METROPOLITAN HALIFAX
CHAMBER *OF* COMMERCE

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Submission to:

The Honourable Neil J. LeBlanc

Minister of Finance

Province of Nova Scotia

Pre-Budget Brief

February 13, 2003

Metropolitan Halifax Chamber of Commerce
Provincial Pre-Budget Submission

Introduction

Mr. Minister, please accept this document as the annual submission of the Metropolitan Halifax Chamber of Commerce (the "**Chamber**") for consideration by you prior to the release of Nova Scotia's provincial budget for 2003-04.

The Chamber was encouraged by your announcement in late December 2002, that Nova Scotia is forecasting a surplus of $8.3 Million for the 2002-03 year, which is an increase over the surplus projected in the 2002-03 budget. The Chamber continues to support the provincial government in its efforts to put its fiscal house in order and applauds this as a step in the right direction. However, we still strongly believe there is much work to be done before Nova Scotia achieves true fiscal stability. We will outline some of our suggestions in this submission. Please give these matters serious consideration when setting the 2003-04 budget.

Our submission will focus on four key areas:

1. Financial performance;
2. Lack of a debt reduction plan;
3. Control and reduction of spending; and
4. Tax cuts.

Financial Performance

The Chamber is pleased with the Province's efforts to date to eliminate the provincial deficit. 2001-02 saw a deficit of $54 Million, continuing the trend of shrinking deficits. The surplus of $8.3 Million forecast for 2002-03, while admittedly small, represents a major step forward for Nova Scotians, as the first balanced budget in a number of years.

However, the Chamber believes it is critical that the government also report on capital expenditures when it presents its budget numbers to Nova Scotians. The Chamber supports the Province's move to GAAP in presenting its financial results, however of concern is the impact that capital spending in excess of reported surpluses, will have on debt levels. While the balanced budget is a good and necessary first step on the road to fiscal stability, outside agencies who track economic performance, such as the Dominion Bond Rating Service continue to focus on an "adjusted deficit" that includes capital spending. The DBRS-adjusted deficit for 2002-2003 is forecast to be $100 million. This is due to the inclusion of capital spending in the "adjusted deficit" calculation. The Chamber believes the Province should include capital spending in its financial reporting to give Nova Scotians a more complete picture of the province's finances as represented by the increase or decrease in provincial levels of debt.

The Chamber has some concerns over the control/reduction of government expenditures, particularly in Education and Health. These concerns are outlined later in this submission. In addition, the provincial government must reverse its practice of allocating windfall revenues to unbudgeted spending in the areas of Education and Health. The Chamber criticized this in last year's submission. However, it appears that this trend continues. The 2002-03 Public Accounts show revenues of $83 Million in excess of budget. The Chamber encourages the government to present to Nova

Scotians a detailed plan on how unbudgeted/windfall revenues will be allocated. In doing so, the Chamber strongly believes that most if not all unbudgeted/windfall revenues should be allocated to debt reduction. As the Province moves towards the day when it truly operates "in the black", we must be ready to start the process of reducing our debt. It is imperative the Province maintain financial discipline as surpluses are generated, to dig us out from under the debt burden we have accumulated.

Lack of a Debt Reduction Plan

The Chamber is encouraged by the release in April, 2002 of the document *A Balanced Approach to Surplus and Debt Management* by the Department of Finance. In this document, the Province acknowledges that the Net Direct Debt of Nova Scotia continues to grow as a result of increased capital spending (on roads, schools, hospitals and other infrastructure costs). It acknowledges that Nova Scotia currently has the highest debt to GDP ratio of all provinces in Canada – 46.2% for 2001-02.

The Chamber applauds the goal the Province has set to reduce Nova Scotia's debt to GDP ratio to 41.7% by 2005-06. However, despite this laudable goal, the provincial government has not outlined a specific plan for the active reduction of the provincial debt. It is not enough to suggest that any surplus will be applied to the debt, especially since continued overspending in departments such as Health or Education has contradicted any significant revenue windfall, eliminating the chance for greater debt reduction. There must be an unambiguous set of goals or benchmarks for debt reduction that would have the same priority with which this government sought a balanced budget. Such benchmarks might eliminate the latitude with which some departments have overspent.

In last year's pre-budget submission, the Chamber called on the Province to set a long-term strategy for two key areas of importance to Nova Scotians: health and education. 2002 saw the release of two major reports on the state of health care in Canada - the Romanow Report and the Kirby Report. The Chamber repeats its request to set a long-term health strategy for Nova Scotia, building upon the information and recommendations in these reports.

