

PRELIMINARY

UNEDITED

TRANSCRIPT

FOR THE PERIOD:

THURSDAY - BUDGET DAY

APRIL 28~~th~~ 1977

The House met at 3:00 P.M.

Mr. Speaker in the Chair.

MR. SPEAKER: Order, please!

The hon. the Minister of Finance.

MR. DOODY: Mr. Speaker, I move that the House resolve itself into a Committee of Ways and Means and that Mr. Speaker do leave the Chair.

MR. SPEAKER: The motion is that the Speaker leave the Chair.

The hon. Minister of Finance.

MR. DOODY: Mr. Speaker, the Budget is recognized by this Honourable House as the most important and critical document with which we deal on an annual basis. It sets forth our financial position as a Province and outlines the fiscal mechanisms which will be used by Government to carry out its plans and programs. In a Province such as ours where revenue capacity is limited, the economic base on a relative scale is weak, but our expectations as Canadians are as high as the rest of the Nation, the budgetary actions of Government obviously are a very critical part of our lives.

I believe we have developed, Sir, an understanding that stringent budgetary practices, whatever their form, are born of necessity in this Province; necessity to maintain a credible financial reputation; to provide a balance between our revenues and our essential expenditures; to keep borrowing to a responsible level; to maintain reasonable debt servicing costs and an acceptable level of per capita debt; and to live within the financial constraints of an economically poor Province of Canada. In short, our budgetary practices are a necessity if Newfoundland and Labrador is to be a fiscally-responsible Province of Canada. This Budget and the fiscal measures it outlines is a responsible and necessary approach by the Government of this Province.

I am presenting Government's financial program to this Honourable House of Assembly in my third Budget in the past

MR. DOODY: eighteen months. It was on November 24th, 1975, that I presented the 1975 Fall Budget, the first supplementary budget in the Province's history, and one which took necessary steps to correct unfavourable budgetary trends which were emerging at that time. It introduced Government's new restraint program and clarified intentions of participating in the National Anti-Inflation Program. On March 26th, 1976, I presented the 1976 Budget which continued to deal with economic and financial uncertainties of the times and which reinforced our restraint program and also expanded a number of revenue sources.

The approach which Government has followed in these two Budgets and the fiscal measures introduced have had a profound but necessary effect on our current account revenues and expenditures and our overall borrowing program. We have endured the necessity of austerity and I now believe we are at a point in our budgetary process where Government must concentrate on spending its limited resources in those areas of the economy where they can be productive and improve the climate for investment. The 1977 Budget is responsible in that it continues to contain the level of Government participation in the Newfoundland economy. Assuredly, Sir, this Budget is a major step in Government redirecting its energies and financial support toward viable and productive activities. It expands the framework for long-term responsible financial management in several areas such as municipal taxation and public service pensions. It is also a target of this Government to reduce expenditure growth to a level less than the growth in the Gross Provincial Product by 1978-79.

1976-77 IN REVIEW

My two previous Budgets have had as their objective the restraint of rapidly growing Government expenditures and the moderation of this Province's heavy borrowing requirements. These objectives have necessitated the introduction of increases in several taxation sources and also meant that certain large projects

MR. DOODY: requiring Government activity in key sectors of the economy had to be reviewed. The 1976 Budget, in particular, projected a reduced borrowing program and a current account contribution to captial account and both were a re-affirmation of our objective to maintain a responsible financial position. The estimated year-end result for 1976-77 does show some budgetary variances as in Table 1 of the document to be distributed:

MR. DOODY: Unfortunately, we are showing a smaller current account contribution to capital account but there were no major individual variances on any of our revenue or expenditure items which caused the year-end surplus to be just over \$1,200,000. However, numerous small and unfavourable expenditure variances, combined with the non-receipt of \$11,500,000 in revenue from the Federal Government in respect of various programs resulted in net expenditures which were \$14 million or just 2.2 per cent in excess of the original budget. Current account revenues have held up to expectations and indeed, exceeded the original budget by nearly \$6 million. We are pleased, Sir, overall with our current account position because of the accuracy of our original Estimates, and we are confident that our contribution to capital account once again demonstrates our determination to show a balance between current account revenues and expenditures.

On Capital Account in 1976-77 the major variance related to Labrador Linerboard Limited. Our original budget showed requirement of \$25,000,000 but the revised position, Sir, was \$14 million higher, at \$39,100,000. This is a truly disappointing situation and one which resulted in the appointment, some six months ago, of the new Advisory Board to examine and re-assess the future viability of the Mill. I will be addressing the whole situation of Linerboard later in the Budget Address in order to set forth the course of action which these heavy financial requirements has necessitated Government to take.

Generally, Sir, Government is very pleased with the overall results on capital account which show a decrease in requirements of \$7 million excluding Linerboard. One extraordinary budgetary item did arise during 1976-77 and it related to the loan of \$78 million to the Gull Island Power Corporation, of which \$75 million was advanced during the 1976-77 Fiscal Year. At the start of 1976, we anticipated that Newfoundland Hydro would make

MR. DOODY: its own financial arrangements for the \$78 million investment which has been made to date on the preparation of the Gull Island site on the transmission lines and on the tunnel facilities. However, we have decided in co-operation with Hydro, to execute a loan agreement whereby the Province has advanced the Gull Island requirements to Hydro (through the Gull Island Power Corporation) at an interest rate of 10 per cent with the full amount of the principal to be repaid to Government upon the start-up of the Gull Island project. Full details of this loan will be presented to this Honourable House during debate of the Estimates.

