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**Nova Scotia: Budget speech, 1995.**

Mr. Speaker, today marks the third time I have stood in this House to present a Budget on behalf of the Government of Nova Scotia. Each time the fiscal and economic news has been more positive than the last.

That, Mr. Speaker, is evidence that this government's program is working. The province is in financial and economic recovery.

Our economy grew by 3.1 per cent in 1994 - faster than the experts had predicted. The recovery was widespread and resulted in more than 12,000 new jobs for Nova Scotians by year-end.

I cite those figures, Mr. Speaker, not to mark the achievements of government, but to acknowledge the accomplishments of Nova Scotians. This government is doing its part, by creating a sound fiscal and a stable tax climate. However it is individual entrepreneurs, enterprising businesses and innovative industries in Nova Scotia that will build a durable economy. In 1993, the government set out to reverse the destructive trend of growing deficits. I am pleased to report that in just two years we have closed the gap between expenditures and revenues. We are on the verge of a balanced operating budget.

The road back to financial stability is long and difficult. Fundamental changes to the operation of government were, and are, needed. Transition is rarely easy, and resistance to change is natural. But surely, as a province, we cannot allow ourselves to be mired in doubt and indecision. Rather, we need to focus on our future and move forward with the confidence that comes from knowing we are heading in the right direction.

The government is entering the second year of its expenditure control plan. We are fulfilling our commitment to live within our means. The solid fiscal performance of the government, combined with increasing revenue from a growing economy, will finally put a stop to deficit financing.

We are confident of achieving an operating surplus in fiscal 1996-97 that can be sustained - an accomplishment that will yield significant and lasting benefits for Nova Scotians.

Mr. Speaker, we are seeing positive results from the difficult but necessary decisions we have made. That success will strengthen our resolve not to veer from the course we have set.

The recovery that took hold in Nova Scotia's economy in 1994 was broad based. Gains were spread across most sectors. Manufacturing was a particularly strong performer, with shipments increasing 8.4 per cent over 1993. The value of Nova Scotia's exports climbed 7 per cent, and healthy manufacturing and export trade contributed to strong growth in the transportation and communications sectors.

The economic momentum will carry into 1995, with manufacturing continuing to set the pace. Both established manufacturers and the new-economy industries will contribute to the sector's growth. The tourism sector is expecting another strong year and, along with other service sectors, will gain additional benefits from the Halifax Summit.

While our economy continues to grow in 1995, the rate is expected to moderate somewhat, to just over 2 per cent. This is as a result of reduced public sector activity, including military base closures, and a generally diminished federal presence in the province's economy. The federal decision not to renew resource development agreements will cause additional economic adjustments.

Mr. Speaker, since I last presented a Budget in this House there has been a dramatic improvement in the fiscal position of the province.

Revenues from provincial sources and transfer payments from the federal government were significantly higher in 1994-95 than anticipated. Across government, every department and agency committed itself to expenditure control. The result is an operating deficit for that year that is a fraction of the $297.5 million shortfall we estimated a year ago.

We are now forecasting the 1994-95 operating deficit to be $98.9 million, an improvement of nearly $200 million relative to the original estimate of a year ago. Mr. Speaker, in just two years this government has reduced the current account deficit of the province by $372 million.

The government is hitting its spending control targets. Net spending on programs in 1994-95 was $75.3 million less than the estimated spending levels for the previous year.

Capital spending was also reduced dramatically. The expenditure control plan calls for a reduction of 5 per cent annually in capital expenditures. In 1994-95 the total capital commitment of government was $299.9 million, or $26.2 million less than the year before. Of this amount, $28 million in capital spending remained unspent by year-end and will be carried forward into the 1995-96 fiscal year.

Mr. Speaker, the cost of servicing Nova Scotia's debt remains a massive obstacle. Driven by higher interest rates and currency pressures, debt servicing costs are expected to be $18.7 million more in 1994-95 than estimated a year ago.

The costs associated with government restructuring were also higher than anticipated - by some $2.7 million--because more public servants than expected chose early retirement.

