

Chartered Accountants of
Newfoundland and Labrador

Presentation to Minister of Finance
and President of Treasury Board,
Honourable Tom Marshall, Q.C.

February 17th, 2010



The Chartered Accountants of Newfoundland and Labrador
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February 5th, 2010

The Chartered Accountants of Newfoundland and Labrador are pleased to present to Government our pre-budget submission for the 2010-2011 budget consultation process. The Chartered Accountants of Newfoundland and Labrador represents a membership of over 700 CAs, working in all sectors of our economy including government, health care, education, private and public companies, and public practice. Our members are seen as business leaders and trusted advisors and therefore, we welcome the opportunity to provide Government our written comments for the upcoming provincial budget.

First, we would like to commend the government for maintaining a prudent approach to fiscal management. We acknowledge the positive adjustment made to the provincial dividend tax credit as was suggested in our 2009 submission. We would also like to commend the government for making our province competitive with the other Atlantic Provinces with regard to both personal and corporate income taxes.

However, there is much work yet to be done. As you noted, the province has the largest per capita debt in Atlantic Canada. This debt is reported to be \$15,733 per person. We feel it is important for you to continue to focus your attention on the twin issues of debt repayment and fiscal restraint.

Debt repayment

As you are aware, the population of Newfoundland and Labrador has the oldest median age of any of the Provinces or Territories in Canada at 42.5 years¹. Unless there is a major shift in our demographics, over the next number of years our median age will exceed 50 years. This demographic reality will invariably result in increased health care costs and a decrease in revenues due to fewer people in the work force. These pressures on our provincial finances combined with decreasing revenues from finite non-renewable oil resources may very soon create the “**perfect storm**” for the provincial treasury.

¹ Statistics Canada, Demography Division, Table 1, Population, age distribution and median age by province and territory, as of July 1, 2008.

In this context, it is our view the Provincial government should have a stated goal of having the lowest per capita debt in the Atlantic Provinces. The Government should also have a systematic program for eliminating the provincial debt while we have the oil resources to do so. Debt repayment should not be an afterthought of the budgetary process. A minimum amount should be allocated in each budget towards paying down the provincial debt.

Should the province realize an unexpected surplus, that surplus should go directly to paying down the provincial debt.

Debt repayment will reduce debt servicing charges which are currently consuming 12.3% of the total provincial budget. The Province will need to have its debt under control to be able to weather this pending “**perfect storm**”.

Maintaining Infrastructure Spending

We support the government with regard to continued strategic investment in infrastructure both as economic stimulus and long term investment in our province.

As we have stated in previous submissions, we encourage the government to continue investment in long-term sustainable projects such as the Lower Churchill project. Investment in renewable energy projects would go a long way towards securing province’s future economic sustainability while at the same time, making our Province a leader in environmental responsibility.

Creating Employment

As we noted last year, the creation of employment stimulates growth in all sectors of the economy. While we recognize that the government currently has in place many programs to support business development, as professionals working with these businesses, we find that the programs are not widely utilized. Businesses seem to be largely unaware of the programs or are hindered from accessing the funds by excessive bureaucracy. We once again recommend that government review existing programs with the goal of increasing their visibility while simplifying the ability to access the funds.

In particular, we feel the EDGE program presents a great opportunity to encourage job creation in the province. As we did last year, we encourage the government to increase the awareness of this program.

Taxes

As noted, we are pleased that our personal, corporate income and sales taxes are competitive when compared to the rest of Atlantic Canada. Our tax regime no longer leaves our Province at a competitive disadvantage.

At this time, we do not recommend any changes to the tax regime.

Fiscal Management

Governments are entrusted by its citizens to make resource allocation decisions that are fiscally prudent and sustainable. Decisions made today will impact the lives of our children and our grandchildren. While there are a myriad of socially beneficial ways for government to increase spending, government's fiscal responsibility must focus on long-term sustainability.

Given the uncertainty of future surpluses, government's fiscal policy must focus on sustainable investment versus increasing expenditures on ongoing programs. However, it is critical to distinguish one-time capital projects such as infrastructure spending from increasing ongoing operational spending. While we recognize the need for program spending, we feel that any increases should be limited to inflationary adjustments. As you are painfully aware, the provincial government simply does not have the funds to meet **all** "wished for" program spending.

In closing, we would like to reiterate the continuing dual responsibilities for debt repayment and prudent fiscal management.

The Chartered Accountants of Newfoundland and Labrador appreciate the opportunity to provide these comments. Attached is the contact information for the members of our Government Affairs Committee who participated in preparing this submission. Please feel free to contact us if we can be of any further assistance. Thank you.

Tashia Batstone, CA, MBA
CEO, Chartered Accountants of Newfoundland and Labrador
(709) 753-7566
tbatstone@icanl.ca

Peter Collens, CA
Member, Government Affairs Committee
Professional Tax Advisor
(709) 745-8809
peter.collens@nf.aibn.com

Richard Daw, FCA
Member, Government Affairs Committee
Executive in Residence, MUN Faculty of Business
(709) 737-3983
rdaw@mun.ca

Jim Nightingale, CA
Member, Government Affairs Committee
Internal Auditor
(709) 758-7260
jim.nightingale@cna.nl.ca

Roy Naugler, CA, MBA
Member, Government Affairs Committee
Corporate Tax, Accounting and Consulting Services
(709) 576-4189
roy.naugler@nf.sympatico.ca

Jason Silver, CA
Chair, Institute of Chartered Accountants of Newfoundland and Labrador
City Internal Auditor
(709) 753-7566
jsilver@stjohns.ca