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VERBATIM REPORT

Friday, March 30, 1973

SPEAKER: THE HONOURABLE JAMES M. RUSSELL

The House met at 3:00 p.m.

Mr. Speaker in the Chair.

MR. SPEAKER: Order please!

MR. ROBERTS: Mr. Speaker, under the rules of the House I am required to give notice of a question of privilege at the earliest possible opportunity. In view of the fact that the Minister of Finance will be making his Budget Speech today, I do not propose to press at this time a matter of privilege but I must give notice now and not have slept on my rights that the Premier's statements made yesterday with respect to the resignation of Mr. Cheeseman, the former member for Hermitage, constitute in my view a breach of the privileges of this House and if they were incorrect statements - I do not want to pursue it now but I give notice so that when I do take it up, in as much as they affect my colleague the member for Bell Island, I give notice now so that when I do take up the matter I will not be in a position of having slept on my rights.

ORDERS OF THE DAY:

MR. MARSHALL: Motion VI.

MR. SPEAKER: Motion VI; the honourable the Minister of Finance to move that the House resolve itself into a committee to consider ways and means of raising the supply to be granted to Her Majesty.

HON. J.C. CROSBIE (MINISTER OF FINANCE): Mr. Speaker, it is my honour as Minister of Finance to present the second Budget of the Progressive Conservative Government of Newfoundland and Labrador. This budget covers the fiscal year that ends March 31, 1974 and marks a transitional period in the financial management of this Province. It reflects the determined and responsible approach which this Government is taking and will continue to take in the management of the Province's finances and resources.

The past year has been a difficult and often times frustrating period. We have struggled hard to bring under control the present financial position of this Province. At the same time we undertook new programmes and courses of action while attempting to investigate and plan in a meaningful way for the future.

This Budget will provide the people of our Province with a review of many of the events of the past year and will also provide the framework of this Administration's objectives and programmes for the coming year. It is presented at a time of great international and national monetary uncertainty and economic and social change. While we have been able to slowdown the growth rates in some of our problem areas, three of the central problems facing us in 1972 are still with us:

- (1) Increasing levels of expectation by the people of Newfoundland.
- (2) Rapidly increasing public expenditures; and
- (3) Persistently rising costs and increasing unemployment.

My first Budget took the initial step and a new approach to financial administration of this Province. Studies have been undertaken in our financial position and priorities established for the deployment of our available resources. This Government has placed much emphasis on the restructuring of the vital administration sector of our economy, the Public Service; and has followed its objectives of rural economic development, renewed emphasis on our fishing industry, and the control and management of our natural resources. This Government has also laid important ground work in the areas of our tourist industry, industrial development and the potential central thrust of our future economic and social development, the offshore oil and gas industry.

The Budget documentation consists of (i) the Estimates for 1973-74, (ii) the Salary Estimates of the various Government Departments for 1973-74, and (iii) the Budget Speech. Included in the Budget Speech document are supplements that outline the current status of the offshore

oil and gas industry, progress on the Come-by-Chance Oil Refineries and Labrador Linerboard Limited, and an economic review and outlook for the Province.

First; what was the performance in 1972-72?

In last year's Budget this Administration established a course of action which contained several significant components. I will briefly review and evaluate the most important ones.

(I) Despite many requests for exemptions from various provincial taxes, this Administration has maintained its stated policy of ceasing the porlific, costly and inefficient practice of tax exemptions. We have refused to allow additional tax exemptions, a policy that will benefit the Province substantially, especially with respect to the sales tax and the gasoline tax. The re-negotiated Newfoundland Forest Products agreement and the agreement for the proposed second oil refinery at Come-by-Chance are two examples of this change in policy.

(II) The Government commissioned and has received a report on the status and condition of all Government leased premises in the Province. This important document establishes the current position of Government and provides the basis for evaluating all future lease proposals and the possible revision of others as the terms become renewable.

(III) Another area of action has been in the reviewing of industrial loans, grants and guarantees. The evaluation of previous policies and the compiling of accurate centralized data has been a major task. This Administration has taken constructive steps to centralize signing power on these programmes with the Minister of Finance and to expand the Loan, Guarantee and Debt Management Division.

In addition we have examined all areas where defaults have occurred and in each case corrective action has either been taken or is in progress. A consistent but flexible set of policies for all loans, grants and guarantees is being developed.

(IV) The co-ordination of programmes and activities with the

Government of Canada is progressing favourably. The various planning task forces each have Federal representation and various line departments have expanded and improved their communication and relationships with the relevant sectors of the Government of Canada. In addition, we have completed a review of all Federal-Provincial programmes. A catalogue of all of these programmes, the objectives and major characteristics of each, and the communication contacts with the Government of Canada has been published.

(V) The Newfoundland Liquor Commission has been thoroughly reviewed since my last Budget and Legislation is now ready to be presented to the House of Assembly to create the Newfoundland Liquor Corporation, to revise the Alcoholic Liquors Act and to create the Newfoundland Liquor Licence Board.

The top management for the new corporation are already in their positions and they will be responsible for the improvement of operational and management activities in merchandising and distribution. The Licence Board will be responsible for all aspects of licensing in the Province and for the major responsibilities of inspection and enforcement under the Liquor Control Act.

(VI) The final major component in the stated course of action of last year was the review of policies governing the granting of permits for oil exploration and the implementation of activities to ensure that this Province will receive the maximum benefits of the exploration for and the anticipated discovery and production of hydrocarbons. At the date of my last Budget the Government's review of the situation existent at that time had not been completed. I am pleased to say that the Province has now completed its review and is in the process of seeking to attain its goals.

The current status of the offshore petroleum industry with respect to our policies and procedures, the recognition of prior claims, the acreage under interim permit, the ultimate potential and the present negotiations by the five eastern Provinces with the Government of Canada is covered in detail in Supplement Three in the Budget Speech.

Now I wish to review our finances for last year, the year that will end tomorrow:

In my Budget Speech of last year I promised that budgetary procedures would improve with the change of government. It was stated that the policy of the Progressive Conservative Administration would be to present realistic expenditure estimates to the House of Assembly and to control rigorously departmental expenditures during the fiscal year. This would mean a restricting of the use of Special Warrants except in the most serious and urgent circumstances. I further stated that suggestions for increased expenditure on either capital or current account in the 1972-73 fiscal year would receive little sympathy and that the success of this approach would be revealed in the Supplementary Bill for 1972-73.

On Current Account in the year just ending:

The revised figures, which are subject to review, disclose a current account deficit of \$5.9 million as compared with a projected deficit of \$3.2 million in last year's estimates. The following table summarizes the revised expenditure and revenue estimates for this year as compared to the original estimates.

This is current account: We estimated that gross current expenditure would be \$404.7 million, the revised estimate is \$400.9 million, that is a difference of \$3.8 million. We estimated that Appropriations-in-Aid would be \$90.3 million, our revised estimate is \$85.2 million, so that the difference is \$5.1 million. Appropriations-in-Aid were down. We estimated that our net expenditures this year would be \$314.4 million, they were actually \$315.7 million for a difference of only \$1.3 million. On the revenue side, we estimated our revenue at \$311.2 million, the revised estimate of our revenue is \$309.8 million for a difference of \$1.4 million. Thus, we estimated a possible deficit of \$3.2 million, our revised estimate is that it will be \$5.9 million.

Now, Mr. Speaker, the deficit of \$5.9 million in current account was a disappointment because we hoped to end the financial year with a small surplus. This objective was within reach because revenues and expenditures appeared to be in balance and under control. However, during this fiscal year the Province was informed by the Government of Canada that the tax equalization payments for 1972-73 would only be \$114,447,000 instead of the \$120,000,000 which we had estimated. This decrease of about \$5.6 million represents an adjustment of prior year's payments and virtually eliminated the possibility of an eventual surplus in 1972-73 when we have the final figures. It is important to notice the reason for this adjustment.

