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Mr. Speaker, I move that this House resolve into a Committee of Ways and Means and that the Speaker do now leave the Chair.

Mr. Speaker, today I am pleased to present to this Honourable House the third Budget of this administration.

Mr. Speaker, this is a severe Budget. It is, however, realistic and responsible, a Budget made necessary by the difficult financial and economic circumstances facing the Government and people of this Province.

The costs of governing have escalated dramatically in recent years. Transfer payments are being seriously restricted by the financial problems of the Federal Government and by a national recession. The current economic downturn is limiting growth in our tax revenues. We face today a financial crisis which, if left unchecked, would impair permanently our ability to maintain public services at acceptable levels.

Perhaps the underlying reason for the financial crisis facing this and other governments in Canada is the expectations of Government that almost everyone seems to have. The numbers of public employees and their benefits continue to rise. Businesses, large and small, look to Government for financing and tax concessions, and have been encouraged to do so by Government. In this Province, whole industries pay no retail sales tax, including companies involved in the Hibernia project. Some industries pay no gasoline tax, no payroll tax. Worthy causes pressure Government for core funding, for increased grants. It seems that many increasingly want more from Government without considering how the costs will be met.

Mr. Speaker, Government is but one's neighbours. Every tax concession, every grant, every improvement in benefits, every increase in Government expenditure will cause either taxes to increase, other citizens benefits to be reduced, or the people collectively to go deeper into debt. It is not solely that our expectations of Government are too high, but also that governments have not had the political courage to restrict current expenditures to the level of current revenues.

Governments in Canada, including Newfoundland, have been living beyond their means and have allowed the public debt to increase year after year, rather than face the people with the grim reality that every increase in expenditure must ultimately be met by increased revenue from taxes.

Economic recovery will begin in this Province in 1991. But Government must not repeat the mistakes of the past, particularly those of the 1980s. During those years of economic expansion, when Government should have been eliminating its deficit financing to enable it to cope with future eventualities, it failed to address adequately the fundamental structural problems, and instead budgeted for persistent deficits. It allowed the debt to grow, and the Province's credit rating to be reduced. Now, this Government is forced, at a time when the economy is in recession, to make the necessary adjustments to the machinery of Government.

Mr. Speaker, this Budget contains the measures required to help secure our future financial integrity, while financing a public administration that is both compatible with our means and capable of providing required public services.

Mr. Speaker, Government's ability to provide services to its citizens is largely dependent upon the performance of the provincial and national economies.

The Canadian economy is currently mired in recession, a recession which is likely to continue well into 1991. High interest rates have discouraged business investment, consumer spending, and residential construction. Over the past five years, the Canadian dollar has. appreciated by more than 20 per cent against its American counterpart, restraining growth in our exports and weakening our exportoriented resource industries. Canada is experiencing industrial adjustments as a result of the Canada United States Free Trade Agreement, and the increasing globalization of the economy. The United

States, the Province's main export market, is experiencing a mild recession which is expected to last until the second or third quarter of 1991.

Mr. Speaker, I now will review the economic events of the past year.

After several years of strong growth, Provincial Gross Domestic Product, or GDP, decreased by 0.4 per cent in 1990, after adjusting for inflation. The decline was most evident in our goods producing industries.

The total value of shipments by the mining industry was 3.9 percent lower in 1990 than in the previous year. Iron ore shipments declined in quantity by 3.4 per cent and in value by 3.7 per cent. Mining operations were closed in Daniel's Harbour and St. Lawrence in 1990 resulting in the loss of 260 jobs. The level of mineral exploration in the Province also declined.

The volume of newsprint shipments from the Province decreased by 4.2 per cent, slightly below the national decline. The value of shipments also was affected by lower transaction prices and the higher Canadian dollar.

Business and residential construction both declined during 1990. The number of housing starts decreased by approximately 290 units, or 8.2 per cent, from 1989.

The fishing industry continued to be affected by groundfish quota reductions. The volume of fish landings declined by 11.2 per cent and the value by 8 per cent.

