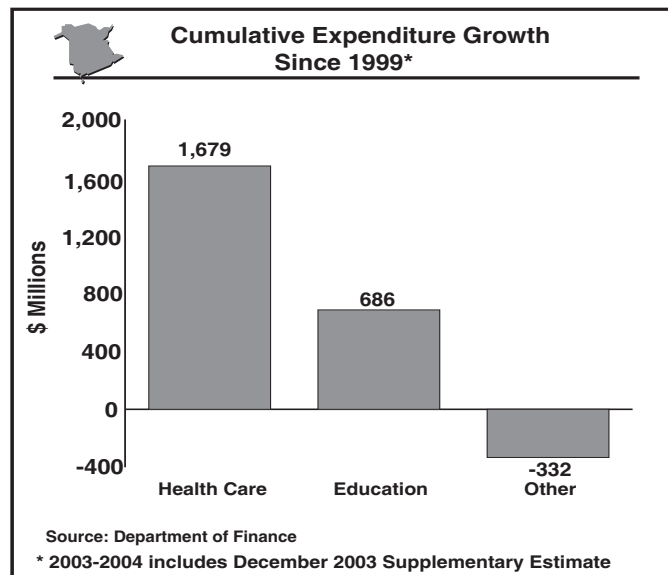
Among departments, Health and Wellness represents 27.6% of budgetary expenditures, followed by Education at 15.2%, Family and Community Services at 12.9%, and Transportation at 6.3%.

When the investments for health and senior care for the departments of Health and Wellness and Family and Community Services are combined, it totals 34.7% of budgetary expenditures. This has grown from a level of 28.7% 10 years ago. This makes the cost of delivering health and senior care the largest expenditure for the Province. Health and senior care costs are growing by 7% on average since 1999-2000, approximately twice the rate of growth of our revenues.



Education and training comprises 20.5% of provincial expenditures. This includes spending on primary and secondary education, post-secondary education and the community college network.

Another major expenditure category is debt service costs, which comprise 12.7% of budgetary expenditures. Debt service costs reflect payments by government to service its public debt. This is similar to interest payments on a credit card balance. The higher these costs, the less money available for government to invest in essential programs and services.



The Government will continue its balanced approach of investing strategically on public priorities while tightly managing the growth of other expenditures. We remain committed to increased funding for health and senior care and education. Since 1999,

cumulative new funding for health and senior care totals approximately \$1.7 billion, and \$0.7 billion for education. Over the same period, other government expenditures have decreased by more than \$0.3 billion.

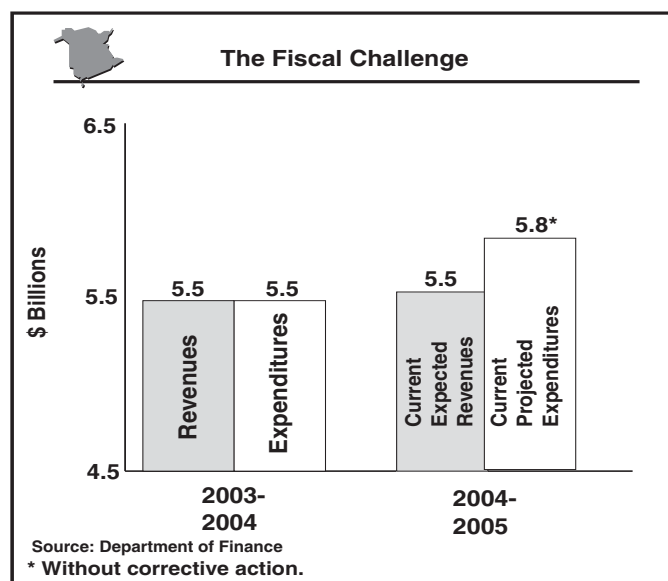
The Fiscal Challenge

In December 2003, the minister of finance provided an economic and fiscal update. At that time, he indicated that, as we plan for the future, we are facing some significant challenges. In particular, both here in New Brunswick and across Canada, spending on health care continues to increase dramatically. Since 1999-2000, health and senior care spending in New Brunswick has grown at approximately twice the rate of our revenues.

Other challenges include a heavy collective bargaining calendar this year, lower federal transfer payments due to census-related adjustments, the lack of sustainable health care funding from the federal government, and an equalization formula that is insufficient.

This situation is not unique to New Brunswick – most provinces are facing a fiscal challenge. In December, for example, Ontario noted that it is anticipating a \$5.6 billion deficit for 2003-2004 and will undertake changes to bring its books back into balance. The premier of Newfoundland and Labrador recently stated that unless they adjust their course, they are facing deficits of \$1 billion or greater for each of the next four years.

To put the fiscal challenge in perspective, the 2003-2004 Budget projected revenues of \$5.483 billion, which offset spending of \$5.476 billion, resulting in a small surplus for fiscal policy purposes. In 2004-2005, government revenues are anticipated to be in the magnitude of \$5.5 billion, whereas expenditure demands are currently projected to be in the order of \$5.8 billion.