The major reason for this large shortfall in tax equalization payments was the strength of the construction sector in the Province in 1971. The Federal Government underestimated construction activity and therefore overestimated the amount of tax equalization for the Province under the sales tax component of the tax equalization formula. Under normal circumstances increased construction activity would mean a considerable increase in provincial revenue from our own taxes which would offset the decrease in equalization. (That is the theory the formula is based on.) However, this favourable effect did not occur because the major construction projects including the Upper Churchill, The Oil Refinery and the Linerboard Mill had all been given exemptions from the payment of provincial sales tax during construction and the Churchill Falls project also had an exemption from the payment of gasoline tax. Had those projects been taxable I estimate that tax revenues would have been about \$10 million more than they actually were. This would have more than offset any unfavourable effects on the equalization entitlement. This fact amply justifies our policy of refusing such tax exemptions in future. The Province cannot afford them.

Capital Account 1972-73:

Our revised estimates reveal an overall expenditure increase

of \$14.3 million compared with the original estimates. A major reason for this difference was an underestimation in last year's estimates with respect to Labrador Linerboard Mill requirements. An amount of \$40 million was shown for this operation at Stephenville but in fact the revised figure was \$67.6 million, or an increase of \$27.6 million. In addition, payments for Issues Under Guarantee increased by \$4 million and this combined with the amount for the Linerboard Mill meant increased expenditures of \$31.6 million on these two items. These increases were partly offset by underexpenditure of \$7 million on the Health Sciences Complex, \$3.3 million on Education Development, \$2.7 million on Industrial and Residential Servicing, \$1.4 million on Fishery Capital Works and \$1.4 million on the Twillingate Hospital.

The comparison of the original estimates and the revised estimates are in table (II):

In gross expenditure on capital account, we estimated \$184.5 million, the revised estimate is \$198.8 million, that is up \$14.3 million. In Appropriations-in-Aid, we estimated \$48.7 million, the revised estimate is \$40.7 million, the difference there is \$8 million. We estimated a net capital expenditure of \$135.8, the revised estimate is \$158.1 million or a difference of \$22.3 million.

Now I want to speak about our financing in 1972-73:

The total borrowing requirements of this Province in 1972-73 was \$204.1 million. This amount includes the \$5.9 million deficit on current account, \$158.1 million in capital requirements, \$28.4 million for bond redemptions (that is to redeem borrowings incurred in past years) and \$11.7 million for sinking fund payments to meet debt as it comes due.

The requirement of \$204.1 million was financed in this way; from the Canada Pension Plan we borrowed \$19 million, from DREE loans \$13.6 million, from special loans \$4.7 million, from capital market operations \$155 million and we had available cash balances of \$11.8 million. We

also guaranteed a \$15 million bond issue for the Newfoundland Municipal Financing Corporation and \$15 million bond issue for the Newfoundland and Labrador Power Commission.

The Province, Mr. Speaker, borrowed in the capital markets of Germany, Japan, the United States and Canada during the past year. Of this total of \$155,000,000, \$55,000,000 was borrowed successfully in Canada which is an encouraging change from recent years and showed the confidence of the Canadian Investor in this Province and this Government.

However, the debt of the Province during the past year increased by \$118,710,000 from \$1,026,000,000 (I will give the round figures) from March 31, 1972 to \$1,144,520,000 at March 31, 1973. (Exhibit 1 contains the situation as of the last five years) During the past year \$30,400,000 of outstanding debt was redeemed, approximately \$16,500,000 worth of debentures were purchased for the sinking fund, and short term bank loans and treasury bills were reduced by close to \$37 million. It should also be noted that \$85 million of the \$191 million increase in direct debt resulted from the transfer of guaranteed debt of the Javelin Companies in the Linerboard complex. The net decrease in guaranteed debt for the year was \$70,886,000, lowering the total of guaranteed debt at March 31, 1972 of \$397 million so that it ended up at March 31, 1973 at \$327 million.

Supplementary Supply:

The Supplementary Supply Bill for 1972-73, which was passed by the House in February, revealed a significant financial accomplishment during the year.

The total supplementary supply approved was only \$7,686,000. This amount is the lowest supplementary supply requirement since 1960-61 and an even more significant fact, Mr. Speaker, is that as a percentage of total gross expenditure the Supplementary Supply Bill for 1972-73 was the lowest since Newfoundland joined Confederation. It was a terrible struggle for my colleagues but they all co-operated. Exhibit

II to the Budget illustrates this point in detail.

Table III shows the supplementary supply required for the last ten years and what supplementary supply was as a percentage of gross expenditure. I will not read it all now but, for example, in 1962-63, supplementary supply was \$20,527,000 or 15.6 percent of our gross expenditure. In 1966-67 it was \$54 million or 21.4 percent. In 1968-69 it was \$22,999,000 or 7.0 percent and so on, so that we this year had only \$7,686,000 or 1.3 percent.

I should point out that it is my intention to continue to restrict the use of Special Warrants except in the most extreme and essential circumstances and that it is my objective to present an even smaller Supplementary Supply Bill for 1974.

In concluding this review of our financial performance last year, I have to say that I am pleased with the accuracy of our estimates, with the Government's ability to control expenditure on both current and capital account as is shown in the Supplementary Supply Bill and with the confidence displayed by the financial markets of the world in the Province of Newfoundland as is evidenced by our successful borrowing programme.

Mr. Speaker, one of the most significant pieces of legislation which will be presented to the House this Session, in my view, is a new Financial Administration Bill. This Bill will amend and consolidate the law relating to public revenue and expenditure, the raising of loans and the auditing of the public accounts. In other words, it is to replace the Revenue and Audit Act.

A major provision in the new Bill is the restoration of control over the borrowing power to the House of Assembly, with the re-introduction of an annual Loan Bill to control Provincial Borrowings within amounts approved by the Legislature. This has not been necessary since 1966.

With respect to the auditing of the public accounts it has been the case during the past several years that the Auditor General's report

has been critical of many aspects of the financial management of the Government. As the Minister responsible for the two administrative sections of Government most directly involved, that is the Treasury Board and the Department of Finance, it is my responsibility to resolve the issues that have been raised by the Auditor General. The new Financial Administration Bill should facilitate the correction of many of these issues, particularly those resulting from differing interpretations of the Revenue and Audit Act.

The Planning Task Force:

I have already stated, Mr. Speaker, that during our first year much emphasis was placed by the Premier and his Government on the restructuring of the administration of this Province through the Public Service. In addition to restructuring I would like to refer to the work of the Planning Task Force established last summer.

This administration has deliberately given little publicity to the work of the Provincial Planning Task Force because we believe that publicity about planning is not a substitute for planning. We are very cognizant of the link between government planning, government policy and programme formulation and government financing.

The Planning Task Force studies are proceeding favourably with the following objectives:

- (1) We wish to establish a comprehensively planned approach to the development of the Province and each of its major economic and social sectors, covering a five to ten year period;
- (2) we wish to establish Government policies that will allow the people of Newfoundland to develop their own personal excellence within the framework of own distinctive quality of life;
- (3) we wish to encourage the highest possible level of employment;
- (4) we wish to establish a reasonably equitable distribution of rising income: including the increasing of earned income to people in the lower income groups;
- (5) we want to develop all resources of this Province to their

highest possible point of efficiency with a view to encouraging growth and encouraging greater returns to labour through increased productivity.

These are the objectives of all these task forces.

It would be premature to expect this Budget to reflect the final results of this planning effort. Nevertheless, the Budget demonstrates the attitude and the direction which the Government has for the broad development objectives which are being planned. It also reflects in a very real and positive way the selection of certain policies and programmes for action, because, Mr. Speaker, it is quite obvious we cannot do all that is needed at once and we cannot fulfill all that is desired.

Our Fiscal Objectives are these:

One of the basic objectives of the Government in this Province is to provide the social services that the people expect as citizens of Canada in as efficient a manner as possible. In many respects, Mr. Speaker, we are catching up with other parts of Canada. For example, we no longer have the lowest per capita incomes, that is now the role of Prince Edward Island. However, to achieve this objective, Government spending has been extremely high. This is evidenced by the fact that the Newfoundland Government this present year spent \$1,037 per capita, per person in this Province as compared with the national average expenditure of only \$824 per capita by Provincial Governments generally. In other words, the Newfoundland Government spends more per capita than any other Provincial Government.