Mr. Speaker, the legislation establishing the government's Expenditure Control Plan calls for a 10 per cent reduction in program spending over the four years of the plan. Members will recall that this target will be achieved by reductions of roughly 3 per cent in each of the first two years, followed by 2 per cent reductions in years three and four.

While it calls for global spending reductions, our plan does not enforce across-the-board spending cuts. Indeed, the level of spending reductions varies widely from department to department. This approach reflects this government's understanding that some programs and services are more able to absorb cuts than others.

In setting departmental spending targets last year, and again this year, the government remained sensitive to these realities. Across government, in 1994-95, most departments met or surpassed their targets. Under pressure from increased Family Benefit caseloads, the Department of Community Services was unable to achieve its target. However, on a global basis, additional savings in other areas offset this additional expenditure. This illustrates that the expenditure control plan has the flexibility to meet the real needs of Nova Scotians, while achieving necessary spending reductions. Mr. Speaker, the plan is working.

We realize that we have asked for compromise and sacrifice from public servants and from Nova Scotians generally. The government is, by necessity, becoming smaller and more efficient. Fundamental changes are occurring in the delivery of many programs and services. The result will be services that can be sustained and are secure for present and future generations of Nova Scotians.

Prospects for the coming year are encouraging, on both the economic and fiscal fronts. Real growth in the economy will continue, as will improvement in the province's fiscal position. This year will see the last operating deficit in our government's mandate. 1996-97 will bring an operating surplus - Nova Scotia's first since 1979.

In 1995-96, we estimate the operating deficit of the province will decline to $28.1 million, the lowest in 15 years. This represents a decrease of $70.8 million from the forecasted 1994-95 level, and a $443.3 million improvement since 1992-93.

This year's deficit estimate is a significant improvement over the $113-million target originally set for year two of our four-year Government By Design plan. Mr. Speaker, we are consistently meeting and beating the crucial and ambitious fiscal goals we have established for this government.

Revenue from provincial sources is expected to grow 1.3 per cent this year. Corporate income tax revenue is showing promising growth as corporate profits gain strength. Although slowly, consumer confidence is returning, and Health Services Tax revenue continues to grow.

A new source of revenue this year will come from the casinos that will soon be in operation in the province. Gaming revenues are projected to increase 43.3 per cent, due, in large part, to the $25 million guaranteed income to the province in each of the first four years of the casinos' operation. Both the province and ITT Sheraton are optimistic that revenue from the casinos will exceed the guarantee. However, until the casinos are in operation and their performance is measurable, the province will include in the Budget only those revenues that are certain.

Federal transfers for equalization are expected to increase 6.3 per cent in 1995/96. Transfers to the province for social assistance, post-secondary education and health care will continue to be restrained. Canada Assistance Plan transfers to provinces will be held at 1994-95 levels. This will place an added burden on provinces trying to cope with the increasing costs of social assistance.

The future of federal support for social programs is not encouraging. In its recent Budget, the federal government announced substantial reductions in funding for social programs - reductions in the order of $3.5 billion in 1996-97, with more planned for subsequent years.

While it is important for the national government to put its fiscal house in order, the necessary cost savings must be achieved in an equitable manner. Some provinces are more able than others to absorb cuts in federal payments for health care, post-secondary education and social assistance.

Beginning in 1996, the federal government plans to implement a block funding arrangement with the provinces. This Canada Health and Social Transfer will be less than current funding. Nova Scotia will ensure that our fiscal circumstances are clearly understood, and that this province is treated fairly when the block fund is divided among provinces. We will assert the right of Nova Scotians to services that meet national standards, at a level of taxation comparable with other Canadians.

Entering this second year of the Expenditure Control Plan, all departments have continued with their ongoing review of their business plans, missions, goals and objectives. They have updated their strategies for achieving goals that are consistent with the priorities of government, within the parameters of the Expenditure Control Plan. Details of the government's priorities over the medium term and Departmental Business Plans are provided in the document Government By Design - Progress and Challenge, which I am pleased to table today.

In keeping with our expenditure control legislation, net program spending will decline to an estimated $2.9 billion this fiscal year. This represents a further reduction of $106.2 million from the already-constrained expenditures of last year.