The borrowing program, Sir, for 1976-77 was a very successful one as the Province floated bond issues in Europe, Canada and in the United States. A significant borrowing by the Province was a 21-year loan of \$50,000,000 from the Alberta Heritage Savings Trust Fund, the proceeds of which form part of the borrowing program for 1977-78. In addition, the Province introduced a weekly treasury bill operation in Canada which has been very well received by the investment community and by the financial institutions. The Newfoundland and Labrador Hydro Corporation raised \$30,000,000 in the Canadian bond market and the Newfoundland Municipal Financing Corporation had a successful \$35,000,000 Euro-U.S. issue.

ECONOMIC REVIEW AND OUTLOOK

The Economy

Throughout 1976, the western economies were recovering from the severe recession which was experienced in 1974 and 1975. Early indications were that the recovery would be a rapid one. However, as the year progressed, these expectations proved to be optimistic. Growth slowed dramatically in the latter part of the year and the average real growth for the western economies was some 5 per cent during 1976. This was coupled with

MR. DOODY: an average inflation rate of 8.5 per cent. The high prices demanded for oil by the oil exporting countries continued to create balance of payments problems for the western economies. Canada shared the problems of its trading partners throughout 1976. The mandatory program of wage and price restraint assisted in holding the rise in the consumer price index to an average of 7.5 per cent over the year. However, this moderation of inflation was won only through increased unemployment and declining business investment on a national basis.

The latest available indicators show that the Newfoundland economy performed fairly close to our forecasts in 1976. Real growth averaged some 1.2 per cent resulting in a real Gross Provincial Product of \$2,600,000,000. Personal incomes grew much more rapidly, Sir, averaging an increase of some 6.0 per cent, and it is interesting to note, Mr. Speaker, that our per capita income here in the Province of Newfoundland and Labrador which is now a little more than \$5,000 which is approximately 93 per cent of the average for the Atlantic Region.

SOME HON. MEMBERS: Hear, hear!

MR. DOODY: The Wage and Price Restraint Program, Sir, did have an effect on Newfoundland with the St. John's Consumer Price Index moderating to an average growth rate of 7.8 per cent during 1976. It is our expectation that an average increase of some 7 per cent will be recorded in 1977.

MR. DOODY: However, this moderation has been achieved, to some degree, at the expense of unemployment which averaged 13.6 per cent through 1976 and unfortunately, Sir, is not expected to change dramatically in 1977.

Resource-based manufacturing output increased encouragingly in 1976 as a result of record fish catches, more extensive processing of fish landed, and considerable recovery in production levels in the newsprint industry. These things have been made to happen. Fish landings in Newfoundland in 1976 increased by over 40 per cent from the previous year and attained an estimated value of \$63,000,000. The production of saltfish reached the highest level of the past seven years, and is expected to remain high in 1977 and strong prices are expected to continue throughout the year.

Mining output increased dramatically, reaching a record value of \$756,000,000 in 1976, mainly because of increases in iron ore production. The concern over the shutdown at Rambler Mines in Baie Verte has receded and a new uranium prospect in Labrador is hoped to be in production by the early 1980's. Recently announced results of exploration for new mineral reserves in the Buchans area have been quite encouraging, Sir, and indicate that activity there will probably continue well into the 1980's. The general outlook for mining in the coming years has, therefore, brightened considerably over recent months.

The major economic problem in Newfoundland is the obvious absence of immediate and significant employment opportunities. At the heart of our employment problem is the absence of a strong economic base, and hence, an excessive dependence upon Government. This dependence upon Government, Sir, is illustrated by the fact that about 45,000 people are employed directly by the Provincial, Federal and Municipal Governments.

The most concerning performance forecast for 1977-78 is the lack of business investment, which will grow only

MR. DOODY: 3.9 per cent and the poor performance in the construction sector. While the construction industry is affected by reduced Government capital expenditures, the lack of activity by the private sector is painfully obvious. Consistent growth and an expansion of the Province's economic base will depend largely on increased investment from the business sector.

Despite the serious problems with which we are confronted, there are bright spots with potential for positive action. It has been projected that our labour force will grow by 5,000 people per year over the next four years and we will, therefore, need 20,000 additional jobs by 1981 to prevent our unemployment level from rising. We are confident, Sir, that this job creation rate can be achieved, led by the fishing industry.

Offshore Petroleum Resources:

The potential oil and gas reserves which lie off the Labrador Shelf and the North East Coast of Newfoundland continue to be one of the brightest prospects in our long-term future. This Government has recognized the immense potential of these resources and over the past five years has attempted to plan carefully for their development.

To date, the Eastcan Group has drilled three successful wells which have proven natural gas reserves which indicate that commercial development is possible. While it is anticipated that these natural gas reserves will not be developed within the next several years, it is also apparent that the Labrador Shelf may well contain substantial oil reserves as well. There is little doubt that in the long run, petroleum will be a highly significant factor in this Province's economy.

This government, Sir, is aware of the potential resources and has, for some time, been concerned with the framework in which they will be developed. We have achieved a comprehensive and unique development plan for the offshore petroleum resources of this Province and I am

MR. DOODY:

pleased to indicate that this effort is now ready to be communicated to the people of Newfoundland and Labrador in some detail. My colleague, the Minister of Mines and Energy, will in the very near future make public this Province's position with regard to the future development of our offshore petroleum resources in a White Paper to this hon. House.