We must face the fact that our revenue potential is below the national provincial average because Newfoundland incomes are still below the national average. The net result of this is that the debt of this Province in recent years has increased substantially.

The Fiscal objective of the Government in the next several years is and must be to curtail the growth in expenditures and hence borrowing. Note, Mr. Speaker, that I have not said that we are going to cease borrowing, it is to curtail the growth, the rate of growth must be curtailed. It has been curtailed this year.

Newfoundland cannot continue to outspend and outborrow, on a relative basis, every other province in Canada, and strict expenditure controls will be imposed to ensure that our financial standing is improved.

The Provincial Economy:

One of the supplements to the Budget is an economic review and outlook for the Province. I just want to mention here that all sectors of our economy in 1972, with the exception of the fishery, advanced at a strong pace. Our gross provincial product increased by 11 percent to reach \$1,540,000,000. Once we discount this for price increases, the real gross provincial product increased by six percent as compared to 5.5 percent for Canada as a whole. This marks the fourth consecutive year that economic growth in Newfoundland has outpaced the national average. I might say as an aside, Mr. Speaker, that the reason why the fishery has not advanced at this strong pace is that landings are down very considerably, although prices are up very considerably.

The level of unemployment continues extremely high in this Province. In February the unemployment rate in Newfoundland was 16.2 percent as compared to 12.6 percent for the Atlantic Area generally and 7.3 percent in Canada. It should be noted in this respect that the labour force, the number of people in the labour force in this Province increased by 13.8 percent in the

last year from February, 1972 to February, 1973, while the number of new jobs created increased by 12.4 per cent. During the same period the number of new jobs created in Canada as a whole increased by only 4.5 per cent. In other words, Mr. Speaker, we had a very considerable increase in the number of new jobs created in this province. Our labour force is increasing at an even more rapid rate.

The creation of more employment opportunities remains a central objective of this administration and every effort is being made to create as many jobs as possible. We have to recognize that a province such as this does not have the fiscal capacity by itself to cope adequately with the unemployment problem. That problem is a national problem and only the Government of Canada has the fiscal capacity and financial and monetary means to deal effectively with unemployment.

In my first Budget I stated our objectives for the economic development of this Province. The industrial base of our economy has traditionally been small and cyclical while Government involvement in planning and promoting development had been on an ad hoc and overly generous basis.

We are emphasizing development of our natural resources. We realize that in Newfoundland and Labrador the Government often is the only agency with the capital resources or credit, and the expertise to initiate major industrial projects. We have, therefore, become deeply involved in development.

On July 17th, 1972, after many months of negotiation, the Agreement establishing the Newfoundland and Labrador Development Corporation was finally signed by the Government of Canada and the Government of this Province. Since that date the Board of Directors has been appointed and the first President has been selected.

This Corporation is to operate as a venture capital agency which will assist financially small and medium size businesses and attempt

to improve their operating capabilities. It will provide capital assistance, management advisory services and industrial information.

The Corporation has initial financing available from both Governments for projects, if approved, totalling \$22,000,000. It is, therefore, up to our small and medium size businessmen to come forward with enterprises that will meet the tests of feasibility, and apply for assistance if they need it.

The Government created the Rural Development Authority in August, 1972, as a result of our realization that this Province has many individual small business opportunities in the rural areas. The objective of the Authority is to promote, finance and assist to varying degrees the small businessman in labour-intensive industries in the rural areas of the Province. We want to develop the rural areas and to help people who live there.

The total approved loans to date amount to \$2,279,000 and this has resulted in 1,370 job positions in businesses ranging from medium to small sawmill operations, boat building, cooperage operations, casket manufacturing, handicrafts, and flower nurseries.

The initiative of these small businessmen and the success of this service to date has led to our decision to make funds available to the Rural Development Authority in 1973-1974 totally \$2,500,000, if necessary and if there are enough worthwhile projects that could be increased.

A further bright spot in the industrial development of our Province is evidenced by the turn around in the prosperity of the Marystown Shipyard.

During this year the Government terminated the agreement whereby an Israeli Company, Pan Maritime S.A., managed the operations of the shipyard. The Government created a Crown Corporation, Marystown Shipyard Limited, and now entirely owns and operates the shipyard.

Under revitalized management the shipyard completed two 165 foot stern trawlers this year and currently has two similar vessels under construction. In addition, the shipyard is constructing three sixty-five foot steel longliners for the Department of Fisheries.

This progress in ship construction has been assured for the foreseeable future by the recent announcement of the Government that a \$10,000,000 two-year contract for the construction of five stern trawlers has been secured. In addition to these successes the Department of Industrial Development is studying the expansion potential of the shipyard.

It is significant to note, Mr. Speaker, that during this year the Marystown Shipyard produced a profit before depreciation for the first time in its history. This estimated gross profit of \$200,000 does not, however, provide for principal repayment or interest costs.

On February 26th., 1973, Mr. Speaker, the Premier, hon. Frank D. Moores, announced to the House of Assembly that the Newfoundland Government had entered into an agreement with Newfoundland Refining Company Limited and with Shaheen Natural Resources Incorporated to provide for the establishment of a second oil refinery at Come-By-Chance to be owned by a company known as Newfoundland and Labrador Edison Company Limited, a subsidiary of Shaheen Natural Resources Incorporated. This oil refinery will be a three hundred thousand barrel-a-day refinery producing low sulphur fuel products. The crude oil for this oil refinery will come from the Middle East and North Africa and the refined product will be sold largely on the eastern seaboard of the United States. The cost of the entire project is estimated at \$308,500,000, including all construction and equipment costs, site preparation costs, custom duties, excise taxes, sales taxes, financing costs and working capital.

The refinery as members know is to be financed by \$230,000,000 from sources other than the Government of Newfoundland, specifically English bankers through the English Export Credit Guarantee Department, and with equity provided by Shaheen Natural Resources. The Newfoundland Government will provide a second mortgage loan of \$78,500,000.

The new refinery will be the largest in Canada by 100,000 barrels per day and will be one of the largest in the world. Together with the refinery now nearing completion this should form the basis for a major oil refining industry.

The details of progress to date on the first oil refinery, Mr. Speaker, and the proposed oil refinery are dealt with in Supplement Number Four of the printed Budget Speech. Up-to-date information is there.

During the last year, Mr. Speaker, the Government has been negotiating with Churchill Falls (Labrador) Corporation Limited (CFLCO) for the development of the hydro-potential of the Lower Churchill River. The power potential of the Gull Island site is 2,400,000 horsepower per year and this is the greatest single hydro resource remaining in the Province. We are therefore determined to ensure that the maximum benefits possible accrue to this Province from that development.

In order for any meaningful discussions to take place with CFLCO it was first necessary for the Government and the Company to make representations to the Government of Canada concerning certain aspects of the tax equalization formula.

I am pleased to state that we have been successful in getting the Government of Canada to agree to certain changes which make it feasible for the private sector to remain in the power industry in this Province. If it had not been changed that would no longer have been feasible.

The discussions with Ottawa centred around the new equalization formula in which Ottawa included the public utility income tax revenues in such a way that this Province would lose a dollar in equalization for every dollar it received from the Upper Churchill or any new development.

Since the Agreements entered into with CFLCO by the previous administration provided that the Government of Newfoundland had to pay over to CFLCO approximately 50 per cent of all of the corporation income tax paid by CFLCO to Ottawa, and rebated by Ottawa to Newfoundland, this provision in the new equalization formula would have resulted in the Province losing revenue on the Upper Churchill Development. The net effect on the Treasury would have been that we would lose one and one-half dollars of revenue for every dollar we received from Ottawa relating to corporation tax paid to Ottawa by Churchill Falls. Had that provision remained in the tax equalization formula the Province could not have negotiated any arrangement for the development of the Lower Churchill by Churchill Falls Labrador Corporation Limited or any other private developer.