The weak performance in the goods sector was partly offset by real growth in the service sector of just below 1 per cent. Higher interest rates resulted in constrained consumer spending, particularly on high priced items sensitive to borrowing costs. For the first time since 1982, the Province experienced a decline in the real value of retail trade of 1.2 per cent. Personal income grew in real terms by 1. 7 per cent, the lowest rate since 1984. The Province's inflation rate of 4.3 per cent was again lower than the national rate.

Total employment in the Province remained unchanged during 1990. Gains in service sector employment were offset by declines in the goods producing sector. Continued growth in the labour force in the absence of employment growth caused the unemployment rate to rise by 1.3 percentage points to 17.1 per cent in 1990.

Mr. Speaker, 1990 also heralded a very positive development in our economic prospects. After years of negotiation, and seemingly endless delays, an agreement was reached in September to develop the $8.5 billion Hibernia project.

Mr. Speaker, turning now to the year ahead, Newfoundland's economic growth of 0.7 per cent in 1991 will be matched by that of only one other province, Prince Edward Island. Most private sector forecasters are predicting even stronger growth for Newfoundland. Business activity will be stimulated by lower interest rates.

The Canadian economy is expected to decline by 1 per cent, while in the United States real output will slow to about a half of 1 per cent in 1991. Inflation is forecast to increase to 5.7 per cent in the Province, compared with 6 per cent nationally.

Newfoundland's economic growth in 1991 will be bolstered by the Hibernia project. Contracts worth $1.8 billion already have been awarded. Work has begun on detailed engineering and preparation of the construction site at Bull Arm. The main beneficiary is the construction industry, which is expected to grow by about 9 per cent, after adjusting for inflation. Direct employment on the project in the Province during January was over 300 persons, and will increase significantly for the next few years.

Total capital expenditures of just under $300 million are anticipated for the year.

The benefits of Hibernia and subsequent projects will not be restricted to Newfoundland. The development of Newfoundland's offshore oil and gas resources will create considerable employment, as well as technical and commercial opportunities for Canadians in many regions of the country. It will have a significant positive impact on the Federal Treasury. Hibernia, Mr. Speaker, is truly a national project.

The oil industry is interested also in developing the Terra Nova oilfield, located about forty kilometers southeast of Hibernia. Government is currently generating a strategy to deal with this development, which has estimated recoverable reserves about 60 per cent that of Hibernia.

Offshore drilling has declined in recent years, as a result of lower world oil prices and the removal of federal exploration incentives. Several significant geophysical programs were conducted on the Grand Banks last year, however, and it appears that at least two wells will be drilled this year. For the first time, industry has expressed a strong interest in the offshore area of western Newfoundland. Several exploration licences were issued which could lead to exploration activity during 1991.

Government is interested also in attracting oil and gas activity to the onshore area of western Newfoundland. New regulations have been approved to allow industry the opportunity to acquire petroleum rights and mount exploration programs.

Work already has commenced on construction the Cow Head oil rig repair facility. This represents a significant opportunity for employment, and will help position Newfoundland at the centre of offshore oil and gas expertise in Canada.

Government has been engaged, for more than a year, in discussions with Quebec, which hopefully will result in the development of the full hydroelectric potential of the Churchill River in Labrador. If agreement is reached, a decision to proceed with this development would lead to significant economic benefits for this Province.

In the Forest industry, any gains are expected to be moderate as a result of tightening markets and a relatively strong Canadian dollar.

The Fishing industry will experience a decrease in the quantity of landings again this year. Losses from cod quota reductions will more than offset increased landings of other species. However, the value of landings will increase because of higher prices in the United States market. Mr. Speaker, the real economic potential of our fishery cannot be realized until strong stock conservation measures, including a curb on foreign over-fishing, result in the rebuilding of our key ground fish stocks.

The outlook for the Mining industry has been dampened by the mine closures last year in St. Lawrence and Daniel's Harbour. As well, the asbestos mine in Baie Verte shut down in January of this year with the loss of 350 jobs. The value of mineral shipments, however, will increase by 5 per cent based on the strength of the iron ore industry.