Hydro Potential - The development of the hydro electric resources of our Province has been a high priority of this government and its resolve to succeed in its energy development efforts is greater today than it ever has been. Our objective is also to ensure that development of our energy resources will be accomplished in a manner which maximizes both the

MR. DOODY: the short and long-term returns to our Province.

During the past three years, we have demonstrated our commitment to the development of the hydro electric potential of Labrador. Close to \$78 million has been expended on technical studies, field investigations and actual construction work related to development of Gull Island, and the transmission of power from that source to the Island. During this period negotiations have been held with the Government of Canada and the Governments in our neighbouring Provinces, Sir, on the opportunities which exist for collective benefits to Eastern Canada from hydro resource development in Labrador. While active construction work on the Gull Island scheme has been suspended, planning, engineering and discussions are continuing with the federal government and with other parties.

Collectively, the undeveloped hydro electric potential of Labrador and the interprovincial rivers total approximately 7,750 megawatts and should be harnessed for a nation which has these unique hydro opportunities at a time when Canada and the rest of the world is facing an energy crisis. The potential of Gull Island and other developments will not be allowed to stand undeveloped as I believe that the Churchill River and its energy promise has become a project of national importance.

Mr. Speaker, the financial overview for 1977-78, Despite the budgetary measures of 1976 the government found itself face to face once again with the challenges of keeping the 1977 budget under control. We established our overall objectives as being: To continue a responsible financial and fiscal policy approach to improve our credit standing and improve our access to and reduce our cost of borrowings on the world financial markets; to restrain expenditures within our capacity to raise revenue and capital through

MR. DOODY: taxation and borrowing; to maintain a current account which is meaningfully kept in balance and to contain our borrowing at a level which will improve our debt service ratio.

The results of our deliberations in dealing with the 1977-78 fiscal position have produced the following overall position: Table II, when the document to be circulated will outline in detail, Sir, the numbers related.

In arriving at this position, numerous decisions of major significance have been made by government on current and capital account relating to revenues and expenditures. These we all considered necessary in order to achieve our overall financial objectives. The projected budgetary position provides for a contribution to capital account of \$8,656,000 and capital account requirements of \$154.4 million including the remaining portion of the Gull Island Loan. In addition to this, there are debt retirement requirements of \$54 million for total borrowing requirements of \$199.9 million, or \$200 million.

And now, Mr. Speaker, the Labrador Linerboard decision. The most difficult and complex situation this Government has been grappling with during the past two years is the Linerboard Mill at Stephenville. Labrador Linerboard Limited has lost money every year since it was opened in 1973 and the size of the cash requirements provided by its owner, the Government of Newfoundland and Labrador, has been growing. In 1976-77 the mill required \$39 million from the provincial treasury.

In November of 1976, an Advisory Board of experienced Canadian businessmen, including three senior officers in the pulp and paper industry was appointed. Top management at the mill was changed and steps were taken to revise the marketing organization.

MR. DOODY: The Board has been actively reviewing the marketing, the woodlands and the financial operations of the Company. It has also begun a study of possible alternate product lines.

The major problems, Sir, which have plagued Labrador Linerboard Limited are fundamental difficulties. The mill is a non-integrated linerboard plant located far from the markets and utilizing wood supply at extremely uncompetitive costs. The cost structure of the mill is high by industry standards and combined with three consecutive years of poor selling prices, the company has suffered the following financial losses: In 1974-75 a net loss of \$21.3 million; in 1975-76 a net loss of \$34 million; and in 1976-77 a net loss of \$41 million.

During the past five weeks, Sir, the Province has made a special review of the marketing and financial outlook of the company with the Advisory Board. It has also made representations to the federal government for financial assistance and support. However, despite the sincere and intense efforts of all parties concerned, the outlook of

MP. DOODY: the company remains bleak. The projected cash operating requirements for the Company in 1977-78, all of which must come from the provincial treasury, are \$54,800,000.

The forecasted sales volume for the Mill in 1977-78 is 166,500 tons, less than 50 per cent of its rated capacity. The estimated average selling price per ton is \$188, less than the cash cost per ton of production before fixed expenses, before depreciation, interest and debt retirement. In 1975, the Company's mill nets averaged \$236 per ton and in 1976 they averaged \$219 per ton.

The prospects of cash requirements of approximately \$54,800,000 and of further losses in 1978-79 resulting in cash needs of approximately \$40,000,000 are staggering. The resources of this Province are not great enough to withstand these requirements unless services in other areas are reduced and capital funds diverted from job creation activities such as construction, the fishing industry and other sectors. The cost per job to the provincial treasury of the Linerboard Mill far exceeds any realistic guideline.

This Province has made difficult current and capital account decisions along with various taxation increases in the Fall of 1975 and Spring of 1976 Provincial Budgets to ensure that the financial position of the Province was maintained. The need for financial responsibility on the part of the Government has never been greater. Against the background of these efforts and the forecasted cash requirements, and the conclusion by all parties who have analyzed the Linerboard Mill that it is not a viable operation, the Government has reluctantly decided to phase out the Company's operations.

Existing wood inventories will be converted to finished product during the next four to six months. During this time period, all options of alternate product lines will be pursued, as well as

MR. DOODY: further discussions with the Federal Government and other potentially interested parties. As all members of this Honourable House are aware, the magnitude of this decision and its implications, not only for the financial position of the Province, but also for the economic future of the Port au Port area, are of soul-searching significance.

