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| 59 | 4 | Discours du Budget/ Budget Speech | 14-03-1996 | Wayne Cheverie | Provincial Treasurer and Chair of Treasury Board | LIB |

**Prince Edward Island: Budget Speech, March 14th 1996**

**Hon. Wayne Cheverie (L):** Madam Speaker, three years ago, in my first Budget Address, I stood in this House to speak to you, to my colleagues and to all Islanders about the state of our Province's finances.

I spoke, in particular, about the need to eliminate a provincial deficit which had grown to a record level, $82.5 million, a deficit which, if left unchecked, was projected to exceed $120 million within three years.

Madam Speaker, those were difficult days. This government had just been elected, and the prospect of overcoming a deficit of that magnitude, especially within the context of declining federal government transfers, was daunting, to say the least.

Islanders knew that the challenge was great, but they also knew that decisive action was required. Islanders knew we were living beyond our means; that our credit card had reached its limit; that the time to start paying our bills had arrived; that leaving an ever increasing legacy of debt for future generations was unacceptable and unfair. This government had been elected, in part, on a promise to eliminate the deficit, and so I began that process three years ago by announcing the Deficit Reduction Plan. This Plan, Madam Speaker, called for a series of expenditure reductions with the goal of balancing the Budget at the end of three years. Some doubted our resolve. Some questioned our commitment. People may doubt what you say, Madam Speaker, but they will always believe what you do.

Three years have passed and I am here tonight to report to Islanders. I am here to advise that this government has stayed the course. We have kept our promise and more. Not only have we balanced the Budget, we are projecting a $3.1 million surplus for this fiscal year.

Clearly, some difficult decisions had to be taken in order to achieve this goal. As a government, we took no pleasure in making these decisions. However, in contrast to the drastic measures now being taken in many other provinces, we have been fortunate to achieve our goal without increasing personal income taxes or sales tax, and without layoffs in the public sector. As such, government has sought to adjust its spending in an orderly and balanced way and to ensure that the impacts of restraint are spread broadly across government and the public, rather than falling heavily on individuals or groups.

Madam Speaker, in the coming days, this government will maintain its emphasis on fiscal responsibility. Guided by a process of pre-Budget consultations, the 1995/96 Budget set out five major policy statements which express key priorities for the future; and they are:

- balanced budgets to the year 2000;

- tax rates below the regional average, to promote continued economic and employment growth;

- program adjustments, rather than deficit financing, as the mechanism to accommodate necessary expenditure increases;

- assistance and services to those in need, at regionally comparable levels; and finally

- a continued emphasis on economic development as the foundation for long-term self-reliance and prosperity.

Madam Speaker, balanced budgets are essential if Prince Edward Island is to sustain and enhance essential programs and services in the coming years. However, to achieve true fiscal responsibility, this government must also continue to take action to reduce the net debt of the province. Last year the province did take measures to significantly reduce this debt. The net debt of the province stood at just under $1 billion on March 31, 1995. Although this is a massive amount of money, it represents the fifth lowest ratio of net debt to Gross Domestic Product among Canadian provinces. Government has taken action to fin1her improve this standing. With the co-operation of public sector unions, government has made a commitment to eliminate $345 million in unfunded pension liabilities -- over one-third of Prince Edward Island's net debt-through a combination of reductions in pension benefits and increases in government contributions to the pension funds.

Madam Speaker, in the 1995 Budget Address, I indicated that government would be preparing legislation for the 1996 Session of the Legislative Assembly to improve the accountability of government departments, crown corporations, regional health authorities, and school boards. Government has examined this matter in considerable detail and I am pleased to announce that I will, within the next few days, be tabling a bill to significantly amend the Financial Administration Act.

These amendments provide an updated and current definition of the total government entity which includes all its crown corporations, regional health authorities and school boards, and a clear reporting framework for these entities. The application of the Financial Administration Act to these entities requires, in their annual reports, a statement of goals and results achieved in addition to audited financial information. The preparation of a Budget must give full consideration to the economic and fiscal environment. Our revenues, both federal and provincial, are highly dependent on how well the national and provincial economies perform.

Madam Speaker, Prince Edward Island led the Atlantic Provinces in economic growth in 1994 and achieved the second highest growth rate in the country at 5 per cent, and I expect that the same will hold true when the figures are compiled for 1995. The successes in the Prince Edward Island economy were many – from our traditional resource-based industries and the manufacturing sector, to the tourism sector and the new industries of the knowledge economy. Madam Speaker, there appears to be a view that the current level of economic activity on Prince Edward Island is solely the result of the Northumberland Strait bridge construction. This is simply not true, and I will take a few moments here to detail some of the other positive developments in the provincial economy.

First, farm cash receipts in 1995 increased by 2.9 percent to a record $315.4 million. Island farmers planted a record 108,000 acres of potatoes in 1995, and harvested a record volume of potatoes, up 23 percent from 1994. The expansion of the processing sector has played a role in that record of success –building a strong and stable local market for the potato crop while creating wealth for the province and jobs for Islanders.