The Government of Canada has now agreed to change the provisions relating to this item in such a way that the Province will actually gain a small amount in equalization each year under that heading. In addition to this it has been possible to reach agreement on a change which will substantially lessen the adverse impact on our equalization entitlement arising from the Water Power Rentals and Royalties component of the equalization formula. The overall effect of these changes is that it is still possible for a private power company to develop the Lower Churchill so long as satisfactory terms are acceded to.

The Government has been holding discussions with Churchill Falls Labrador Corporation on the terms and conditions that should apply to the development of the Lower Churchill. The Government would like to see an early start on the development of the Lower Churchill but as desirable as an early start may be, it is even more desirable to achieve arrangements that will return to the Government and the people of our Province adequate revenue for the use of one of the great resources of the Province. In other words we will not be rushed, Mr. Speaker.

We have made it clear that the returns to this Province from any further development on the Churchill River will have to be substantially greater than the returns obtained from the Upper Churchill Development.

While it would not be possible or desirable for me to outline all of the conditions suggested by the Government, since negotiations are still proceeding, there are several conditions which I can state the Province regards as non-negotiable. The Province will not grant any exemption from the provincial sales tax nor from the gasoline tax with respect to this Project. The Province will not rebate any income tax to the developer either with respect to federal corporation income tax returned to the province under the Public Utilities Income Tax Transfer Act or with respect to provincial income tax or otherwise. To do so, Mr. Speaker, would mean the Project is useless to us from the revenue point of view. The Province also insists that there must be constructed as a part of the capital cost of the development of the Gull Island site a transmission line from Gull Island to the Happy Valley-Goose Bay area so that hydro power will be made available to that area as soon as hydro power becomes available from the Gull Island site. I am sure that the member for Labrador North will think that desirable.

As I mentioned in my Budget last year, Mr. Speaker, the Iron Ore Company of Canada is undertaking a major expansion to its iron ore operation in Labrador. The Company will be able to produce 22,000,000 tons of concentrate per year, an increase of 10,000,000 . In addition the expansion will include a magnetic separator which will provide 1,000,000 tons of productive capacity per year. This expansion was delayed because of labour difficulties and is now scheduled for completion in November, 1973.

Last year, Mr. Speaker, I referred to the legislation which gave Newfoundland Pulp and Chemical Company Limited exclusive rights to explore and investigate the timber resources of all the remaining crown lands on the island. The original Act of 1960 has been amended

several times and under the amendments of 1970 the Company was required to notify the Government if it planned to proceed with the construction of the first stage of the Mill and that construction was to be substantially completed by December 31st., 1972. In addition, in 1967 the then Government advanced \$2,500,000 to Newfoundland Pulp and Chemical. That amount has risen to approximately \$3,400,000 in principal plus accrued interest.

The Company did not meet the terms of the original legislation by December 31st., 1972 and the rights conferred by that legislation have lapsed. However, Mr. Speaker, should the Company make a proposal to the Government that is both viable and in the best interests of the people of the Province, the Government will give it careful consideration. It should be noted, however, that certain of the terms and privileges of the first Act could not be included in any new agreement because of their obvious inequity. The position is, Mr. Speaker, that the Government is waiting to receive a submission from the company. We will then see what the situation is.

In reviewing the industrial development programmes, I should also note the action taken to promote and assist the re-opening of the sawmill operations at Hawke's Bay. That mill will use 60,000 cords of wood yearly and will produce 13,000,000 to 15,000,000 board feet of lumber. There are presently 75 people employed at the Mill and another 75 jobs will be created when it operates in two shifts at the Mill. The Government has entered into an Agreement with Newfoundland Forest Products Limited and provided direct assistance of \$1,750,000. This loan is secured and conditioned upon many important changes in the operation of that enterprise. The company is also committed to fully assess the sawmill at Stephenville with the objective of either reactivating that or relocating it.

Now what is in the prospect for the financial year coming, Mr. Speaker? The Estimates for 1973-74 provide for the largest Government

spending programme in the history of this Province. The forecasted total of \$674,525,000 includes \$448,000,000 on current account programmes and \$226,000,000 on capital account, round figures. This is an increase of 12.5 per cent over the revised 1972-73 estimates.

Table IV summarizes the expenditure on borrowing estimates of the Province for this year. First the Budgetary Requirements, we will have we hope as Current Account Surplus, \$6,722,000. We will have Net Capital Expenditure \$180,946,000. Our Total Budgetary Requirements will therefore be \$174,224,000. In connection with Debt Retirement, Mr. Speaker, we have to redeem \$21,470,000 worth of previous Government bonds. We have to pay into Sinking Funds, \$12,820,000. Our Total Debt Repayment will be \$34,290,000. This means that our Total Budgetary Requirement and Debt Retirement total, \$208,515,000. In addition to that we have to guarantee for the Newfoundland Municipal Financing Corporation \$10,000,000, Total Guarantee Requirements, \$10,000,000; making our Total Borrowing Requirements \$218,515,000.

The current account for the year coming up, our aim is that our financial planning must lead to a position where we budget annually for current account surpluses. In the year coming up this aim is achieved as our current account shows a surplus of \$6.7 million and this should not be diminished by any actions taken during the year.

In the year coming up we forecast on Current Account, Gross Expenditure of \$448,000,000 as compared to \$400,000,000 last year. Appropriations-in-Aid of \$93.4 million, compared to \$85 million last year for a Net Expenditure of \$354 million, compared to \$315 million the year just ending. We forecast that our Revenue will be \$361.6 million as compared to \$309.8 million for last year, so that we should have a Surplus of \$6.7 million on current account as compared to a deficit of \$5.9 million on current account last year.

The current account expenditure of \$448,000,000 is a

\$48 million increase or 11.8 per cent growth rate for the year. Projected current current revenues will increase by \$51.8 million or 13.5 per cent over 1972-73. So that our revenues are increasing at a faster rate than our expenditure.

While the 1973-74 current account expenditure of \$448,000,000 is the highest in the history of the Province, it is imperative for me, in fact it is incumbent on me to point out to the people of this Province and for the people of the Province to understand the completely inflexible position with which any government is faced in Newfoundland now and in the foreseeable future with respect to decisions regarding new or expanded expenditure programmes on current account. New programmes, Mr. Speaker, should only be carried out if existing programmes are reduced or eliminated. The fact that the Government has little scope for decision-making in considering reductions in expenditure programmes is clearly

shown by table VI which outlines the major current account expenditures and which shows how flexible they are. I will not read them all but for example, Mr. Speaker:

Interest on Public Debt, \$66.5 million.

Teachers' Salaries this year, \$64.0 million.

Civil Service Salaries and Pensions, \$62.5 million.

Grants to Operate Board Hospitals, \$54.5 million.

Social Assistance \$43.0 million.

Grants to Operate Educational Institutions, \$36.7 million and so on to a total of \$401.9 million which are expenditures that nothing can be done about, that are inflexible.

Of the projected current account expenditure of \$448.3 million this year coming up, \$401.9 million or about 90 per cent is committed to major ongoing government programmes. The remaining \$46.4 million can, for all intents and purposes, Mr. Speaker, be considered as being committed to other necessary existing programmes. Thus the government has little flexibility to consider reductions of expenditure. The Government has, however, Mr. Speaker, undertaken to examine all expenditure programmes with the objective of reducing or eliminating low priority programmes in an effort to consider realistically new expenditure items of high priority.

It is quite clear that this Province would have been in an extremely difficult position with reference to the current account in the year 1973-1974 had not the budget brought down by the Government of Canada on February 19 reflected acceptance by the Government of Canada of arguments presented by the Provinces for the past several years with respect to the system of equalization payments. The Government of Canada has at last agreed to broaden substantially the system of equalization payments by adding to the equalization formula grants based on municipal taxes for local school purposes. This results in an additional equalization payment of \$190 million by the Government of Canada to the seven provinces of Canada who receive equalization payments. It is not just Newfoundland, Mr. Speaker, that received these

as some people would want you to believe, seven provinces. Table VII shows the seven provinces and the amounts they are going to receive additional this year.

Newfoundland, \$24.2 million.

P.E.I., \$4.8 million.