Government will pursue with vigour the resumption of mining operations at St. Lawrence by a new operating company, as well as a possible asbestos disposal operation for Baie Verte.

Employment growth is expected to be marginal, but exceeded by growth in the labour force, resulting in a slightly higher unemployment rate in 1991.

Mr. Speaker, a fundamental obligation of the Province is to provide the best possible services for which it is responsible under the Constitution, particularly health, education and social welfare. Government's ability to provide these services is being seriously eroded by their high cost, by high interest rates on the public debt, by a limited capacity to raise additional taxation revenues, and above all by the restraints in Federal transfer payments. I will deal with each of these items in detail.

Since its election in 1989 this Government has taken steps to control the cost of Government. We have reduced the number of Departments from 23 to 14 along with much of the associated bureaucracy. We have reduced the size of the fleet of Government vehicles by 15 per cent to date and have frozen the purchase of new ones. By March 31 we will have reduced the fleet by 28 per cent. We have closed Government offices which were no longer essential and reduced departmental operating budgets across the board.

We have taken steps to address the unfunded pension liability. In the fall of 1990 all Departments were directed to realize further savings through reduced overtime, reducing travel, leaving positions vacant, and reducing purchases where possible. These are all solid management initiatives but .further action is required.

The fiscal problems facing governments today are not just the result of too many programmes and services. The machinery used to provide these programmes has become too large and too costly. The challenge for all governments is to find innovative and streamlined means of delivering programmes and services and to discard those which are no longer a priority.

Mr. Speaker, we are faced also with cost pressures which are beyond our control. Our aging population increases the demands upon and necessitates the altering of the structure of our health and social systems, while the increasingly competitive and globalized nature of the economy requires that we have an educated and well-trained work force. We must have the flexibility to respond and to adapt to these forces. These challenges are national and in no way unique to Newfoundland and Labrador. Neither are the solutions unique to this Province. Governments must strive for co-operative solutions including improved financing mechanisms and enhanced delivery techniques. Mr. Speaker, the cost of governing must be controlled.

Mr. Speaker, the level of public debt in Newfoundland, excluding unfunded pension liability has grown to the point where we now owe over $9000 for every man, woman and child in the Province. When the indebtedness of the Federal Government is added that escalates to $24,000 per person. The problems associated with excessive debt are many. The cost of servicing that debt has grown to unacceptable levels. Interest squeezes out spending on needed public services. It exceeds the total cost of operating nine of Government's working departments. The $528 million in interest payments which the Province must make this year would be sufficient to operate our entire hospital system. Excessive debt constrains our economic growth and requires us to have higher taxes. We will pay $60 million more in interest this year than we collect from personal income tax. Excessive debt levels reduce our ability to counter the effects of downturns. Because of high debt levels it is not judicious to spend our way out of the current recession. High levels of debt and debt servicing are the inevitable result of persistent deficit financing. Previous Governments have failed to address adequately the Province's fundamental fiscal problems and the result has been a large accumulation of debt.

Currently, Newfoundland has the lowest credit rating of any province in Canada. Our analysis, confirmed by our independent fiscal advisors, indicates that continued over reliance on borrowing, or even on taxation, likely would lead to a further downgrading of our credit rating. A downgrading would place the Province in a B category making it more difficult and more costly to borrow.

In addition to our costs pressures and debt burden we also are constrained by high levels of taxation. The financial flexibility of the Province to deal with the current situation is extremely limited. An over reliance on taxation inhibits economic growth and competitiveness. While the relative Newfoundland total tax effort hovers around the national average creating an illusion of provincial tax room the Federal foray into the traditionally provincial consumption tax domain through the goods and service tax or GST has seriously interfered with our ability to generate additional revenues from our most productive tax area.

No matter how many different taxes, or how many different tax collectors, there is only one tax payer. Many people regard the Hibernia development as the solution to Newfoundland's problems. The project, unquestionably, will bring real economic benefits in the form of jobs and business opportunities. However, the financial benefits to the Government will not be large. There are significant costs to be incurred up front yet royalties and corporate income tax from the project will not begin to flow to the Provincial Treasury until late in this decade. When they do, it is likely that they will be largely offset by equalization loses. The Hibernia project will not eliminate the pressure on Government's financial situation.