In the Chamber's view, now is the time to create a debt reduction plan and introduce it to Nova Scotians. If the government continues to improve the Province's finances, we will start to see surpluses. The Chamber strongly advocates a reasonable percentage of each surplus be allocated to debt reduction.

In keeping with its desire to see the government set priorities and long-term plans for the Province, the Chamber calls on the provincial government to set a long-term strategy on infrastructure spending (such as roads, hospitals and schools). Borrowing for infrastructure spending is not a bad thing – provided the Province begins the process of paying down the debt and has a plan for doing so. A long-term strategy on infrastructure spending is necessary before the Province can effectively set goals for debt reduction.

The Chamber is pleased with the Province's plan to reduce its foreign debt exposure to 20% of total debt by 2004. The Chamber applauds the Province on its performance to date (28.9% for the fiscal year 2001-02). Reduction of foreign held debt generates greater fiscal stability for the Province, making it less vulnerable to interest rate and

foreign exchange fluctuations. While the government has done an admirable job of continuing the reduction of foreign-held debt, it must not lose sight that real reduction of debt servicing costs will drop when the debt is reduced. Also, with the reduction of debt servicing costs comes greater opportunity for program spending and tax cuts, as well as an improved credit rating for the Province.

Control and Reduction of Spending

The Chamber has consistently called upon the Nova Scotia government to rein in spending and ensure its budget spending targets are met. Meeting the spending goals it sets for itself is a vital step in achieving long-term fiscal stability.

The 2002-03 Public Accounts reveal some areas where the province can improve its efforts at controlling expenses. For example, the District Health Authorities were permitted to run deficits to the tune of $20.4 Million. This disturbing trend continues in the present year, as acknowledged by the Department of Finance in December 2002, when you announced that the District Health Authorities were $11 Million over budget so far this fiscal year, even though they are required by law to balance their budgets. The government should not allow this state of affairs to continue, and should use its authority over the District Health Authorities to prevent this.

The Province overspent in Education and Health by $16.4 Million and $18.7 Million respectively. Other areas of overspending include $11.8 Million in Community Services and $49.9 Million in unbudgeted wage settlements.

The Chamber recognizes the difficult job the government has in balancing the competing objectives of providing proper levels of programs and services to Nova Scotians and controlling/reducing costs. That being said, we urge the government to find ways of exercising better control of spending in the Provinces two biggest spending areas – Education and Health. We believe that there is still much room for improvement by (1) improving efficiency in the delivery of existing services; (2) exploring alternative delivery methods for services; and (3) better management of existing resources. Efforts in these areas will help reverse the trend of steadily rising spending in Education and Health.

Tax Cuts

When the present government was elected in 1999, it promised the voters of Nova Scotia a tax cut to stimulate the economy. The commitment was to reduce personal income tax by at least 10% once government finances and our health care system were in order. The Chamber is concerned that the 2003-04 budget will include this tax cut. The Chamber is strongly of the view that the Province's finances or the health care system are not in a stable enough fiscal position presently to afford a tax cut.

As stated above, the provincial debt continues to grow and no plan has been presented to Nova Scotians for the reduction of our $11.6 billion debt. A general tax cut is premature in a province that carries a debt burden of approximately 46.2% of GDP, which the government admits is highest among all provinces in Canada. Nova Scotia needs to begin paying down its debt before it can afford a tax cut.

The provincial government has, since elected in 1999, increased direct and indirect taxes to Nova Scotians through such means as increased user fees, de-coupling the provincial tax rate from the federal rate (resulting in bracket creep) and increasing gasoline and cigarette taxes. We suggest that even if the province did introduce a reduction in personal income tax, that in the face of previous increased taxes, this would not be a tax cut at all. The Chamber does not necessarily disagree with desire of the Province to increase its revenues given its current financial position, as long as the increase is due to an expansion of the economy not any increase in taxes.

Nova Scotia must do a better job of controlling and reducing spending, and start the process of reducing its debt, before it can afford any significant tax cuts. If tax cuts are to be introduced, they can be included as part of the government's plan on allocating unbudgeted/windfall revenues and future surpluses. Nova Scotians will then be able to evaluate the Province's ability to afford a tax cut compared with competing uses for funds, such as increased spending and reducing the Province's debt.