It was not an easy decision to make and every aspect has been explored toward continuing operations. However, we must show openness and integrity in our dealings with the people of the Province and with those outside of Newfoundland who look to our decision-making as a prime criteria in evaluating our credit-worthiness. We hope that in budgeting for the phase-out of operations in four to six months that we can be proven to be incorrect. If this is so, if there is any possibility of continuing operations, then we will find it and we will implement it.

As a result of Government's decision to shut down the Linerboard Mill, the budgeted cash requirements for Labrador Linerboard Limited in 1977-78 is still \$26,700,000. Mr. Speaker, it is my intention and the intention of my colleagues to have an early and complete debate on the Linerboard Mill. This debate will come early in the Budget and Estimates debate. In fact Sir, it should be a separate debate as early as possible.

ECONOMIC IMPACT OF BUDGETARY DECISIONS.

Certainly, the major budgetary decision for 1977-78, socially, economically and financially, has been the Linerboard Mill. Indeed, we have delayed the Budget by more than six weeks in order to ensure a total and completely comprehensive review of the situation before making the final decision. However, the 1977 Budget contains a series of other major decisions which reflect our approach to redirecting the social and resource priorities within this Province.

FISHING INDUSTRY PROSPECTS

MR. DOODY: The 1977-78 Estimates of the Department of Fisheries are a reflection of this Government's confidence in the future of the fisheries and of its determination to provide the immediate environment for its growth. The total expenditure of the Department is projected at \$23,777,800 and is the largest ever projected. By comparison, the 1976-77 expenditures were closer to \$16,000,000. I might also point out that Government intends to make strides in

MP. DOODY: 1977-78 towards the final planning of the new Polytechnical Institute with the emphasis being on the initial phase of fishing and marine-related facilities.

The fishery is the largest employer in the Province apart from Government. At present, there are about 25,000 people employed directly in the fishing industry and it is realistic to project this figure to increase to 35,000 people in 1985. In addition, those who are now employed only seasonally will be able to find work for a much longer period. Total landings in 1976 were almost 750,000,000 pounds with a landed value of \$63,000,000 and the total value added through processing increased to \$160,000,000. With the proclamation of the 200-mile limit and the declaration of extended jurisdiction, the opportunities for expansion over the long term, are enormous. Newfoundland fishermen should aim to harvest up to 2,000,000,000 pounds of groundfish within five years. In addition, large quantities of mackerel, herring and caplin will be available and it is realistic for the Newfoundland industry to set as its long-term objective the harvesting and processing of 1,000,000,000 pounds of these species. It is projected that the landed value can be increased to well in excess of \$200,000,000 within this five year period.

At present, a large volume of fish is leaving the Province in a semi-processed form and it is our objective to change this situation by encouraging the final processing of the product. The long-term objective is to increase the product value from \$160,000,000 in 1976 to \$800,000,000 by 1985.

Immediate action will be required to ensure that the full potential is realized. There must be a program for fleet replacement and expansion, and we must make sure that new vessels embody the most modern and suitable technology. The Department of Fisheries intends to build 100 new multi-purpose vessels over the next five years and 20 of these will be constructed this year at a cost of

MR. DOODY: \$4,500,000. In addition, a survey is now being conducted to determine the age and condition of our present trawler fleet, so that replacement and expansion of the deep-water fleet can be planned. Negotiations are also underway with the Federal Government to secure reinstatement of the Federal subsidy of fishing vessels. In the short term, it is possible that surplus vessels in Europe may be used to supplement the deep-water catch capacity.

Preliminary discussions have taken place with the Federal Government on a program of experimental fishing using offshore gill-netting and long-lining methods on offshore grounds. The intention is to involve our inshore fishermen in training programs to enable them to exploit these offshore areas. Additionally, major opportunities now exist in the harvesting and processing of caplin, as in 1977, 800,000,000 pounds of caplin will be taken off our coast and most of this will be caught by the Russian fleet. A major initiative has been taken by Newfoundland companies, working with the Provincial and Federal Governments to get more Canadian vessels into the caplin fishery. The objective is to displace foreign effort by building up our own capability and in 1977 it is planned to harvest 80,000,000 pounds.

An economic recovery in our fishing industry will represent an attractive opportunity for the private sector. There will be a need for more investment in new vessels and in new processing plants. There will also be a need for centralized cold storage and landing facilities. Also, it is our view that a balanced growth of the inshore and offshore sectors of the fishing industry will require the provision of certain centralized shore facilities. However, it is essential that we plan now to shape the future of the industry and to ensure that the industry is prepared to respond to new opportunities.

HOUSING.

MR. DOODY: With regard to housing, Mr. Speaker, the budgeted expenditure for the Newfoundland and Labrador Housing Corporation for 1977-78 has been estimated \$61.8 million consisting of almost \$11 million in provincial funds and approximately \$51 million primarily from Central Mortgage and Housing Corporation, as well as from other sources including DREE. In 1977 -78 the Corporation will continue actively in existing programmes and embark upon a number of new directions including:

- (i) Substantially increased mortgage lending funds, particularly with the introduction of the Rural and Remote Housing Programmes which extends home ownership to low income families in rural communities by relating mortgage payments to income.
- (ii) Increasing emphasis on the preservation of the existing housing stock through the Neighbourhood Improvement Programme and further negotiations of residential rehabilitation programmes.
- (iii) Construction of subsidized rental units for low income families at levels equivalent to previous years, but now including provision for the elderly and for the disadvantaged groups.

With high levels of funding available and the new planned directions for housing programmes in future, government is continuing to provide the vehicle to significantly improve the quality of housing in the Province. The challenge now rests with private initiative along with public action to avail of these programmes and ensure that the funds are spent and maximum benefits generated.

