

Structural Changes Needed to Fix Provincial Fiscal Woes

November 29, 1999

The province's finances are out of control. The Metropolitan Halifax Chamber of Commerce called on the Hamm government to deal with the province's financial resources as its top priority in a written submission made last week to the Nova Scotia Fiscal Management Task Force, the independent body established to provide Nova Scotians with a voice in the province's fiscal review.

If Nova Scotia does not take steps to put its fiscal house in order, it will lose its ability to deliver important programs and services such as health care and education.

This makes it imperative for the government to take all necessary steps to eliminate the operating deficit, ensure sustainable balanced budgets, and take real steps to reduce the debt.

The Chamber's submission set out five basic principles for the program review and made recommendations designed to achieve the objectives. The core principles are:

- Government must urgently eliminate its operating deficit and commit itself to *sustainable* balanced budgets.
- Government must establish a framework for the future that sets a clear vision and direction for a fiscally responsible province.
- Government must restore public confidence in the province's accounting policies and financial reporting.

- Government must select its priorities and provide only those services that can be funded over the long term.

- Government must promote and foster a culture of self-sufficiency.

The Chamber noted that the solution to our problem requires structural changes rather than quick fixes, and this is reflected by the principles the Chamber has put forth. Real long-term change can only come from a shift in the fundamental basis upon which the Province delivers its programs and services.

The Chamber's submission pushed for the establishment of review criteria and benchmarks, and frank and regular communication on the likely impact the resulting changes will have on Nova Scotians. The submission concluded with the suggestion that a deficit clock be installed at Province House to publicly report this progress.

The Chamber thanks Ron Smith for leading the ad hoc group that coordinated the Chamber's position and policy recommendations.

Editor's note: the Chamber's full submission to the Financial Management Task Force is available at www.halifaxchamber.com (click on the policy section) or by contacting the Chamber office at 468-7111 to request a faxed copy.



**METROPOLITAN HALIFAX
CHAMBER OF COMMERCE**

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LESS BUT BETTER GOVERNMENT

A Report of the Metropolitan Halifax Chamber of Commerce to
the Nova Scotia Fiscal Management Task Force

November 22, 1999

Introduction

In response to the request for input to the Fiscal Management Task Force, we welcome the opportunity to provide the perspective of our members on the priorities for government.

The Metropolitan Halifax Chamber of Commerce is a voluntary, not-for-profit organization that benefits Metro Halifax and the Atlantic region by providing vital leadership to build a stronger community. The Chamber is a lobby and advocacy group acting on behalf of more than 1,750 corporate and 2,500 individual members; our chief communications vehicle is *Business Voice* magazine.

The 1,750 corporate members of the Chamber employ over 50,000 people, representing more than one quarter of Metro Halifax's labour force of 194,000. As the voice of business, the Chamber works on behalf of small businesses and large corporations alike. Seventy-eight per cent of Chamber members are organizations with 25 or fewer employees. The Metropolitan Halifax Chamber of Commerce has the largest membership of any chamber in the Atlantic Provinces and is the largest in Canada among mid-sized cities. It is also the oldest Chamber in North America -- celebrating 250 years in the year 2000 -- and was the first certified to the ISO 9002 international standard of quality.

The province's finances are out of control. If we do not take steps to put our house in order, we will lose our ability to control the delivery of programs and services. It is imperative for the government of Nova Scotia to take all steps necessary to: 1) eliminate the operating deficit; 2) ensure sustainable balanced budgets; and 3) take real steps to reduce the debt.

The solution to our problem requires structural changes rather than quick fixes. Real long term change can only come from a shift in the fundamental basis upon which the province delivers its programs and services.

Our submission is in two parts. The first part addresses the program and service review process itself, and sets out some suggested parameters of review which will, in our view, assist the Task Force and ultimately guide the full review. The second sets out five basic principles or objectives of the program review and some recommendations designed to achieve the objectives.

Program Review

Strong and consistent leadership throughout the process must come from the Premier, Cabinet and the entire government caucus. It is only through clear, decisive and persistent leadership that attitudes will change and broad acceptance on the part of the public and the public service will be achieved.