The fiscal challenge in New Brunswick would be considerably worse had the Government not undertaken structural changes over the course of its first mandate to bring revenues and expenditures into balance. An independent audit of the Province's books led Grant Thornton to project large and growing deficits annually for New Brunswick. In fact, had corrective action not been taken, the Grant Thornton report pointed to a cumulative increase in net debt of \$1.2 billion over the current four-year balanced budget period ending in 2003-2004.

By taking action and managing carefully, the Government expects to balance the budget – and achieve a small cumulative surplus – over the current four-year balanced budget cycle, with an overall reduction in the Province's net debt.

The challenge facing the Government – leading to the 2004-2005 Budget – is to continue to bring expenditure demands in line with revenues, in order to balance the budget. At the same time, funding must be found to support the priorities of New Brunswickers, such as health care and education, and to support *Prosperity Plan* initiatives. We will do this by living within our means, ensuring efficiencies and savings in government operations, and finding new, innovative ways of service delivery.

Options to Address the Fiscal Challenge

The Province has limited options at its disposal to address the fiscal challenge. In general, these include reducing expenditures and increasing provincial revenues.

By doing so, the Province would directly address the imbalance between anticipated revenues and expenditure demands.

Relying on the federal government and increased borrowing are not viable options for addressing the fiscal challenge.

The Province continues to seek improvements to the federal Equalization Program and the Canada Health and Social Transfer. However, relying on the federal government to solve our challenge is not a solution. While the provincial government can control its expenditures and its tax policy, it cannot control federal policy changes that can undermine the Province's finances.

Increased borrowing is not a viable option either, as it does not address the imbalance between revenues and expenditures. Increased interest costs related to additional borrowing would leave less money available for public programs and services, and would pass the bill on to future generations.

Reduce expenditures

Reducing the overall level of expenditures would bring spending more in line with revenues, while minimizing the impact on provincial revenues (e.g., taxes, fees).

Under this option, some government services could be:

- Eliminated
- Reduced
- Enhanced
- Outsourced to the private sector or delivered in a different manner

Government has established a cabinet committee, the Resource Maximization Committee, which has a mandate to evaluate approximately 600 government programs and services to determine if they meet government objectives and provide the greatest value for taxpayers. Programs and services are being reviewed from the perspective of ensuring efficiencies and savings in government operations, eliminating overlap and duplication and finding new, innovative ways of delivering services.

Ensuring adequate funding for public priorities – such as health care and education – as well as to support the Government’s *Prosperity Plan*, will result in less funding available for other programs and services. These decisions are difficult but necessary.

This is why the Government is asking New Brunswickers to identify their priorities and offer possible solutions to the fiscal challenge.

Increase provincial revenues

Under this option, the Province could:

- Raise taxes (e.g., Tobacco Tax)
- Increase fees (e.g., fishing and hunting licences)
- Reduce/eliminate tax expenditures (e.g., film tax credit)

This would serve to bring revenues more in line with expenditures while minimizing the impact on public services.

The downside is that it could result in an increase in the overall tax burden on New Brunswickers, which could have negative implications on the Province’s overall competitiveness.

The Government has already committed to further income tax reductions in this mandate. It remains committed to the *Taxpayer Protection Act*. Increases to income taxes, the Harmonized Sales Tax and Gasoline and Motive Fuel Tax are not being considered.

The Government considers fee increases and the reduction of certain tax credits and rebates as potential alternatives for increasing provincial revenues.

Consequences of Not Addressing the Fiscal Challenge

There are a number of consequences if the fiscal challenge is not addressed:

- Large and growing deficits
- Large increases in debt which would increase the financial burden on future generations
- An increase in interest costs related to additional borrowing requirements, which reduces the amount of money available for program spending
- A downgrade in the Province's credit rating, which would result in higher costs of borrowing to the Province
- Reduced confidence in New Brunswick among the financial community
- An erosion of the Province's competitiveness and economy
- The Government would not meet provisions of the balanced budget legislation, key *Prosperity Plan* targets, or platform commitments

What would this mean? A growing debt, combined with higher costs of borrowing, would lead to higher interest costs. This would result in less money available for key programs and services such as health care, schools and highways. Ultimately, revenues would need to be raised to ensure the provision of services and to meet the increasing interest costs. At the end of the day, New Brunswickers would face reduced services, increased provincial revenues and a higher debt that will burden future generations.

By continuing to make difficult choices, maintaining fiscal discipline and addressing the fiscal challenge now, the future will be much brighter for New Brunswickers.

Once again, the clear result will be better health care, quality education, more jobs, reduced income taxes and balanced budgets.

Listening to People, Working Together

The people of the province know that we need a prosperous economy to pay for the social programs we want.

New Brunswickers know we have to strike a balance through the fiscal choices we make that allows us to grow the economy and pay for our social priorities while living within our means.

This is an important time to consult with New Brunswickers.

We will listen to them and receive their input on measures we are considering, and welcome other solutions they will propose.

For those wishing to participate directly in the pre-budget consultation process, comments may be sent via e-mail to wwwfin@gnb.ca, by fax to 506-457-4989, or write to:

Pre-Budget Submissions
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