Economic activity - Mr. Speaker, each year there is considerable concern that the impact of government restraint will adversely affect business and, in particular, construction activity. Our 1977-78 capital account is estimated to be in the vicinity of

MR. DOODY: \$221 million and most of this goes directly into the economy in the form of water and sewer projects, highway construction, public building construction, resource-related projects such as fish handling facilities, forest access roads, and development loans. All of these projects are employment producers.

In addition to direct budgetary expenditures, government agencies such as Newfoundland Hydro contribute in a major way to economic activity. Table III in the document to be distributed gives some indication of the programmes which are included in the 1977-78 overall government programmes which to a large measure provide economic stimulation and employment opportunities. I may quote a few of these items, Mr. Speaker, Newfoundland and Labrador Housing \$62 million, Newfoundland and Labrador Hydro nearly \$62 million, transportation development - DREE \$35 million, highway improvement and construction nearly \$20 million, revitalization of the fishing industry nearly \$17 million, water and sewer systems - NMFC \$15 million, and on it goes for a total of some \$293 million.

Despite the high level, Sir, of economic activity which will be stimulated by government, our financial position has not allowed us to proceed with any major additions to our hospital construction programme. Finding money to build the facilities and providing the subsequent operating funds is no easy task and government has decided to continue with its moratorium on major capital works in the social field. As a result, Sir, the hoped-for hospitals at Grand Falls, at Burin, at Clarenville, Bonavista, Channel, and Placentia will all be deferred. The total estimated cost to complete these facilities is almost \$70 million. I might also add that some renovation work will be done at the Janeway Hospital and the Waterford Hospital extension

MR. DOODY: will be completed in the 1977-78 year. Unfortunately, the magnitude of the total hospital needs, including the necessary expansion at the Grace Hospital, is more than this Province can handle in the short term.

Government has also decided to defer a start on the construction of the new library at Memorial University which is estimated to cost between \$11 million and \$13 million to complete. We will not be able to add any additional monies to the already committed \$15 million provided for school construction in 1977-78. However, Sir, we will be discussing with the Denominational Educational Committees, the possibility of extending our present guaranteed grants to them over a longer time period.

With regard, Sir, to federal/provincial fiscal relations, in dealing with our budgetary position, one of the major factors was the change in financial arrangements with the Government of Canada. As hon. members of this House are aware all Canadian provinces have over the past eighteen months been negotiating a new set of financial arrangements with the federal government. These negotiations were concluded by First Ministers at a conference in December of 1976. The new Act called "The Federal/Provincial Arrangements and Established Programmes Financing Act"

MR. DOODY: was passed by Parliament of Canada earlier this month and will cover fiscal sharing to 1982 and beyond. The Act covers such important programmes as Equalization, Revenue Stabilization, the Income Tax Collection Agreement, Reciprocal Taxation, Revenue Guarantee and a new system of tax and cash transfers replacing certain cost-sharing arrangements. These arrangements are complex and there is a budget supplement which explains them in a more detailed and technical manner.

Newfoundland's position throughout the negotiations was that revised revenue sharing arrangements must be equitable if poorer provinces were to continue to provide public services on a par with other parts of Canada. To this end, Sir, we supported: retention of the representative taxes for determining equalization entitlements; retention of the revenue guarantee programme; and adoption of the proposal for established programme financing that we felt was the fairest and the most equitable to both levels of government. We are very concerned over certain changes made to the equalization programme which, Sir, is probably the most important part of the Act for this Province. Although the basic principles have been retained, the revised programme will not pay the Province what it would have received under the old arrangement.

The Provinces also agreed, Sir, that the new Revenue Guarantee Programme which was meant to ensure that Provinces would not lose income revenue through changes to the Federal Income Tax Act in 1972, be retained past 1977. Subsequently, the Provinces asked for four additional personal income tax points as part of the common provincial position to cover the losses from the termination of the old Revenue Guarantee Programme. The Provinces were forced to accept one personal income tax point plus an equivalent amount of cash equal to a further tax point.

MR. DOODY: The new Health and Educational Financial Arrangements are a reflection of a stated Federal policy to reduce the open ended cost-sharing arrangements which have been favourable for provinces such as Newfoundland. The Health and Education standards that you enjoy today are a reflection of these programmes. However, Sir, the day of the 50-cent dollar has passed and future federal contributions towards health and education services will no longer be determined by the level of provincial expenditures. The new arrangements are known as Established Programmes Financing and provide that federal funds will grow at the rate of the growth of the economy. Post-secondary education, health insurance, Medicare and certain Extended Health Care Programmes will, in the future, be "block-funded" through abatements of income tax points plus an equivalent amount of cash.

While there are advantages to the new arrangements because of greater flexibility in provincial spending and the setting of priorities, the growth rate in these revenues for a Province still in the catch-up stage that our Province is in, will make our position, as it relates to national standards, that much more difficult. On balance, this Province will receive less money under the new arrangements in 1977-78 than it would have under the previous arrangements.