Nova Scotia, \$23.8 million.

New Brunswick, \$21.4 million.

Quebec, \$78.6 million.

Manitoba, \$10.8 million.

Saskatchewan, \$26.4 million

For a total of \$190 million.

If the Government of Canada had not made this change in the equalization formula as a result of our representation and those of the other provinces, which resulted in a projected increase of \$24.2 million in tax equalization payments to the Province, then the Government would have had to contemplate tax increases and expenditure programme reductions or deletions for the coming year. There is no point, Mr. Speaker, in attempting to obscure the position. If this had not happened, we would have had to consider that.

The demands of the people of Newfoundland and their expectations with regard to these demands are fast reaching the point where expectations are not in accord with the realities of the financial position of this Province. In addition, within the Public Service the great demands which are placed upon Government for salary increases year after year have reached the point where a re-examination of the high proportion of our budget which goes towards salaries of public servants and others paid from government funds is necessary.

Table VIII gives a breakdown of the anticipated wage bill to be paid from public funds in 1973-1974.

Teachers, 6,450 employees. Approximate cost, \$64.0 million. More than our entire budget just a few years ago.

Government Departments, 8,150 employees. Cost, \$57,550,000.

Hospital Employees, 7,500. Cost, \$48,100,000.

Memorial University 1,650 employees. Cost, \$17,500,000.

Government Agencies, Boards, Commissions and Corporations,
2,000 people. Cost, \$12,900,000.

The total, 25,750 employees receiving from the Public
Treasury, \$200,050,000 in the year coming up.

It is imperative, Mr. Speaker, that we control the spending
of government departments and agencies and review our present wage
requirements and productivity. Without increases in productivity there
cannot be increases in services or in salaries at the growth rate of
the past. I have not said that there cannot be increases but they
cannot be at the growth rate of the past. It is staggering to think
that for every one per cent increase in public service salaries
the cost to our Treasury is \$2 million.

It has to be made clear to the public that if the demands
for increased social services and if the demands for increased wages
in the Public Service are in excess of those presently provided for
in the 1973-1974 budget, it will be necessary for this Government to
contemplate, before the end of the current fiscal year, an interim
budget requiring tax increases or reductions in existing government
programmes. This action would be taken because we must maintain a
current account surplus to offset the current account deficit of
last year and to manage responsibly the finances of the Province of
Newfoundland.

Revenues for 1973-1974.

I should be noted that even if the Government were to introduce
an interim budget and make significant tax increases, supposing we did
that, the increase in annual revenues would only amount to a maximum of
\$12-\$15 million dollars. In 1973-1974 our estimated revenues on
current accounts are \$361 million. Of that total, approximately
\$171.4 million will come from tax equalization payments and other
Federal Government sources. The revenue derived from Provincial
sources will total \$190.3 million. The major components of our

Provincial revenue are retail sales tax \$61,600,000, personal income tax \$39,127,000, gasoline tax \$27,600,000, Newfoundland Liquor Corporation profits \$21,800,000, and tobacco tax revenues \$8,900,000. While the estimated revenues for next year represent a growth rate of 13.5 per cent over the year just ending, the fact remains that it is the expenditure side of the Province's finances that must provide the scope for financial decision making.

On capital account this year spending will amount to a total of \$226,000,000 for an increase of \$27,000,000 over the year just ending. This total will be offset by related revenues so that our total requirements on capital account will be approximately \$180.9 million after taking off Appropriations-in-Aid. That compares, Mr. Speaker, to last year. The Net Capital Expenditures were \$158 million.

The major programmes that make up this huge total are \$37.5 million for the Linerboard Mill at Stephenville, \$25 million for the second Oil Refinery at Come By Chance, \$26.4 million to continue the hospital construction programme, \$43.1 million on highway construction, \$27.4 million on education facilities at the University and in the secondary and elementary system and \$12.3 million on industrial and residential servicing.

The net expenditure on capital account of \$180 million is offset by the current account surplus of \$6.7 million so that the budgetary requirement is \$174.2 million.

In addition to this we have to borrow \$34.3 million to cover debt requirements and payments to sinking funds and \$10 million for the Newfoundland Municipal Finance Corporation. Our total borrowing programme will therefore be \$218.5 million to be obtained from the following sources:

From the Capital Markets, \$165 million.

From Canada Pensions, \$21 million.

From DREE loans, \$15.4 million.

From other loans, \$7.4 million.

From Guarantees, \$10 million.

Unfortunately, Mr. Speaker, the requirements of two large industrial projects and the on-going construction programmes, principally in health and education, have left the Government with little discretion in our attempt to reduce borrowing requirements. With one exception, no new major construction projects will be commenced by the Province this year. When I say major, I mean a project that might cost over a million dollars.

It should also be noted that the total of \$218,500,000 contemplated this year will not increase our total debt by an equivalent amount. Sinking fund purchases and debt retirement with respect to the Province and Labrador Linerboard have to be subtracted from that figure and therefore our net debt will increase by approximately \$161 million.

Projected borrowings of \$165 million in the capital markets for next year compares to \$155,000,000 raised in 1972-1973. Our bonds and debentures received strong buying support last year and the outlook remains favourable for Provincial issues in 1973-1974.

We will not raise all our requirements, Mr. Speaker, in the long term sector of the capital markets. The Government has approved a money market borrowing programme in Canada and within the next several months the Province will begin a weekly treasury bill operation. This will decrease the long term borrowing requirement by \$25-\$40 million.

The first phase of the Province's long range financial plan indicates an improvement in our major borrowing commitments. Over the next four years these commitments will decrease from \$130.2 million in 1973-1974 to \$68.9 million in 1976-1977.

Table XI outlines these requirements. The Second Oil Refinery, \$25 million this year, 1973-1974, 1974-1975, 1975-1976, Labrador

Linerboard \$37.4 million the year coming up, then \$19.7 million, \$19.1 million, \$19.3 million, Hospital Construction \$26.4 million the year coming up, \$30.1, 1974-1975; \$10.9 million, 1975-1976, Educational Institutions, \$8 million each year, Debt Retirement, ranging from \$21 to \$32 million in each of those years and Sinking Funds from \$12 to \$14 million.

A realistic and proper level of borrowing can now be established for the Province over the next four or five year period which will allow us to carry out existing expenditure commitments and to introduce some additional project of high priority.

If we look at the total expenditure by all Government departments in the year coming up at \$674 million and compare it to last year of \$599 million, the increase is 12.4 per cent. We have analysed this by Policy Group, Mr. Speaker, and table twelve shows the expenditure by Policy Group.

Social Policy Group this year, \$357 million.

Resource Policy Group, \$129 million.

The Services Policy Group, \$107 million.

Financial Services and Other, \$79,622,000.

For a total of \$674 million.

The largest portion of our expenditure relates to the Departments of Education, Health, Social Services, Rehabilitation and Recreation, Justice and Manpower and Industrial Relations. These are the Social Policy Group. The following table shows expenditures, Table XIII, in those departments for last year and for the year coming up. There is an increase of \$47.2 million.

Education last year we spent \$144 million. This year we will spend \$164 million.

Health in the year just ending, \$95 million. In the year coming up, \$116 million.

Social Services, \$46 million last year. \$49 million in the year coming up.

Rehabilitation and Recreation, \$12 million last year. \$13 million, seven hundred thousand in the year coming up.

Justice, \$10,800,000 last year. \$12,500,000 in the year coming up.

Manpower and Industrial Relations, \$1 million the year just ending. \$1,278,000 in the year coming up.

The Department of Education continues to be the largest spending department in Government. In the year coming up as I said, \$164,136,200.

The largest part of that budget is spent on Services to School Boards and that is a total of \$102,577,000 in 1973-1974. The majority of that figure is for the salaries of teachers and superintendents which I have said will cost this year \$64 million as compared to the revised figure of \$55,700,000 in the year ending tomorrow.