Every department and agency of government continue to assess their business processes, streamline operations and rationalize service delivery. Major reform has been launched in several key areas. Nova Scotians will receive the maximum return for their tax dollars in the form of efficient and cost-effective programs and services. Limited resources will be directed where they will do the most good.

Renewal of Nova Scotia's health care system is well advanced. Our primary objective in health reform is to provide affordable and accessible, high quality health services. Our health system must ensure that Nova Scotians lead healthy and independent lives.

This year significant resources will be reallocated to provide Home Health Care and enhance Emergency Health Services. The budgetary allocation for home care in 1995-96 is $44 million, more than double the level estimated for 1994-95.

Quality education for every young Nova Scotian is the primary driver of another key initiative. Excellence in learning is vital for Nova Scotia to remain competitive in the world economy. Restructuring of the public school system and amalgamation of school boards will redirect some $11 million from the boardrooms and put it into the classrooms of Nova Scotia - where it belongs!

Municipal service exchange will proceed, resulting in a more rational distribution of responsibilities between the provincial and local governments. Amalgamation of municipalities in industrial Cape Breton and Halifax County offers taxpayers real advantages through lower overhead costs. In some municipalities, property taxpayers have already heard the good news--stable or lower tax rates as a result of streamlined government. Even more important, amalgamation will bring a co-ordinated approach to economic, social and infrastructure development, with long-term savings and service-delivery benefits.

Providing assistance to Nova Scotians most in need remains a key priority of government. The reduced level of future federal support towards social programs emphasizes the need to maximize benefits from social assistance programs. Consequently, this year the province will launch major social assistance reform.

Innovation within the public sector is a fundamental part of reform. All departments and government employees should be commended for their continuing efforts in:

\* identifying new, more effective program delivery mechanisms;

\* identifying opportunities to foster private/public partnership; and

\* working to achieve more efficient and effective government.

This year government has created a $3 million Innovation Fund to finance new projects within and across departments. These innovations will improve systems, enhance service delivery and offer cost savings. The fund will replenish itself from those savings.

Mr. Speaker, in too many cases the old ways of delivering programs and services to Nova Scotians no longer work. Many programs are not sustainable at current levels, and their future is at risk. Government must take a hard look at the programs it currently offers and set priorities within the limited resources available.

Nova Scotia's Pharmacare Program for seniors is an example of a program that was jeopardized by its growing demand on taxpayers. Despite restraint initiatives like co-pay and reduced dispensing fees, Pharmacare costs continued to increase dramatically as drug costs climbed and more Nova Scotians qualified. The program had to be put on more sustainable footing. This government set out to secure the program's future and ensure it continued to be available to all seniors. We have succeeded on both counts. Guided by the principles that it must be universal, fair, sustainable and responsible, the government has redesigned Pharmacare.

The new Pharmacare Plan has a single maximum co-pay level for all seniors. An annual Pharmacare premium, required from every senior, will be placed in a Pharmacare Fund, administered by seniors and applied directly to Pharmacare costs.

To assist low-income seniors in meeting their Pharmacare costs, the province will provide a refundable tax credit of $300 per year to seniors with income of $15,000 or less. The credit will be phased out gradually for seniors earning more than $15,000.

The changes we have introduced in Nova Scotia's Pharmacare Program are new and innovative. More important, they are critical to ensuring that universal drug coverage for seniors continues in this province.

Mr. Speaker, not only must this government deliver vital services more effectively, we must put in place a process for ensuring programs remain relevant to the needs of Nova Scotians today and tomorrow.

This process begins immediatly. We will ask the basic question: "Should government be doing this at all?" We will assess the contribution each program makes to the broader goals of the government, namely fiscal stability, economic renewal and social responsibility. We will determine if programs are sustainable and offer taxpayers good value for their dollars. Departments should be commended for their efforts. Their success is reflected in our fiscal recovery. However this review must be based on global government priorities and cross traditional departmental boundaries. Government cannot continue to provide outdated programs and services that no longer meet the needs of Nova Scotians. Organizational expert Peter Drucker may have said it best: "It's always amazing how many of the things we do will never be missed... and nothing is less productive than to make more efficient what should not be done at all."