Island fishermen in 1995 landed a record value - $116 million in total, up 24.2 percent from 1994. Prince Edward Island's fishery is heavily based on lobster and other shellfish; and again in 1995, lobster prices were at record levels.

The number of tourists visiting Prince Edward Island in 1995 rose to an all-time high of 780,000 people. Tourist expenditures totalled $178 million, an increase of over 13 percent compared to 1994.

Manufacturing shipments from Island industry last year totalled a record $687.5 million, up 11.4 percent from 1994, and up 34.6 percent from the level in 1993. Although a significant proportion of the rise was due to increases in shipments from our traditional food processing sector, the transportation equipment sector, especially aviation, is rapidly developing. Shipments from the transportation equipment sector rose by a staggering 78 percent in 1995, surpassing the fertilizer industry in terms of total sales.

Retail sales on Prince Edward Island increased by 5.9 percent in 1995, compared to 2.1 percent at the national level. Island retailers in 1995 reported the strongest sales growth among all provinces.

These economic successes have helped Prince Edward Island lead the nation on another front -- jobs. According to Statistics Canada, Prince Edward Island led all other provinces in employment growth in 1995. Since April, 1993, employment on Prince Edward Island has risen by 8,000.

Madam Speaker, to put this in context, the national employment growth in 1995 was 1.6 percent. By comparison, Prince Edward Island's employment growth was 4.7 percent -- by far the leader in the country, followed by Alberta at 2.7 percent.

There can be no doubt that the construction of the Northumberland Strait bridge is a large contributing factor to the creation of jobs. However, job growth has taken place throughout the economy. In addition to construction jobs, the data for 1995 shows that the job creation was widespread through the agriculture, manufacturing, retail trade, finance and service sectors. A total of 2,600 person years of employment were created in the Island economy last year, and I expect this trend to continue in the coming year, albeit at a slower pace.

Since the onset of the Northumberland Strait bridge construction, government has been planning to ensure that the impacts of the completion of bridge construction are minimized for most Islanders by lasting economic development in other sectors. These include strong growth in potato processing capacity and potato production, increases in the scale and seasonal duration of the tourism industry, and growth in a number of other manufacturing and new technology businesses. Further increases in tourist visitations are expected upon completion of the Northumberland Strait bridge, off-setting to a large extent the impacts of bridge completion.

During the coming year of predicted economic growth, we will build on these achievements to further strengthen the foundation for longer term self-reliance and prosperity.

Madam Speaker, the Budget I presented to this Assembly a year ago called for a surplus of $2.7 million. Although there have been changes to the composition of revenues, in aggregate, they are expected to come in very close to the Budget Estimates.

This government has taken great pride in its ability to control expenditures, and this was again demonstrated in 1995/96. Gross expenditures and revenues were both down about $4 million or about 0.5 percent of the total Budget. As I indicated earlier, I am forecasting a 1995/% Budget surplus of $3.1 million. Outstanding economic growth has led to strong growth in our own-source revenues during the past three years. The province's largest domestic revenue source, personal income tax, has shown particular strength, outperforming forecasts by almost $8 million in 1995/96.

Based on the large increases in employment and income that Prince Edward Island enjoyed in 1995, as well as other factors, the Provincial Treasury is expecting another large increase in 1995 tax return assessments for Prince Edward Island. These 1995 assessments will largely determine the personal income tax revenue that we receive in 1996/97. Other own-source revenues are expected to grow in line with the provincial economy. The province is fortunate to have this strong performance in its own source revenues, as it faces continued declines across the entire range of federal transfers.

Federal equalization is the provincial government's largest single revenue source. In all of the three Budgets that I have presented, I have discussed the difficulties in projecting equalization revenues. Equalization payments are based on a complex formula involving hundreds of factors, including economic growth elsewhere in Canada relative to Prince Edward Island., average tax rates in Canada, and the Island's population share.

The effects of these factors can be seen from the roller-coaster ride of Prince Edward Island's historical equalization revenues –surging upwards in the late 1980s with strong economic growth and tax increases in Ontario, plummeting in the early 1990s with recession elsewhere in the country and lower than expected Census population counts in Prince Edward Island.

Madam Speaker, as a result of the strong provincial economy in 1994 and 1995, equalization revenue in 1995/96 is forecasted to be down $12 million from the $200 million received in 1994/95. The combination of a strong Prince Edward Island economy and a weaker national economy will likely hold true for 1996 as well. This will bring Prince Edward Island's revenue capacity closer to the equalization standard. As such, I am projecting only a small increase in equalization for 19996/97 to $191 million.

Declines are occurring in other federal transfer payments as well. For many years the federal government has provided substantial funding for social programs in the provinces through two major transfers -- the Canada Assistance Plan and Established Programs Financing. Starting in 1996/97, the federal government is replacing these two long-standing programs with one new transfer called the Canada Health and Social Transfer or CHST.