The Government is aware, Mr. Speaker, of the need to examine carefully the regulations concerning the allocation of teacher salary units to school boards and the pupil-teacher ratio which presently exist. I am pleased to state that the Government is committed to changing the method of allocation and to reducing the pupil-teacher ratio in the 1974-1975 financial year. The method of accomplishing these changes will be discussed with the teachers and the school boards during the coming year.

The operational grants to School Boards are going to be \$11.5 million with the cost of transportation of school children, \$6.9 million.

On capital account the amount of \$19.1 million will be provided to school boards to erect and equip schools during the year. Of that amount \$11.1 million is for expenditures on educational development in conjunction with the Department of Regional Economic Expansion.

Mr. Speaker, in connection with the capital costs of construction of elementary and secondary schools the Government is pledged to re-examine policy in the field of the long term financing of school construction in this Province. We expect during the coming year

to develop new proposals for the long-term financing of school construction which is where a great deal of the trouble lies. These proposals will be discussed with the Denominational Education Committees. The object of these new proposals will be to permit longer-term financing of new school construction within the financial constraints faced not only by the Government but by the Church Authorities

The second major component of the Education budget is for the operation of the College of Trades and Technology, College of Fisheries and the District Vocational Training Schools. The grant-in-aid for the College of Trades and Technology is \$3,200,000. It has been necessary for Government to defer any capital expenditures related to extending the existing College and the financing of a residence for the students. The grant-in-aid for the College of Fisheries is estimated at \$2,625,000 and the operational costs of the eighteen Vocational Schools are \$9,817,000. This figure includes provision to open new vocational schools at Happy Valley, St. Anthony and Baie Verte. However, as is the case with respect to the College of Trades, the Government has had to limit severely any capital expenditure relating to the existing Vocational Schools. An amount of \$200,000 has been provided for any emergency items that might arise.

The third major component of the Education budget relates to Memorial University. In the past two or three years the University's enrolment has been increasing at the rate of 10 per cent a year and this combined with increased operating costs has resulted in the current grant-in-aid rising from \$16,227,000 in 1971-1972 to \$21,250,000 in 1973-1974.

It is the policy of this Government that the growth in expenditures at the St. John's Campus of Memorial University must be limited if funds are to be channelled into other priority areas in the Department of Education. It is therefore our intention within the next two months to approve an amount to operate the University for

the next three years and to request the University Administration to take whatever steps are necessary to administer the University effectively and efficiently within that approved amount. The estimates also provide funds for the development of plans for a new Regional College

to be established in Corner Brook as such a college will reduce the pressure for admission to the St. John's Campus.

The financial constraints imposed upon the Government and the seemingly insatiable needs of the education system generally have forced the Government to review the present Student Aid plan for students attending Memorial University. At present in this Province students who establish need must borrow up to \$600 from the Canada Student Loan Plan before they receive a grant from the Government of Newfoundland towards their needs for tuition or assistance generally. The Canada Student Loan Plan does provide for University students to borrow up to a limit of \$1400 for a regular two semester year. Commencing with the next semester the Memorial tuition and allowances plan will be amended so that students attending Memorial University who establish need for tuition or assistance will be required to borrow up to a limit of \$1400 from the Canada Student Loan Plan before they become eligible to receive provincial assistance by way of grant. The assistance plan for students at Memorial will then not be any less beneficial than those in effect in Nova Scotia, New Brunswick, Prince Edward Island or Alberta.

This change will not prevent any qualified student who has financial need from attending Memorial since he will be able to borrow the necessary funds from the Canada Student Loan and receive a grant for any additional funds needed from the Government up to the existing average limits of \$1800 per regular year for single students and \$2650 per regular year for married students. It will mean that there will be a requirement for a higher loan proportion rather than grant as was the case before this change. This revision will provide a savings of approximately \$1,600,000 to go towards our increased education expenditures.

The Government, Mr. Speaker, continues to place a high priority on the provision of modern and efficient health services throughout

the Province. Our Estimates for the coming year reflect this.

The major part of our capital account for 1973-74 is for the continuation and expansion of the Hospital Construction Programme. The completion of this programme will require the future spending in 1974-75 and 1975-76 as outlined in table XIV.

The Health Sciences Project - total cost \$45.3 million, prior to this year, that is the year coming up \$8.6 million has been spent, in 1973-74 - \$13 million, 1974-75 - \$15 million and 1975-76 - \$8.7 million.

The Carbonear Regional Hospital is estimated to cost \$11.1 million, \$1.1 million is being spent, next year \$5 million and in 1974-75 - \$5 million.

The Western Memorial Hospital, the total cost is \$18 million, spent to date - \$3 million, the year coming up \$5.9 million, 1974-75 - \$6.2 million, 1975-76 - \$2.2 million.

Twillingate Hospital, total cost - \$6.2 million, spent to date - \$500,000, (that will be explained when the Estimates are discussed) in the year coming up \$2.5 million, in the year 1974-75 - \$3.2 million.

Altogether \$80.6 million for the total programme.

The Hospital Construction Programme for the Health Sciences Centre at Memorial is currently behind schedule. In the Estimates last year an amount of \$14.5 million was included as the projected expenditure on the north campus facilities but the revised estimates show an expenditure of only \$7.2 million. It was a wrong cash-flow forecast. It is encouraging to note that Government has received repeated assurances that there will be no overruns on the original estimate of \$45.3 million and that the original completion schedule remains a distinct possibility.

Mr. Speaker, I stated in the Budget Speech of last year that the extension to the Hospital for Mental and Nervous Diseases, which is now to be known as the Waterford Hospital, would occupy a

very important priority in the expenditure programme of this administration. Because of the large capital expenditure programme to which we were committed last year we had to make a decision not to proceed last year. We have now made a decision that with this one exception of the Hospital for Mental and Nervous Diseases, there would be no major government construction programme instituted this year. I am pleased to state that there is included in this year's capital budget an amount of \$1.5 million to provide for the commencement of work on this essential and long overdue health facility. I might add that it is because of the tremendous campaign put up by the Minister of Health that this is done. We have all realized how badly it is needed and he has convinced us we cannot wait. The final decision on the design of the extended facilities for the Mental Hospital are now being made. The final cost figures are currently being developed and these will be revealed once the project commences. It is certain that this new extension will result in great strides being taken in the field of mental health in Newfoundland and will result in the replacement of facilities that should have vanished long ago.

In addition to the capital account in the Department of Health, there is \$84 million in current account programme to operate hospitals mainly, either government or by board. The total operating costs and expenditure on equipment and other services for hospitals will be \$67 million in the year coming up.

Provision has been made in the Estimates to phase out the Sanatorium as a Hospital for Chest Diseases and to absorb that into the general hospital system of the Province particularly at St. Clare's Mercy Hospital in St. John's West. It is evident that in the examination of Health Expenditure priorities the proportion of the Budget spent on Tuberculosis Control may have to be decreased in light of the diminishing number of cases in recent years. I am

also glad to say, Mr. Speaker, that the estimates provide funds for plans to be commenced for the Regional Hospital in the Clarenville Area. This Hospital will be intended to serve the people of the Bonavista Peninsula, the Burin Peninsula, and the Come By Chance areas.

In the Department of Justice this year the estimates will contain, in addition to all our public safety services, costing \$11.2 million, the setting up of a Newfoundland Guidance Authority, the administration of the Private Investigators and Security Guards Act, the drafting of a new Companies and Securities Act and the printing of a new consolidated statutes. These expenditures total close to \$300,000 and are the beginning of a long range plan to improve and reform the legal structure of this Province. In addition \$100,000 has been provided for the provision of legal aid to those needing such assistance, including certain members, Department of Social Services:

The Government has been concerned over the fact that Social Assistance policies tend to penalize a recipient of Social Assistance if he goes to work. At present very little of a recipient's earnings are exempt from the assistance formula and therefore assistance payments are cut back by a dollar for every dollar earned. The Government is firmly committed to the principle that it should profit a man to work and that the social assistance recipient who is able to work should be given some incentive to do so. Some means has to, therefore, be found to ensure that a person on social assistance, able-bodied, is not discouraged from going to work.