We are taking stock, and when we're done, the inventory will be reduced. Everything that we do must offer real benefits to Nova Scotians and true value to taxpayers.

Program and service delivery are one aspect of government spending. As part of its Expenditure Control Plan, government also provided for gradual reductions in capital expenditures of 5 per cent annually for the four years of the plan. As with program spending, it is important that government take a close look at its capital spending commitments to ensure maximum return for the taxpayers' dollars.

1995-96 marks the first year of a new process designed to rationalize and set clear priorities for capital spending--spending which is estimated to total $285 million this year.

For too long government had made spontaneous commitments to fund capital projects for which it had no resources. There has never been a process to evaluate capital expenditure projects, one against the other, in a manner consistent with the strategic goals of government.

In addition, capital expenditures are being viewed as investment opportunities. All capital initiatives are being evaluated against opportunities for private/public partnering and the potential benefits to the future of Nova Scotia.

The new Capital Priorization Process is a major step toward improving government's accountability. It is important, particularly in this environment of limited resources, that the public understands how the government is spending tax dollars and to what extent we are realizing our objectives.

As a further step toward increased accountability in government, the Department of Finance, in co-operation with the Public Accounts Committee and the Auditor General, is currently in the process of developing an accountability framework for use within government. This framework will ensure greater integration of departmental spending and performance measures and outcomes.

Mr. Speaker, the government has taken a bold initiative to develop and adopt measures that will gauge our progress as a province as well. We are setting ambitious targets to signal the positive attitude and renewed confidence of Nova Scotians.

Setting performance targets is a new experience for the government. Some people tell us it's risky business. They say determining realistic targets is an imperfect science. There is a reluctance to measure results that are outside the control of government. There is a temptation to set targets low and guarantee success.

We have overcome that reluctance, and we will resist that temptation. Our measures will reflect the broadest spectrum of Nova Scotia life. Our targets will be ambitious.

We will set targets and measure progress in employment; the province's exports; the tax burden on businesses and individual Nova Scotians; investment in research and development; production in the resource sectors; growth in our film industry; the level of education Nova Scotians attain; the quality of our environment; the safety of our communities; the health of our people.

Obviously, many of these things are outside the full control of government. These are measures and targets for the province, not merely the government. All Nova Scotians have an interest in, and a responsibility for, our province's accomplishments.

We won't always achieve our targets, but they are not a scorecard of success and failure. Rather they will give all of us, inside government and out, a clear direction and something to strive for.

In the weeks and months ahead, Nova Scotians will hear more about this initiative. It must involve a broad cross-section of Nova Scotians, representing all communities of interest. We must build a consensus that the measures are meaningful and the targets provide sufficient challenge to lead Nova Scotia into the next century with a renewed sense of purpose and greater confidence.

One of our key goals is to create an environment in Nova Scotia where industry can thrive and compete in the global market.

The government has listened to the concerns of the business community. We are genuinely committed to developing the kind of environment that assists rather than frustrates their efforts. We have fulfilled the commitment, made in our first Budget over a year ago, to devote a significant portion of annual revenue growth - the growth dividend--to initiatives that improve the investment climate in this province.

To help government with this objective, we asked the Taxation Committee of Voluntary Planning to recommend how we might best use the growth dividend. I have received their report and considered their recommendations.

The government has taken steps to address the concerns of businesses looking to expand or invest in this province. A secure and stable investment climate is essential to any business. In last year's Budget, government introduced several initiatives to reduce the tax burden on business. Last fall, we passed legislation that addressed the problem of the escalating unfunded liability of the Workers' Compensation Fund and sustained the program for Nova Scotia workers in the future.

In this Budget, the government is expanding its commitment to lower the tax burden on business and make Nova Scotia a more attractive place to invest and create new jobs.