The objectives of the program review must be clearly articulated and communicated to the public at large. Communication should be frank, continual and consistent, and should focus not only on the process but on the likely impact that resulting changes will have on our citizens. There will be changes that will affect some people negatively, but over the long term the impact of this review for our province should prove positive for everyone.

The review criteria and benchmarks must be clearly set out and broadly communicated such that all interested persons can understand each resulting decision and the underlying rationale.

Public confidence in the process is vital – this can best be achieved through a clear and transparent process.

Core Management Principles

The province operates with finite resources. The management of those resources must be the number one priority of government. If we fail to effectively control the management of those resources, we will lose our ability to deliver important programs and services such as health care and education.

For the purposes of assisting the Task Force, we recommend the following principles which we believe should be the foundation of sound fiscal management of the province's limited resources:

1. Government must urgently eliminate its operating deficit and commit itself to *sustainable* balanced budgets.
2. Government must establish a framework for the future that sets a clear vision and direction for a fiscally responsible province.
3. Government must restore public confidence in the province's accounting policies and financial reporting.
4. Government must select its priorities and provide only those services that can be funded over the long term.
5. Government must promote and foster a culture of self-sufficiency.

Defining the Principles

1. **Government must urgently eliminate its operating deficit and commit itself to *sustainable* balanced budgets.**
 - ▶ We support the government's stated intention of achieving a balanced budget within three years. In our view, this can only be achieved by establishing and communicating clear priorities focusing on the delivery of core services. Government simply spends too much money on too many programs for too many people, and raising taxes is not an alternative.
 - ▶ Health care is the number one area of program spending in our province and clearly represents a core service to be provided by government. A sustainable balanced budget cannot be achieved without reducing health care spending through better management of existing resources. To the extent possible, this should be done without compromising the health of Nova Scotians. However, our focus should be on maintaining overall health, not in maintaining the number of hospital beds nor the number of service providers.
 - ▶ Overall capital expenditures ought to be frozen until such time as priorities are established. Once that is done, spending decisions can be made in priority order to the extent that funds are available.
 - ▶ Foreign denominated debt, which presently comprises almost 50% of our total outstanding debt, is the source of unwarranted risk. During the previous and current fiscal years alone, foreign currency risk has cost Nova Scotia \$198 million. These foreign exchange losses represent money that will not go to finance programs or reduce taxation. These losses simply represent Canadian funds which are required to pay to foreign lenders based on changes in foreign currency rates. Until such time as we take control of the situation and eliminate this unnecessary risk, our financial situation will continue to be volatile and subject to events outside of our control. We recommend that the government implement and communicate a defined, measurable program to systematically reduce our foreign denominated debt exposure to 20% within the next three years.

- ▶ Procurement policies must emphasize the best value for each dollar spent. Value should take into account quality as well as cost.
- ▶ The government should immediately introduce effective balanced budget legislation that would require a balanced budget by no later than the third year of its current mandate. For future years, a balanced budget would be mandatory.

2. Government must establish a framework for the future that sets a clear vision and direction for a fiscally responsible province.

- ▶ The Province should establish a long term strategic plan (10 years), with clear goals, objectives and outcome measures related not only to the health of the economy but also the well being of its citizens. For example, Nova Scotia might aspire to have the lowest debt to GDP ratio in Canada, the lowest tax rates in Canada and the highest educational standards. We must compare ourselves to, and then seek to out-perform, the best provinces in Canada. The plan should set out interim benchmarks in clear measurable terms.
- ▶ The Premier must champion this process constantly and consistently and must provide the necessary leadership to senior politicians and the public service to ensure that the interim and long term objectives are met and exceeded.
- ▶ The interim and long term goals should be linked to the people responsible for achieving them – with appropriate rewards for success and disincentives for failure.
- ▶ Communication of the strategy must be transparent and regular because Nova Scotians need to know and understand our path to self sufficiency.