And now, Sir, the Collective Bargaining Post Control.. Government, Mr. Speaker, also had to examine carefully its collective bargaining policies in view of growing wage costs. We presently employ a total public service of almost 29,000 employees with an overall wage bill in excess of \$400 million. This government, prior to the introduction of the Anti-Inflation Programme, experienced many financial difficulties associated with public sector wage increases and it was becoming increasingly evident that we needed some sort of control on a national basis to provide moderation of the growing expectations. To date, we have fully supported the Anti-Inflation Programme of the federal government and we have lived within it in our collective

MR. DOODY:

bargaining process. Moreover, we have stated our desire to continue with the Anti-Inflation Programme until the end of its three-year life. Many provinces of Canada are concerned that the removal of mandatory wage controls will witness a re-emergence of the difficulties experienced prior to controls. The Government of Newfoundland and Labrador does not believe that this will occur and we are committed to an approach which will ensure that it will not occur.

Thus, the time is opportune for all of us to consider a re-appraisal of policies and practices governing both public and private sector compensation. While it may be necessary to establish certain de-control procedures, we are convinced that once the Anti-Inflation Programme runs its course that it should be removed totally with the possible exception of a monitoring agency that may be necessary to review any adverse trends which might develop. This will, however, mean that all groups including management, labour, government, the public sector and the private sector must have a deep understanding of a common approach to collective bargaining. We must take into account the need to consider all elements of compensation and therefore establish a total compensation approach to collective bargaining. Included in such an approach is the ability to pay concept, which is so often lost, particularly in the public services.

There must be an acceptance by all interested parties of the broader responsibilities inherent in the bargaining process. In particular, there must be an awareness of the need for an approach at the bargaining table which is not in isolation of the financial realities of our economy. The growing significance of the overall public service salary bill in relation to the provincial economy and the ability of the Province to generate additional revenues from strained sources to cover increases for public servants will have a much more definitive and practical impact on public sector compensation in the years ahead.

Proposed Municipal Fiscal Management Policies - The fiscal problems facing our municipalities in Newfoundland have been of concern to the provincial government for some time. The Whelan Royal Commission came to the conclusion that the municipal revenue structure in

MR. DOODY:

Newfoundland was fully a decade behind the rest of Canada and revealed that this Province has the least developed municipal revenue system in Canada. While it appears that the citizens of Newfoundland and Labrador identify strongly with local and regional issues, it also appears that municipal governments are reluctant to exercise self-reliance and independence as it pertains to the funding of local projects. In many cases, of course, limited tax bases are the cause.

In 1977-1978, government expenditures directly related to municipal assistance totalled more than \$45 million. And once again, Sir, in the budget document there is a table with the appropriate breakdown.

The grant policies followed by the provincial government do not accomplish a totally fair and equitable system of allowing municipalities to be financially responsible. It is against this framework of municipal fiscal management that the provincial government intends to effect a reform of the municipal fiscal structure in Newfoundland to a more cohesive, equitable and rational basis. We intend to meet with municipal governments to accomplish these objectives and with their co-operation, we intend to establish a uniform taxation base at the municipal level based on real property. Concurrently a host of miscellaneous taxes which are presently in existence at the municipal level will no longer be necessary. In this manner, we hope to be able to improve the Province's overall tax structure by making it more equitable and less regressive in nature.

Further, Sir, we intend to establish a new system of provincial grants to municipalities which will consolidate all previous grants in one system, and be directed towards cash requirements of the municipality and awarded, based upon objective financial criteria. We hope that such a uniform grant system will encourage responsible fiscal management at the municipal level. It is also our intention, Mr. Speaker, that responsibility for the review of municipal capital projects will be vested with a new Board and we are presently examining the integration of such a Board with the operations of the Newfoundland Municipal Financing Corporation.

MR. DOODY:

It is the government's sincere wish to assist municipal development in this Province. As a consequence of the rate of change which has taken place to date, we have decided to take the initiative to accelerate such change. Only in this manner will it be possible for us to bring about a municipal structure consistent with other Canadian jurisdictions.

Public Service Pension Policy - Mr. Speaker, another major area of budgetary policy which this administration has been reviewing is that of the various pension plans of government and of its agencies. There is growing concern over our approach over the past years to retain employee contributions in the general revenues of the Province. Although our pension plans are sound on a cash-flow, pay as you go, basis, the last actuarial study in 1974 estimated our accrued pension liability for existing employees and pensioners to be in excess of \$160 million. A full-scale

Mr. Doody:

actuarial study will be taken and will form the basis for significant pension policy decisions.

Our pension policy deserves very serious consideration and government realizes that our current pension structure will create long-term financial concerns unless action is taken toward funding the pension plan. The Province must not be faced in the future with a position where the short-term burden of stabilizing our pension obligations will be too great for the Province to bear. This government has decided to introduce a form of funding of employee contributions in the next fiscal year and the detailed actuarial study, which I mentioned, will aid us in the decision on how to proceed. Among other things, this study will determine the magnitude of the government unfunded liability, and will recommend appropriate contribution rates and alternative methods of funding of all pension plans. However, I can confirm that if there is a need for an increase in employee contributions, it will not come into effect until the funding arrangements are introduced and the need for increases is fully explained.

Now, Mr. Speaker, our Current Account Overview for 1977-1978. With all these major policy issues facing government on de-control, municipal finance, policy pension, Linerboard and Federal/Provincial relations, the achievement of a reasonable position in our 1977-1978 current account has indeed been a budgetary challenge. The cornerstone of our ability to improve and expand existing programmes and to introduce new programmes rests with our ability to raise revenues. Table V in the document summarizes our current account revenues by major source and they total \$956 million in 1977-1978 as compared to \$826 million for 1976-1977:

The growth in revenues of nearly 16 per cent, Sir, is not an accurate reflection of what has really occurred due to the adjustments related to the new Federal/Provincial financial arrangements.