The lack of provincial tax room is compounded by the continuing and substantial restraints efforts of the Federal Government. While control of the national debt is a concern of all governments federal restraint is exacting an especially heavy toll on provinces whose financial viability is so closely tied to transfer payments. Equalization and established program financing or EPF payments contribute almost one-half of this Province's current revenues. The two year freeze of the EPF transfers announced in the 1990 Federal Budget will cost the Province an estimated $19 million in 1990-1991 and $34 million in 19911992. In the recent Federal Budget the freeze was extended a further three years. The freeze plus other Federal restraints to EPF introduced since 1982 would have cost Newfoundland about $600 million by the end of next year, and in 12992 alone approximately $145 million.

Since its activation just one year ago the ceiling on equalization payments has a reduced entitlement for fiscal years 1988-89, 1990-1991 by more than $150 million. In 1991-92 the ceiling will reduce equalization entitlements by an estimated $35 million. The existence of that ceiling, Mr. Speaker, seriously erodes the constitutional commitment to the principle of equalization and has contributed substantially to the Province's deficit problem.

Indeed by the end of the coming year adjustments to equalization and EPF programs enacted since 1982 will have reduced estimated cash transfers to this Province by more than three-quarters of a billion dollars. The Federal transfer restraint shifts a larger share of the financial burden to the provinces. Unless provinces allow their deficits to rise they must respond to decrease transfers with increased taxes or expenditure cutbacks. The less affluent provinces do not have the same capacity to generate tax revenues as the more affluent provinces do. The equalization program is designed to balance differences in capacity. This balance unfortunately is precluded by the ceiling.

Mr. Speaker, we are determined to be fiscally responsible and to build national and international confidence in the financial integrity of the Province. In our first two Budgets we strove to achieve a balanced current account along with a reasonable level of capital expenditures. To do this we introduced expenditure controls and increased taxes. Shortly after our 1990 Budget we were informed that re-estimates of equalization payments would reduced Federal transfers by over $60 million this year. The recession that became obvious by the summer of 1990 caused our tax revenues to decline and our expenditures to rise. In September the Premier detailed the deterioration in the Province's financial position. He indicated that the budgeted current account surplus of $10.2 million would not be achieved and instead would be replaced by a deficit of approximately $120 million. Mr. Speaker, through effective financial management measures we have been able to hold that line despite other increases in expenditures. The current account deficit will be $117.2 million.

The present financial problems facing the Newfoundland Government are not unique. Most provincial governments find themselves in similar situations where reduced federal transfers combined with the economic slow down have resulted in substantial revisions through their budget projections for 1990-91.

Our capital account position was maintained at the budgeted level. Our total budgetary requirement for 1990-91 was $377 million or $128.5 million higher than budget. We are faced with a very serious financial situation. The factors that caused this situation have not abated, and if left unchecked, would have left us in an even more serious financial situation in 1991-92.

Mr. Speaker, earlier this year the Premier indicated that if we did not take strong pro-active action the current account deficit for the 1991-92 fiscal year would approach $200 million. A significant part of the pressure we faced arose from the higher than expected public sector salary increases resulting from arbitration awards and negotiated wage settlements.

As a result of the measures in this Budget the current account deficit will be contained at a level of $53.8 million. Gross expenditures on capital account are to increase by $60.7 million to reach $418 million in 1991. Related revenue will partially offset these expenditures leaving a net capital account requirement of $241.3 million. This is down from $259.8 in 1990-91. The combined current and capital budgetary requirement will be $295.1 million, over $80 million less than the year just ending.

Mr. Speaker, this reduction in our deficit is imperative if we are to maintain the Province's financial integrity.

Mr. Speaker, clearly this is a difficult period for the Newfoundland economy and the Newfoundland Government. In preparing this Budget we were faced with very difficult choices. The task was painful, but the course was unavoidable. Our financial resources simply cannot maintain the status quo. It became quite clear to Government early in this Budget process that the response required fundamental changes.

