METROPOLITAN HALIFAX
CHAMBER OF COMMERCE

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Submission to

The Honourable Don Downe,

Minister of Finance,
Province of Nova Scotia

on

1999 Pre-Budget Brief

February 11, 1999

Mr. Murray Coolican, Senior Vice President, MHCC
Ms. Lois Dyer-Mann, VP Policy, MHCC
Mr. Peter Doig, Chair, MHCC Government Affairs Committee
Mr. Terry Norman, Chair, MHCC Provincial Finance Subcommittee
Mr. Ken MacLeod, MHCC Provincial Finance Subcommittee
Ms. Valerie Payn, General Manager, MHCC

Introduction

Once again, Mr. Minister, it is our pleasure to present to you the views of a consensus of the members of the Metropolitan Halifax Chamber of Commerce as part of our ongoing consultation and dialogue which we hope will be of assistance to your department as you prepare your annual budget document.

First, we would like to take this opportunity to compliment you and your hard working team at the Department of Finance on the assistance that you have provided to the Metropolitan Halifax Chamber of Commerce during the past year. We note with pride the significant increase in economic activity in our region that has been fueled by substantial growth in such industries as tourism, information technology and Sable gas. Our members are more confident today about future prospects than they have been in more than a decade.

In particular we would like to thank you for your hard work in supporting the Maersk-Sealand bid by the Port of Halifax. We would also like to acknowledge the all-party support and the united front presented by labour, business and government to encourage building the infrastructure to handle post-Panamax container ships.

We also note with pride the culmination of several years of hard negotiations to transfer the management of Halifax International Airport to local control on terms that are fair to Nova Scotians. This would not have been possible without strong support from our provincial and municipal governments.

While there have been significant accomplishments, there are still a number of challenges that must be addressed if Nova Scotia is going to achieve its full potential. This year we have identified the following four issues that we believe deserve special attention:

1. Multi-Year Financial Planning;
2. Establish Priorities;
3. Debt Reduction and
4. Foreign Denominated Debt.

1. Multi-Year Financial Planning

We believe that the Government of Nova Scotia needs to develop a long term plan that sets out key objectives for the next five years. Furthermore, these objectives need to be realistic in light of our budgetary constraints at the present time. We need to adopt a "pay as you go" policy.

These targets would aid in decision making since new funding requests could be evaluated in terms of their impact on the total debt. If the Provincial Government develops a multi-year financial plan, then it will be much easier to evaluate numerous competing projects with respect to their impact on the total debt. The plan would involve all commitments by the Government, including long term funding commitments based upon future events such as job creation by a particular company or long term lease commitments for new schools.

Under this plan, all future commitments would be deducted from the current year budget in present value terms. Thus the Government would be required to set the money aside to meet its future commitments. This would avoid future "hits" to the budget as commitments would already be funded by related "mini sinking funds". On the other hand, if a potential recipient of government grants or loan forgiveness did not meet its job creation targets, then the government could end up with extra funds in its budget in the future.

With respect to P3 schools, the present value of the future lease payments should be taken into account in the year that the lease is signed. Using this method, the decision to lease or borrow would be based upon the merits of each financing option rather than trying to move the capital investment off the balance sheet through long term operating leases. The bond rating agencies will likely capitalize these leases anyway and our treatment of these leases should be consistent with how they are perceived by the financial community.

We recognize that the reduction in transfers from the Federal Government over the past several years have had a detrimental impact on the Provincial Government's ability to fund important programs such as health care. But management of health care is a complex problem that requires a long term approach rather than a quick fix by throwing money into the pot. For example, recent expansion of Home Care by the Nova Scotia Department of Health appears to be producing positive results both from a financial and from a patient satisfaction viewpoint. We should encourage the managers of our health care system to adopt more of these "best practices".

Your Government has stated that it will run a deficit rather than reduce spending on health care. This is not a viable long term strategy and it is not prudent management of our fiscal resources. We need to allocate our scarce resources without running a deficit. This requires careful monitoring of all budgets on a year-to-date basis to ensure that overruns are detected early and that they are offset by cuts elsewhere in the budget.

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We recognize that multi-year financial planning is difficult for governments that are elected on a four year cycle or less. However, this is an issue that should draw support from all parties because it is fundamental to the growth of our province.

2. Establish Priorities

We believe that the Province could improve its methods of measuring performance and outcomes from our public spending. Special attention should be devoted to ensuring that the "Outcome Measures" that were contained in the 1996 Finance Department publication entitled "Government by Design" are not overlooked. We need to compare our public sector performance against benchmarks for best practices and then strive to provide the best value for the money.

This process starts with setting priorities for the Province. Available funds should be allocated first to those projects that are considered priorities for the Province. Priorities can be based on those areas where there is the most promise for the future. For example, economic activity is growing in a number of industries in Nova Scotia. The Province does not have the financial resources to support all industries; accordingly, it should ration its scarce capital and apply it to infrastructure development that will encourage private sector investment in the most promising industries.