With this objective in mind the Government has made provision for the introduction of an incentives programme which will encourage social assistance recipients to work as much as they can and become self-supporting wherever possible. This programme will be a significant innovation in the social policies of this Province and should be a

positive factor in motivating people who are currently receiving social assistance but who are physically fit to work, to seek employment opportunities without the previous negative monetary implications. They will lose nothing if they do so, or lose very little. This incentive provision will be introduced into the Social Assistance programme within the next two months. Now the House may ask - why two months? Well the reason, Mr. Speaker, is that there is a major conference between the Government of Canada and the provinces and their social assistance ministers in April, in Ottawa. We have reason to believe that there is going to be changes made in that respect by the Government of Canada. But in any event, whether that happens or not, we will have our own incentives programme. We estimate the cost of the new scheme presently envisaged will be \$2 million of which fifty per cent will be recoverable from the Government of Canada.

Department of Rehabilitation and Recreation

A significant step in the restructuring of the Public Service was the creation of this Department. Their budget for the year coming up is \$13,774,100. That amount provides, Mr. Speaker, for the homes for special care, the Hoyles Home, the Harbour Lodge for Senior Citizens, the Children's Home, the Boys' And Girls' Home and Training Schools. In addition they provide recreation and sport services. We have included \$230,000 for miscellaneous fitness and recreational projects, \$75,000 for the Canada and Newfoundland Games, in which we are hoping our minister will participate. \$925,000 for community sport facilities. I should point out, however, that the \$925,000 capital expenditure for community sports facilities is almost totally committed to existing projects. Because of the situation on capital account in 1973-74 no new commitments with respect to community sports facilities can be entered into during the current year, the year coming up.

The expenditures on the departments in the Resource Policy Group will total almost \$129 million in 1973-74 as compared to \$118 million this year. The increase is \$11 million and this is consistent with our stated policy of placing priority where possible on resource development programmes and on programmes that will result in the development of productive facilities and revenue-producing activities within the Province. Wherever possible, Mr. Speaker, the Government will divert financial resources to the resource development area in our effort to increase the productive base and revenue generating capacity of this Province. Table XV shows expenditures of resource policy group.

Department of Forestry and Agriculture.

Next year \$16 million as compared to \$11 million in the year just ending.

Fisheries, the year coming up - \$10 million as compared to \$6.8 million. Industrial Development - \$69 million as compared to \$73 million in the year just ending.

Mines and Energy - \$22 million as compared to \$18 million, the year just ending.

Tourism - \$7,032,000 as compared to \$5,470,000. Rural Development - \$4,255,000 as compared to \$3,498,000 in the year just ending.

In Forestry and Agriculture, the expenditure estimated is \$16,251,000. A major portion of this is applied to on-going forestry programmes, forest protection, forest management, forest access roads, forest inventory and forest conservation and development.

Included in the estimates is a new agreement with the Department with DREE under the Agricultural Rural Development Act. This was approved in March of 1973 and provides for expenditures during the current fiscal year of \$4 million on such items as development of pasture land, capital assistance to farmers and land consolidation.

It is surprising to note that of the expenditure of \$16.2 million in Forestry and Agriculture, approximately \$9.5 million is for Agricultural programmes. A detailed analysis of the contribution to the Newfoundland economy of the agricultural community will be initiated in 1973-74 to determine whether or not a shift in government priorities in these two areas should be undertaken.

It is hoped that in 1973-74 the reorganized Department of Fisheries will play an important role in the revitalization of the fisheries in Newfoundland. We have provided over \$10 million in the estimates including \$4.5 million capital works, \$500,000 in loans for the construction of multi-purpose boats, \$1,500,000 for the Fisheries Loan Fund, \$600,000 for the Fishing Gear Bounty Programme, \$150,000 for the replacement of inshore gear and \$690,000 for bounties on new construction.

A significant step in the reorganizing of Government departments was the establishment of the new Department of Mines and Energy. The prospects for a commercial find of oil and gas represents a great opportunity and challenge for Government to ensure that we have the technical expertise capable of analyzing the problems associated with major oil finds. In addition the opportunities for maximizing employment and business opportunities from this industry represent a great potential boom to the Province.

The estimates of the Department have \$1,250,000 for a mineral development programme undertaken in conjunction with the Government of Canada. It is hoped that this programme will encourage a much higher degree of mineral exploration than in the past. In addition, a detailed study is now underway to identify the opportunities which exist for the further processing of mineral within the Province.

The Newfoundland and Labrador Power Commission, Mr. Speaker, this year requires \$12,543,000. Of this amount \$6,543,000 is

required to service existing agreements of the Power Commission and represents the cost deficiency between the Power Commission and its customers as a result of fixed priced contracts which had no provision for escalating costs of generating power. One of them of course is the ERCO contract. The balance of \$6 million represents the cost of the surplus generating capacity of the Holyrood Thermal Plant. These payments will not significantly decrease until 1977-78 when certain of the existing contracts come up to be renegotiated. Table XVI shows the anticipated cash flows for the next four years for the Power Commission for those purposes. \$12,543,000 in 1973-74, then continuing to 1976-77.

In Tourism, an important part of the resource development programme of course is expanding programmes in Tourism. The Department is going to spend in excess of \$7 million in the year coming up. \$880,000 for publicity and investigation, \$1,711,000 for parks, \$1,104,000 for wildlife resources and \$490,000 to develop historic resources. An additional \$2 million is being provided for cultural affairs, including library services. A special provision of \$100,000 has been included as the initial budget for the Silver Anniversary of Confederation which occurs in 1974.

The next group is the Government Services Policy Group and in that area an expenditure of a total of \$107 million this year as compared to \$104 million in the year just ending. That reflects our attempt to keep down expenditures on services and to put it in development. Table XVII outlines expenditures there.

Municipal Affairs and Housing will spend \$31 million as compared to \$20 million in the year just ending.

Provincial Affairs and Environment - \$2,300,000 as compared to \$1.5 million.

Transportation and Communications - \$66 million as compared to \$75 million in the year just ending.

Public Work -\$8 million as compared to \$7 million.

In Municipal Affairs and Housing - an amount of almost \$11 million will be spent in conjunction with DREE on industrial and residential servicing.

An estimated \$13 million will be spent on local government affairs including \$3,925,000 for grants to city and local councils, \$3,400,000 for payments for existing and proposed water and sewer systems, \$4 million for special projects under the winter works programme. The Housing Corporation will require \$3,600,000; \$2,800,000 of that is capital account for land assemblies, the New Town Housing, housing in support of industry, and loans to municipalities for lot servicing.

Provincial Affairs - The major component of this amount is for the management and control of our natural environment. The Clean Air, Water and Soil Authority has now become the Environmental Management and Control Division of the new Department and will have a budget of \$1,733,000 to conduct pollution control programmes, water quality surveys, pollution clean-up projects and to maintain and operate waste management sites and ADB water systems.

The new Landlord and Tenant legislation will also result in an expanded programme and increased expenditure in that very important social area.

The large committed construction programme for Health and Education and for Industrial Development has limited expenditures in the Department of Transportation and Communication for 1973-74. Nevertheless, Mr. Speaker, the highway construction and maintenance programmes are a significant portion of this budget. It is estimated that approximately \$19 million will be spent on the maintenance of highways, bridges and local roads. In addition an amount of \$43 million has been budgeted for transportation development under the DREE programme, to improve and reconstruct existing

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roads and for new construction and replacement of old bridges.

The total capital account budget for the Department is

\$43,391,000

Public Service Pensions, Mr. Speaker, are a matter that we have given much attention to. The problem that came to our attention as soon as we assumed office was the problem of disparities in the pensions received by former employees of the Newfoundland Government, by teachers and by others who were on pensions for some years. The pensions received by such former employees, particularly those who retired in the 1950's and 1960's, were in many cases unsatisfactory and socially inequitable. Many of those pensions were very low and this situation has been further aggravated by the significant rise in the cost of living in the past year. We have received written and oral briefs on this from the Newfoundland Teachers Association, from the Constabulary, from the Newfoundland Association Of Public Employees and others.