A deleterious dependence on the two traditional options of tax increases and increased borrowings would have been required if we did not take the necessary expenditure changes. Only by significant reductions in our expenditures would we be able to put this Province's finances on a realistic and sustainable footing.

Mr. Speaker, the financial plan we are tabling today puts us on the path towards living within our means. It contains expenditure reductions that wi 11 bring the public service to a size that recognizes our limitations. It contains a small degree of tax Increases.

The remaining deficit to be financed through increased borrowing recognizes that the provincial economy is experiencing a recession, and upon recovery the task of eliminating the deficit should be more easily achievable.

Mr. Speaker, although we are reviewing various aspects of the provincial tax regime in a broader context, Government feels it is neither desirable nor appropriate at this time to use a tax system in any significant way to address our fiscal problems. Revenue measures, therefore, have been kept to a minimum. Other, more substantive changes to our tax regime aimed at improving the efficiency and equity of our tax system rather than increasing tax revenues, will be considered later this year.

Mr. Speaker, the tobacco tax rate in this Province has fallen behind that of all other provinces with the exception of Ontario. Our tax rate is now more than 1.5 cents per cigarette below the rates in each of the maritime provinces. I am announcing today an increase in the tobacco tax of 1.5 cents per cigarette with a concurrent increase in the rate charged on fine cut tobacco of one cent per gram effective midnight tonight. This measure will raise an additional $8.5 million in 1991-1992. This revenue projection assumes a 15 per cent reduction in consumption resulting from this measure and from the tax increase announced in the Federal Budget.

The Newfoundland Liquor Corporation has been instructed to increase its remittances to Government from $80 million in 1990-1991 to $80.5 million in 1991-1992. Because of declining consumption a modest increase in corporation markups will be required to achieve this revenue target.

Mr. Speaker, the desire for revenue stability has given us cause to re-examine the Province's gasoline tax regime. The existing ad valorem system sets the tax in cents per litre at a specific percentage of the average retail price of the products. The recent oil price increases could have permitted provincial taxes to rise substantially but in the interest of consumers Government did not adjust its tax from November 1

1990 to March 1 1991.

This decision kept pump prices as much as 2.5 cents per litre lower than they otherwise would have been. The volatility of oil prices has resulted in the need for more certainty and stability in fuel taxation for both Government and consumers.

Accordingly, I am announcing that effective immediately Government will move to a fixed rate regime. The tax will be fixed for at least this year at the current rates of 13.7 cents per litre for gasoline and 15.6 cents per litre for diesel. As these rates are already in place this measure will not require any change to pump prices.

Mr. Speaker, the fees on licences structure of Government has developed in a piecemeal fashion. Government is reviewing all charges with a view to improving the fairness, simplicity and efficiency of the system, as well as eliminating any unnecessary burdens and inconveniences for businesses and individuals. Changes being announced at this time include the elimination of the annual fee imposed on each pump used to distribute petroleum, thereby reducing the burden on service stations and other petroleum vendors. Also the application fee for moose licences will be discontinued. The rabbit and partridge licences will be combined. And for people fifteen years of age and under, a snaring licence will be provided free.

Mr. Speaker, this will remove some of the nuisances faced by individuals with regard to game licences.

Commercial motor vehicle fees are being combined and other changes are being made to park fees and quarry rentals. Details of these measures, which have a net impact upon users of $240,000 in 1991 1992, are contained in the Appendix to the Budget document. Other improvements to the fee and licence system will be announced when our review is completed.

I am very pleased to announce a measure that will reduce the financial and administrative burden on new and small businesses. At present, sellers must provide Government with security, in the form of a bond, bank guarantee or cash equivalent, against any subsequent failure to comply with tax legislation. This is unfair to those businesses who act responsibly in discharging their tax obligations. Therefore, effective immediately, security will be required only in cases of serious non-compliance with tax legislation, thereby relieving the vast majority of businesses in this Province of this unwarranted.