There will be less funding available to all provinces, to all provinces, under the new CHST transfer. Prince Edward Island's CHST cash revenue is estimated at $70 million for 1996/97. This is about $15 million less than what we received in 1995/96 under the CHST's two predecessor transfers. In 1996/97, this reduction effectively negates the additional revenue the province is expected to receive from our own sources as a result of a growing economy. Unfortunately, the reduced federal funding continues beyond 1996/97. We have estimated a further $12 million drop in our CHST revenue for 1997/98.

Madam Speaker, in 1987, the province received half its revenues from the federal government. Our projections indicate that by 1997, a decade later, provincial revenues will have increased by over 85 percent, while federal transfers will have grown by less than 20 percent. At that time, we expect that less than 38 percent of our revenues will come from the federal government. Through economic growth, Prince Edward Island has achieved greater self-reliance and has become much less vulnerable to events beyond our shores.

Our growing self-reliance is essential, Madam Speaker, as we work to meet the needs of Islanders in a changing world. Government has taken action to reshape its system of health and social services to move it to a more preventative, community-based approach. This is intended to ensure that Islanders continue or receive high-quality, sustainable services over the long-term, despite the cost pressures created by such factors as new health technologies and an aging population.

In pre-Budget consultations held last fall, Islanders told government to adhere to the fiscally responsible policies as set out in the policy positions. Madam Speaker, they also told government to be particularly sensitive to reductions in education and health care - and we have listened. During the coming year, government will continue to invest in the community-based supports and services needed to achieve this goal, while maintaining an adequate system of acute care and institutional services. In fact, Madam Speaker, in 1996/97, government has been able to maintain the level of funding to the health system.

One of the three priorities stated by this government is education. It is essential, as a society, to invest in our children -- both for their sake and our own. We must also work to increase the skills and capabilities of adult Islanders to ensure that they share in the economic opportunities of the future. These investments are critical to our prosperity and social well-being and government will continue to place priority on this area. Again, Madam Speaker, you will see that the Budget for education in this province has not been reduced in the coming year.

Two years of exceptionally strong economic growth, coupled with decisive action by government, have done much to restore the fiscal health of the province. The public service, through their dedicated efforts to minimize the impacts on Islanders of restraint in programs and services, has played a key part in achieving this goal. Government has returned to the collective bargaining process in its labour relations, and negotiations on individual contracts are now either completed or in progress. These expenditure impacts will be accommodated within the 1996/97 Budget.

Madam Speaker, I am pleased to announce that in the 1996/97 fiscal year the province of Prince Edward Island will have a surplus Budget of $3.4 million. Back-to-back surplus budgets in this province have not been achieved since the early 1970s. Moreover, the budget I am tabling tonight holds total expenditures within one percent of 1995/96 levels. Madam Speaker, the strength of our provincial economy will provide for increases in provincial own-source revenues sufficient to offset the reduction in federal revenues.

The revenue situation, combined with prudent management by government, will allow us to meet the needs of Islanders within our means and prepare for the future during the coming year. Despite the declines in federal transfers, the government has fulfilled its commitment to fiscal responsibility by bringing in a second consecutive surplus Budget.

As in the past two Budgets, the Budget I present tonight contains no increase in personal income taxes, no increase in sales tax, no increase in business taxes, no increase in fuel taxes. Madam Speaker, no new taxes.

With a realignment of our spending priorities, Madam Speaker, I am pleased to announce funding support for some of the new initiatives that were mentioned in the Speech from the Throne delivered in this Assembly on February 29, 1996.

In support of our ongoing commitment to the educational sector, I am pleased to announce that an additional $2 million has been allocated to a new School Capital Repair Program, which will increase government's commitment for necessary repairs to our school buildings to more than $4 million in 1996/97.

Madam Speaker, the Throne Speech made reference to the fact that our hospitals have an ongoing need for modem equipment. I am, therefore, pleased to announce that $4 million has been committed to a new Medical Equipment Replacement Fund - $2 million in 1996/97 and $2 million in 1997/98.

Further, further, Madam Speaker, an additional $500,000 has been allocated in this Budget for the provision of an Air Ambulance Service, which will provide rapid access for Islanders to the most advanced medical care in the region. Further details on these programs will be announced later in this Session by the Minister of Education and the Minister of Health and Social Services.

There are a number of other new initiatives contained in the 1996/97 Budget Estimates which I am presenting to this Assembly. These initiatives will be highlighted by ministers in the detailed review of departmental estimates.

Madam Speaker, it has been said that life is a journey, not a destination. And so it is with provincial budgets. Three years ago, two roads diverged before us. We had to choose. We took the road less travelled, the road of fiscal responsibility, and that has made all the difference. The journey continues. Challenges will continue to arise, but I remain profoundly optimistic about the future of this province and its people.

Ten years ago, I entered public life out of a sense of service because I wanted to work with others I respected to build a stronger, more compassionate society because I wanted to make a difference for my children and their children and for Islanders in need. I am proud, and all Islanders should be proud, to say that we have made a difference over the past three years. Together we have moved this province from a record deficit to surplus budgets and together we can now look forward to a stronger, brighter future.