Mr. Doody:

Nevertheless, the effective adjusted growth rate on a comparative basis is still high and it is estimated to be approximately 13 per cent. With this potential growth in revenues the challenge still was to keep expenditure growth down to that level and to achieve a meaningful current account contribution on capital account. This has not been easy but our final budgetary decisions produced a total current account expenditures of \$947 million as compared to \$824 million in 1976-1977 - an effective increase of 11.8 per cent when adjusted for the new financial arrangements.

In order to achieve this limited expenditure growth a number of decisions were necessary to give effect to the on-going programme of restraint. A major programme elimination which has already been announced is the \$600 home ownership grant for the purchasers of new homes, and this decision will save government \$1.8 million in 1977-1978. We regret this decision, Sir, but in view of the expenditures that we were making in the housing area generally, we felt that priority budgetary allocation dictated some reduction in this area.

In the 1976 Budget the area most affected by restraint was probably the health field and in the 1977 Budget it will probably be said that education expenditures, which now represent almost 30 per cent of our total budget, were the ones most directly affected by expenditure programme reductions. For instance, we have eliminated the \$10-per-week training allowance paid to students living at home and attending the College of Fisheries, the College of Trades and the various vocational schools. No change has been made for students living away from home. In addition, we have decided to eliminate some of our scholarship and fellowship grants to be awarded in 1977-1978. Government, Sir, also intends to continue with strict policy towards the operational grants to School Boards and we will be encouraging School Boards to use funds from their School Tax Authorities to supplement the grants from government, which in 1977-1978 will be \$24,270,000 compared with the \$22.2 million in 1976-1977. Of course,

Mr. Doody:

no change will be made in our policy of directly providing the cost of insurance for School Boards. We will also be changing the methods of granting substitute teachers to School Boards to reduce the

MR. DOODY:

expenditure in this area. We will also continue to provide restrictive operating grants to Memorial University and to its Medical School.

Table VI in the budget document indicates that hospital operating costs, teachers' salaries, interest on the public debt and general government salaries, head the list of expenditure items in 1977-1978 on current account.

Generally, we have been able to sustain, Sir, a very high level of support for all government services during 1977-1978. The announced expenditure reductions although not encouraging, are certainly of no significant magnitude when one considers that the Province of Newfoundland is now supporting a current account operation of almost \$1 billion.

If I may quote some of the major current account expenditure items from the table, Sir. Hospital Operating Cost—these are 1977-1978 figures - about \$141 million; Teachers's Salaries in excess of \$139 million; Interest on the Outstanding Debt more than \$128 million; General Service Salaries more than \$128 million; Social Assistance more than \$49 million; Operation of Homes for Special Care \$22 million; Grants to School Boards more than \$22 million; for a total of \$947 million.

Mr. Speaker, the government has decided to grant an increase to all pensioners currently receiving pensions under the various provincial public service pension plans -

SOME HON. MEMBERS: Hear, hear!

MR. DOODY: - effective April 1, 1977. The general increase is structured in a manner to provide the greater percentage increases to the persons with the lowest pension incomes. Consequently, an increase of \$240 a year or six per cent, whichever is the greater, will be awarded to an individual maximum increase of \$720.

I am also pleased to announce a six per cent increase in our social assistance payments effective May 1, 1977.

SOME HON. MEMBERS: Hear, hear!

MR. DOODY: In addition, in an effort to attack the difficult aspect of the unemployment problem for those on social assistance, government

MR. DOODY:

intends to expand its Special Job Creation Programme.

SOME HON. MEMBERS: Hear, hear!

MR. DOODY: Government has made provision for the creation of one thousand additional jobs to be implemented during the current 1977-1978 fiscal year. Wherever possible, these projects will be directed at strengthening the resource base and resource-oriented facilities. Many of the projects are related to the fishing, forestry and tourist industries. These projects will be carried out by the Department of Social Services in co-operation with other Departments of government since most of the people employed will be social assistance recipients.

Fiscal and Taxation Measures - When our expenditure plan was finalized, we found ourselves in a position where our current account did not, in our view, have a meaningful surplus and one which would stand up to the scrutiny of financial investors. Therefore, we once again had to look at the fiscal and taxation measures which were available to us to make our taxation system more equitable but, at the same time, Sir, increase the revenues accruing to the provincial treasury. In order to proceed in a responsible manner with the 1977 Budget, we believe that additional taxation measures are necessary to achieve a proper fiscal position. Therefore, Government has decided to:

(1) Increase the provincial personal income tax from 56.5 per cent of the federal basic tax to 58.0 per cent effective July 1, 1977; an increase of less than one per cent on total personal income tax payable. I should point out that the increase will not result in any significant change in the total tax liability for the average taxpayer. For instance, Sir, a family of four with an annual income of \$10,000 can anticipate a ten dollar tax increase. In the \$15,000 income level the increase will be approximately twenty-five dollars. So the increase is not a significant increase. But the increase partially offsets the decision by the federal government to terminate the old Revenue Guarantee Programme. It will provide additional revenue, Sir, in 1977-1978 of \$2.5 million and will over a full taxation year yield \$4,200,000.

MR. DOODY:

(ii) Our Tobacco Tax will be raised, effective immediately, by one-fifth of one cent per cigarette or four cents per pack of twenty cigarettes. This increase in Tobacco Tax will yield us \$2.2 million in the forthcoming fiscal year.

MR. DOODY: The Insurance Premiums Tax which is presently seven per cent will be raised, effective immediately, to ten per cent and we estimate that this will give the Province an additional \$2.8 million of revenue in 1977-78.