\* Effective in the 1995 taxation year, the Equity Tax Credit, available to any individual who invests in a Nova Scotia small business, will be increased from 25 per cent to 30 per cent of the eligible investment. The maximum eligible investment threshold will also be raised from $10,000 to $30,000 per year. Enhancement of the existing parameters of the Equity Tax Credit are in keeping with the recommendations of the Taxation Committee of Voluntary Planning.

\* Many Nova Scotia companies find onerous the cost of raising capital through a public offering. Costs such as legal fees in filing a prospectus with the Securities Commission, audit fees in preparing financial statements and printing costs can be prohibitive. To help business meet these costs, a 35 per cent non-refundable corporate income tax credit will be available, beginning in the 1995 taxation year, on eligible costs of preparing and filing a prospectus (up to a maximum of $100,000).

\* As a step toward increasing the attractiveness of mineral exploration in Nova Scotia, the 4 per cent Health Services Tax on exploration and mining equipment will be removed, effective midnight April 11, 1995.

\* In its first Budget over a year ago, the government introduced a temporary $3,000 Health Services Tax Rebate on building materials used in the construction of new homes by first-time home buyers. This initiative has been very successful in providing a stimulus to the construction sector and in helping many Nova Scotians acquire new homes. The $3,000 rebate was set to expire on April 1, 1995 but instead will be extended for another year.

\* Convention activity is a thriving industry in Nova Scotia. Not only does it provide tremendous business for our hotels and motels, but it has important spinoff benefits throughout the restaurant and tourism industry. To increase the attractiveness and competitiveness of Nova Scotia as a convention destination, convention sponsors may apply for a certificate that will exempt hotel and motel accommodations that are part of an accredited convention from the Health Services Tax.

\* Culture is important to the lives of many Nova Scotians. Growth and development within the performing arts sector have been rapid and exciting in recent years. To help build on the potential of this industry, non-profit, performing arts production companies will be able to apply for a certificate exempting their performances from the 10 per cent Amusements Tax. This will benefit both non-profit presenters and performers.

\* In last year's Budget we introduced the Film Industry Incentive Program. This program provided assistance to small local film makers with the costs of production in Nova Scotia.

In its 1995 Budget, the federal government announced similar assistance to this industry in the form of a refundable tax credit. In an effort to streamline government assistance to the film industry and to provide continuing provincial support for film making, the province will be revamping its current program to more closely match the federal initiative. Effective in the 1995 taxation year, the province will implement a refundable tax credit for local film production companies equal to 30 per cent of their eligible Nova Scotia salaries, to a maximum of 15 per cent of their total production costs. The province will be consulting with the film industry with respect to the transition to the new program. In addition to these specific measures, the province is committed to developing an effective vehicle for improved equity investment in Community Economic Development (CED) initiatives. It is our intention to introduce legislation in the fall that puts this vehicle in place. In the intervening months we will work with Regional Development Authorities to develop the most effective strategy for increasing equity investment. The guiding principles of our work will be three-fold:

\* develop sources of capital to fund CED initiatives

\* reduce the burden of Securities Commission regulations

\* provide a partial provincial guarantee on investments.

The message is loud and clear - Nova Scotia is a good place to do business. Mr. Speaker, the tax reductions the government has introduced today total more than $30 million. When coupled with last years reductions, this government has provided tax relief to Nova Scotians of almost $70 million in two years. This contributes significantly to the competitive environment and level of confidence already growing in the province.

In just two years the province has made substantial progress in its journey toward economic renewal and financial stability. The decisions have not been easy and have required sacrifice and commitment from all Nova Scotians. But today our future looks much brighter than it did only 24 months ago.

The road ahead holds many challenges. We have set a course for change and renewal. Government programs and services will be secured for the future. Limited resources will be directed where they are most needed and will do the most good.

For the first time in more than a decade and a half, a balanced operating budget is within our reach. Our realistic revenue projections and commitment to continued spending restraint will ensure that a balanced operating budget is a reality in 1996-97. The following year, despite declining federal revenues, we will balance all government spending - capital and operating. We can then turn our full attention to the task of paying down the debt load of the province.

Mr. Speaker, we have the plan and the determination to make it happen.