3. Government must restore public confidence in the province's accounting policies and financial reporting.

- ▶ The recent adoption by the government of generally accepted accounting principles is a crucial first step in restoring public confidence that the true state of the province's finance's are known. There must be clear and continual communication of our province's fiscal performance in order to maintain public confidence.
- ▶ The delivery of budgets and quarterly financial reports which are accurate, timely, easy to understand, clearly communicated and widely disseminated is imperative in a government which values transparency and openness. Annual budgets should be delivered no later than the end of January for the upcoming fiscal year to ensure greater predicability and transparency in the process.
- ▶ There needs to be clear ministerial and senior management accountability for measurable departmental and agency results based on defined financial and operating parameters. It is incumbent upon the Ministers and Deputy Ministers to lead by example, take responsibility for the achievement of specific objectives and report regularly on their progress.
- ▶ Public sector compensation ought to be explicitly tied to merit and performance - good performance, within financial and operating parameters, and based on the effective use of the province's scarce resources, ought to be rewarded.

4. **Government must select its priorities and provide only those services that can be funded over the long term.**

- ▶ Government ought to be in the business of providing only those services which would not otherwise be provided by the private sector, or are of sufficient overriding public interest that they can only be provided by the public sector. This distinction between core and non-core activities must lie at the heart of the government's analysis of its activities – the analysis should be continual.
- ▶ Non-core activities should be abandoned in favour of the private sector. Assets which are not a part of the strategy to deliver core services should be disposed of, including crown corporations such as Nova Scotia Resources Limited, Sysco, and Nova Scotia Business Development Corporation. Emphasis should be placed on developing appropriate exit strategies and the need to manage the transition process.
- ▶ The government should look at areas where services can be delivered based on need rather than entitlement. This will not be possible nor desirable in every case, for example, our society has determined that all citizens are entitled to health care.
- ▶ A clearly articulated economic development strategy must be a priority for the government. This strategy should be developed in close consultation with, and deliver responsibility for implementation, to the private sector. Job creation should be the responsibility of the private sector.
- ▶ The role of government is to provide a competitive and predictable business environment to foster economic expansion and job creation and provide the necessary tangible (roads, port, rail) and intangible (tax regime, regulation) infrastructure to achieve those objectives.
- ▶ As new industries require training, government should be prepared to foster training which has general benefits for the economy and industry sectors.
- ▶ Departmental structures should be consolidated where commonality of interest exists.
- ▶ The government should actively seek opportunities with the other Atlantic provinces for efficiencies and cost savings in the service delivery process. Anything that can be done once in the Atlantic or maritime provinces versus several times will invariably cost less and should be pursued aggressively. Needless duplication is a luxury of the distant past and must be eliminated.

5. **Government must promote and foster a culture of self-sufficiency.**

- ▶ The government should eliminate all direct business subsidies. This means no more operating subsidies, loans or loan guarantees from the province, regardless of the recipient, industry sector or geographic location.
- ▶ Tax incentives should focus on new initiatives and young companies and have clear objectives and measurable results. The overriding objective of tax incentives should be to increase long term revenues by building a new industry sector and not target specific companies.

Conclusion

It is clear that government must redefine itself and refocus its limited resources. It is critical for the upcoming Program Review to have publicly stated objectives, benchmarks and interim progress reports. Nova Scotians must understand why our situation is critical and what the plan is to bring it under control. They must have a good understanding of what is to be gained from success and what the real implications of failure can be. Nova Scotians need to hear real life descriptions of what success looks like and what failure can look like if this strategy fails.

There is a need for regular, public accountability for results from this process. The public needs regular, readily accessible reports on progress towards the goals and benchmarks that have been set (a "deficit meter" at Province House would be one very public way to report this progress). The public must have confidence that the senior managers of government, both elected and non-elected, are committed to and will be held accountable for achieving the goals which are set.

The Metropolitan Halifax Chamber of Commerce thanks you for your consideration of the above report and would be pleased to meet with you at your convenience to discuss any and all of these points. If you have any questions or require further information, please contact Nancy Conrad, Policy Manager, at 468-7111.