When it comes to spending for economic growth, new initiatives should be evaluated as investments in our future. Projects should be ranked in order of return on investment for the Province relative to the priorities that have been established. This means that appropriate and realistic financial calculations would be required to support any funding requests related to economic initiatives. Only the projects with the highest return on investment should receive funding and other projects should be deferred or canceled. Since there are limited funds available, when new opportunities arise during the course of a year, they should only be considered if another project can be canceled or deferred to make way for the new project.

The Chamber is well aware that the solutions to this problem are complex. There are tough decisions to be made but the Government has to ration its scarce capital resources. Since we have limited resources, it will not be possible to fund all proposed projects. However, by establishing priorities in advance, the process for decision making will be greatly facilitated.

3. Debt Reduction

In the years ended March 31, 1997 and 1998, the Provincial Government demonstrated that the growth in its total debt had subsided and Nova Scotians could anticipate starting to repay our debt, albeit slowly. Last spring, when a balanced budget was released for the current year, the Chamber was optimistic that the Government was on the right track. As the year progressed, we were very disappointed to learn that once again the Province had slipped into a deficit.

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While the annual statements of revenues and expenses provide an interim scorecard to evaluate the Provincial Government, the real measure of success for a government should be the level of its total debt. A high level of debt makes the Province susceptible to adverse changes in the financial markets which can negatively affect borrowing rates, thereby making it even more difficult to meet our debt reduction objectives.

As a first step, the Government should establish realistic debt reduction targets. To establish these targets, the Province should consider the measures used by the bond rating agencies to review the Province's debt rating. By using similar processes for evaluating the impact of new spending, the Province could assess how decisions will impact their debt rating.

As you are no doubt aware, the Chamber has been supportive of the government's efforts to address the heavy debt burden facing the Province. Once the level of debt decreases, our debt service costs will decrease and the Government will have more money available for other initiatives.

Although the most recent forecast from the Department of Finance indicates that net program spending by the Province this year is less than 1% over budget, it represents an increase of 4% over the net program spending in fiscal 1996-97. Given our debt servicing costs, the Chamber doesn't believe that the Province is in a position whereby program spending can be increased at all.

Furthermore, we understand that approximately $250 million in debt has been accumulated over the past several years as a result of operating deficits at hospitals across the province. These hospital deficits should not be funded by debt of the hospital boards. We recommend the Province fund these deficits over a two year period to coincide with increased transfers that are expected from the Federal Government for health care in the next several years.

The Chamber encourages the Government to develop a long term strategy to reduce the overall level of debt.

4. Foreign Denominated Debt

In the Finance Department's White Paper entitled "Shaping the Future" which was released on February 7, 1996 at a luncheon hosted by the Metropolitan Halifax Chamber of Commerce, an objective was established to reduce our foreign debt component to 20% of the total provincial debt. In 1997 and 1998 we expressed our disappointment with the lack of progress toward converting our foreign denominated debt into Canadian dollars. While we acknowledge that all new provincial debt issues in the past several years have been in Canadian dollars, the underlying problem still exists.

We currently have about 50% of our total debt in foreign currencies (mostly the U.S. dollar). A large portion of this debt is long term in nature so that it cannot be converted directly into Canadian dollars, but there are alternative methods to offset the exposure to fluctuations in foreign exchange such as swaps and futures contracts. For each $100 million in U.S. dollar debt that we have issued, we run the risk of increasing the amount of that debt by $1 million for every 1% drop in the Canadian dollar relative to the U.S. dollar.

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The Halifax-Dartmouth Bridge Commission is an excellent example of the impact that foreign denominated debt can have on Nova Scotians. For years the total debt of the Bridge Commission kept increasing because it was denominated in foreign currencies that rose relative to the Canadian dollar. The loss on foreign exchange exceeded the Bridge Commission's annual cash flows so the debt kept increasing. Finally, in the mid-1990s the Bridge Commission bit the bullet and converted its total debt into Canadian dollars. Now its annual cash flows easily cover the interest on its debt as well as significant principal payments. The management of the Bridge Commission is now in a position where they can undertake new projects such as expansion of the MacDonald Bridge.

We urge the Department of Finance to undertake a concerted effort to reduce the province's foreign denominated debt by an average of 1% per month for the next 30 months. This will require budgeting for the costs of conversion. However, by spreading the conversion over a 30 month period, dollar cost averaging will help to offset potential swings in the exchange rate for the Canadian dollar during this time period. If this program is implemented, the foreign debt component of our total debt could be reduced to 20% by July, 2001. This would give Nova Scotians greater control over our financial affairs and, in the future, fluctuations in the Canadian dollar would have far less detrimental impact on our ability to fund government programs.

Conclusion

The Metropolitan Halifax Chamber of Commerce appreciates the opportunity once again to present our views and share our concerns with you today. Once again, we thank you and the entire Department of Finance for your support on a number of issues that are important to our members. We look forward to continue working with you and your department to improve the fiscal affairs of the province. We believe that by working together we can develop new economic opportunities for all of our members and a better standard of living for all Nova Scotians. As always, you may call on us at any time, day or evening, to provide the "voice of business" regarding issues and initiatives in your department.