Table XVIII outlines the number of pensioners in receipt of pensions as a result of service with the Newfoundland Government, with the Newfoundland Railway before 1949, with the Constabulary and Fire Department and as teachers. It shows the total of 1137 pensioners. Four hundred and ninety of those received less than \$1600 a year, 83 receives \$1600 to \$2000, 283 receives, \$2001 to \$3000, 137 receives \$3000 to \$4000, 61 receives \$4000 to \$5000, 38 receives \$5000 to \$6000, 9 receives \$6000 to \$7000, 15 receives \$7000 to \$8000, 10 receives \$8000 to \$9000 per year, 3 receives from \$9000 to \$10,000 and 8 receive \$10,000 a year pension and over.

I am very pleased to announce, Mr. Speaker, that the Government has decided as the first step in raising pensions to an acceptable level to spend an additional \$350,000 in this coming financial year to improve existing pension payments. It is quite obvious to us that the largest proportion of the increase should go to the pensioners who are receiving the smaller pensions. The increased annual pension payment will therefore vary from \$360 per year for pensioners who receive \$2000 per year or less, an increase of \$30 a month each, to an amount of \$180 per year to those who receive an annual pension

of \$4001 and over. This will mean an increase in pensions from 50 per cent to those receiving smaller pensions to approximately two per cent to those receiving the higher pension.

The pension increase will be effective April 1, 1973 and will mean that all pensioners from the Public Service, from the Newfoundland Railway pre-1949, from the Police and Fire Department and from the teaching profession, receiving pensions less than \$2000 a year will have an increase of \$30 per month; those receiving pensions between \$2001 to \$4000 per year will receive an increase \$20 per month or \$240 per year and those receiving pensions from \$4001 per year and over will receive an increase of \$15 per month or \$180 per year.

This will mean that 573 pensioners will receive the increase of \$360 per year: 420 pensioners will receive the increase of \$240 per year; and 144 pensioners will receive the increase of \$180 per year.

The Government intends to continue examining the question of pension payments and to make adjustments in future years until all pensions are at a satisfactory level. In addition the Government intend to review the pensions of all employees who transferred to the Federal Government in 1949 to correct any inequities that may exist there with respect to the years of service they had with the Newfoundland Government.

Finally, Mr. Speaker, to conclude, this Budget illustrates certain principles which the Progressive Conservative Government has decided upon in our development of the Province. These principles include:

- (1) That we adopt an overall development plan as a result of the Planning Task Force studies;
- (2) That at every opportunity and wherever there is flexibility in expenditure decision, Government should turn from the expansion of existing services to the encouragement of economic development, increasing productivity and wealth and creating employment. All of

these actions will create revenue, and in the long-run enable Government to expand and improve our social services;

(3) That social assistance programmes should incorporate built-in incentives to encourage the physically fit to return to the work force;

(4) That assistance should be given to industry to establish in the Province if the industry itself results in net benefits to the Province and its people:

(5) That the Government and the people of this Province must face the realities of our situation and understand the need for establishing realistic financial priorities;

(6) That the Government must, wherever it can, assist those who cannot assist themselves.

This Budget illustrates that wherever flexibility in expenditure programmes permitted, we have diverted funds to industrial and resource development. The Budget allocates substantial funds to the Development Corporation, for the Rural Development Authority, for the construction of the second Oil Refinery, for the completion and operation of the Labrador Linerboard complex and for the activities of the Resource Department.

The principle of facing realities has been illustrated by our recent decision to close the Newfoundland Steel Mill at Donovans as it had shown that it was not economically feasible to continue its operation.

The decision of Government to cease granting sales tax and gasoline tax exemptions to industries establishing in this Province and to cease the granting of power subsidies to such industries further carries out our development principles. There is no point in the Province having industry establish if as a result the Government loses large amounts of revenue. The Government will, however, give specific, ascertainable grants if assistance is justified, as we did in the case of the sawmill of Newfoundland Forest Products at Hawke's Bay.

The decision not to grant a sales tax exemption to the second Oil Refinery will mean receipt by the Treasury of an estimated amount of \$12.6 million during construction. Our decision that no sales or gasoline tax exemption can be granted in connection with the development of the Gull Island site on the Lower Churchill means that if the project proceeds the Province will receive over the six year construction period some \$32 million in revenue from those sources. These two decisions illustrate our principle with respect to the establishment of industries on the basis of net benefit to this Province.

The decision to increase substantially the amounts paid public service pensioners demonstrates our belief in assisting those who cannot assist themselves.

The Government has had, reluctantly, to change the nature of the assistance programme for students attending Memorial to allow us to redirect funds to other areas of education thereby establishing realistic financial priorities. This principle is further demonstrated by the decision to begin no new major construction programme with the exception of the Waterford Hospital extension. As a result, we have had to defer certain construction expenditures and to limit ourselves to plans only with respect to the regional Junior College at Corner Brook, the residence at the College of Trades and Technology, the proposed new Government office building in St. John's and the regional hospital in the Clarenville area, designed to serve the Bonavista Peninsula, Burin Peninsula and Come-by-Chance areas.

Very few tasks are as difficult, Mr. Speaker, as the re-direction of the efforts of Government. The structure of organizations and the patterns of behaviour once established tend to continue. Expenditure programmes once created tend to expand with relentless momentum. The Government has taken positive action to restructure the administration of the Public Service but the most difficult challenge still lies ahead, the challenge of redirecting the expenditure efforts of Government

so that more productive use can be made of our limited financial resources.

Under the direction of the Planning and Priorities Committee Of Cabinet and Treasury Board, the Government will examine in detail, in the next few months, the efficiency and effectiveness of our existing expenditure programme. It will be exploring alternative methods of accomplishing the tasks fulfilled by present programmes in an effort to eliminate or reduce expenditure on low priority programmes.

The Budget and the Estimates now presented to this Honourable House of Assembly will be strictly adhered to during the coming year. The surplus and current account must be achieved and expanded if at all possible. Changes in existing programmes or the introduction of programmes can only be instituted within this guideline.

This Budget, Mr. Speaker, then marks, in my view, the transitional point in the struggle to change the momentum of Government spending to accord with our priorities within our financial capability and to carry this Province forward to the achievement of the possibilities that we feel and we know exist.

I therefore move, Mr. Speaker, that you do now leave the Chair.

MR. MARSHALL: Mr. Speaker, I move that this debate do now adjourn.

MR. SPEAKER: Is it the pleasure of the House to adopt this motion. Those in favour "aye", those against "nay". Carried.

MR. CROSBIE: Mr. Speaker, I have a message from His Honour The Lieutenant Governor.

MR. SPEAKER: To the Honourable the Minister of Finance;

"I the Lieutenant Governor of the Province of Newfoundland transmit estimates required for the public services of the Province for the year ending March 31, 1974, in the aggregate of \$558,047,200 and in accordance with the provisions of the British North America Act 1867, as amended, I recommend these estimates to the House of Assembly."

E. John A. Harnum
Lieutenant Governor.

MR. CROSBIE: Mr. Speaker, I move that the message from His Honour the Lieutenant Governor together with the estimates be referred to the Committee of Supply and that the House now resolve itself into Committee of Supply.

MR. SPEAKER: It is moved and seconded that I do now leave the Chair for the House to resolve itself into Committee of Supply.

On motion that the House resolve itself into Committee of Supply, Mr. Speaker left the Chair.

MR. CROSBIE: I move that the Committee rise and report progress and ask leave to sit again.

On motion that the Committee rise and report progress and ask leave to sit again, Mr. Speaker returned to the Chair.

On motion report received and adopted.

On motion Committee ordered sit again on tomorrow.

MR. CROSBIE: Mr. Speaker, just before moving the adjournment, I would like to remind honourable members and our guests that there will be a reception when we adjourn now at the College of Trades and Technology. I would be very pleased to see you all there and our guests.

I therefore move, Mr. Speaker, that the House do adjourn until Monday, April 2, at 3:00 P.M.

MR. SPEAKER: It is moved and seconded that this House do now adjourn.

MR. SPEAKER: On motion this House stands adjourned until Monday, April 2, at 3:00 P.M.