Mr. Speaker, a number of minor adjustments will also be made in the Retail Sales Tax Act including the extension of the base to cover the sales of cable TV services. Although this extension will not result in any substantial revenue to the Province in 1977-78, we feel it is fair to give full notice of our intentions at this time so that the installation of cable TV can be carried out with this tax in mind. There will be a number of miscellaneous adjustments to the Retail Sales Tax Act which, although they are only minor in nature will probably yield the Province an additional \$800,000 in 1977-78.

These tax increases, Mr. Speaker, will be offset by the following decreases in the Retail Sales Tax base:

- (i) All meals, whether consumed on or off the premises, will now become taxable, however, any meals which are equal to or less than \$3.00 per person would not be taxable. This measure will bring us more into line with the taxing practices in the rest of Canada and it is estimated that it will cost the Province approximately \$1 million in the next fiscal year.

This move was precipitated more by representation from the student bodies across the Province, the vocational schools and the university and at the College of Fisheries because they felt it was most unfair, in the way the present taxation system was being implemented.

MR. DOODY: (ii) Sir, to conform with taxation practices across Canada and to be more equitable in the field of housing, mobile homes will now be taxable at 50 per cent of their sales value thereby saving the average consumer an estimated \$900-\$1,000 per unit.

SOME HON. MEMBERS: Hear! Hear!

MR. DOODY: This measure, we hope, will assist local mobile home manufacturing and that it is a very positive forward step.

(iii) In recognition of the high cost of domestic electricity and heating fuels, the Retail Sales Tax will be removed from all insulation materials.

SOME HON. MEMBERS: Hear! Hear!

MR. DOODY: This move, Mr. Speaker, will be consistent with our encouragement to people to conserve energy and also consistent with our approach to keep necessary energy costs to a minimum.

The overall net effect of the taxation changes which I am proposing to this hon. House, Sir, is approximately \$9.4 million in additional revenue on an annual basis.

In conclusion, Mr. Speaker, I believe that this government has brought forward a responsible and a realistic financial plan for 1977-78. The current account expenditures of \$947 million and gross capital expenditures of \$221 million represent a total expenditure programme of \$1.1 billion which is almost an eleven per cent increase over last year and includes both the continuation of many public service programmes and the expansion of others in areas which will create additional jobs. Unfortunately, Sir, the plan does not significantly expand our economy and our financial resources have necessitated the restraining of other expenditure programmes and have resulted in certain tax increases.

MR. DOODY: The decision to phase out Labrador Linerboard Limited, Sir, is certainly the most difficult decision this Government has ever had to make. The realism of the situation at Linerboard, combined with our overall financial resources, has necessitated this difficult burdensome decision.

More than ever before the budget for 1977 demonstrates the stark realities related to the limitations of the public treasury of this Province. Despite the many opportunities related to resource development in this Province, we are not yet at the point of turning the corner toward prosperity. Although, we have tremendous potential, Sir, for the fishery, hydro development, and offshore oil and gas, and although employment opportunities will result from these developments, we find ourselves in the short term having to deal with the reality of our need for financial constraints.

The stringent approach to financial management which we have followed in this and other budgets is not a popular approach from a political point of view. Nevertheless, it is the responsible approach and one which we have had to take. The injustice of regional disparity continues in this country

Mr. Doody:

and our true wealth as a Province will only increase at a rate significant enough to allow us to provide sufficient job opportunities if both the Federal Government and the private sector combine with the Provincial Government to productively expand the economic base of our Province.

These are uncertain times, Mr. Speaker, times which require tough, courageous and decisive actions. I am confident, Sir, that the people of this Province will support us in our approach to responsible financial management.

Thank you, Mr. Speaker.

SOME HON. MEMBERS: Hear, hear!

On motion debate adjourned until tomorrow.

MR. DOODY: Mr. Speaker, I have a message from His Excellency The Administrator.

MR. SPEAKER: A message addressed to the hon. Minister of Finance reads as follows:

"I, the Administrator of the Province of Newfoundland transmit Estimates required for the public service of the Province for the year ending 31 March, 1978, in the aggregate of One Billion, Twenty Million, Three Hundred and Nineteen Thousand, Five Hundred Dollars (\$1,020,319,500) and in accordance with the provisions of the British North America Act of 1867, as amended, I recommend these Estimates to the House of Assembly.

(Sgd) R. S. Furlong,
Administrator."

MR. DOODY: Mr. Speaker, I move that the message, together with the Estimates be referred to a Committee of Supply.

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

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

MR. CHAIRMAN: Mr. Speaker, the Committee of Supply have considered the matters to them referred and have directed me to report progress and ask leave to sit again.

On motion report received and adopted.

The hon. Minister of Finance.

MR. DOODY: Mr. Speaker, I give notice that I will on tomorrow ask this House to resolve itself into a Committee of the Whole to consider certain resolutions relating to the imposition of a tax on the income of individuals. I give notice that I will on tomorrow ask this House to resolve itself into a Committee of the Whole to consider certain resolutions related to the imposition of a tax on retail sales. I give notice that I will on tomorrow ask this House to resolve itself into a Committee of the Whole to consider certain resolutions relating to the imposition of tax on tobacco. I give notice that I will on tomorrow ask this House to resolve itself into a Committee of the Whole to consider certain resolutions relating to the imposition of a tax on insurance premiums.

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On motion the House at its rising adjourned until tomorrow, Monday, May 2, 1977, at 10:00 A.M.