Mr. Speaker, the most significant development in taxation over the past year was the implementation of the GST. In replacing the federal sales tax with the GST, the Federal Government moved from a narrowly based, high rate consumption tax to one with a broader base, and a lower rate.

Quebec and Saskatchewan have announced their decision to harmonize their sales tax with the GST. Broadening the sales tax base has been the trend throughout the industrialized world. Government has found certain features of the GST worthy of further examination in the context of our retail sales tax, our biggest tax source. Faced with the reality of the GST, Government is re-examining its sales tax system with the aim of reducing the complexities resulting from having two substantially different systems. Already, we have announced our decision to harmonize with the GST in the areas of basic groceries, prepared meals, prescription drugs and medical devices.

The Province has received numerous representations from business and consumer groups encouraging us to harmonize the RST with the GST. While we have had preliminary discussions with the Government of Canada on this subject, we cannot afford full sales tax harmonization at this time, because the revenue obtained from base broadening would be much less than the cost of removing sales tax on business inputs. Full sales tax harmonization, despite its many attractive features, would result in at least a two percentage point increase in the Newfoundland rate, and this is unacceptable.

There is scope, however, to harmonize to a significant degree and lower the retail sales tax rate if we do not give full sales tax relief on business inputs. Government remains committed to either substantially reforming or abolishing the school tax system, and this will be part of our overall consideration. Other adjustments to personal and business taxes could be made to bring in a tax reform package that would result in a fairer and simpler tax system for individuals, and contribute to a more positive business climate in this Province. This process would be facilitated if the Federal Government increased provincial personal income tax flexibility under the Canada/Newfoundland Tax

Collection Agreement, and this is presently being pursued.

To facilitate and to encourage public input in the tax reform process, additional details pertaining to the tax reform options are contained in an Appendix to the Budget Document. This public input, combined with detailed analysis of the fiscal, economic, sectoral and social effects of tax reform, will be used to determine the most appropriate reform package that might be implemented as early as January 1, 1992.

Mr. Speaker, the expenditure measures which I am announcing today are essential for the continued provision of quality public services to the residents of the Province.

In developing an expenditure plan for 1991-92 that would enable us to live within our necessary restrained targets, Government adopted a strategy whereby departments and agencies identify the impact of a frozen Budget on their operations. The results of that process, which began last fall, are reflected in this Budget. Our expenditure decisions can be grouped in three categories: programs that are frozen for 1991-92; programs that will be reduced or eliminated; and programs that will be excluded from the freeze.

Government's detailed spending plans are provided in the Estimates being tabled with this Budget, and in the Expenditure Supplement which forms an Appendix to the Budget document.

Freezing departmental programs and operations can be achieved only by implementing efficiencies, including those affecting personnel.

Reducing and eliminating lower priority programs and services is essential if Government is to have the flexibility to fund those activities which must be allowed to grow. Restraint actions have been taken only after extensive deliberations and discussions with those departments and agencies directly affected.

Funding for individual programs and services has been allowed to grow only in cases where a frozen Budget would have impeded the delivery of critical services or would have negatively affected the Province's participation in federal/provincial agreements. Some new funding has been provided for high priority economic and social development and environmental initiatives.

Reducing the current account deficit to just over $50 million, when faced with major financial pressures, cannot be done without hardship. We have been forced to institute program reductions, with resultant layoffs of permanent, part-time and seasonal employees. It is expected that the layoff of permanent employees will number 1,300.

In addition, there will be a reduction of 350 part-time employees and we will be hiring about 350 fewer seasonal employees.

The reduction in permanent, part time and seasonal employees will be spread through the public service, including 650 in Government departments, 900 in health care, 350 in education and 100 others.

Furthermore, up to 500 vacant positions will be eliminated, mostly in Government departments. Executive and management positions will re reduced by 10 per cent.

Mr. Speaker, we cannot think only as Government but also as an employer. These are very harsh measures for any employer to have to take, but, given the circumstances, we had no choice. The results were unavoidable. We realize the hardship these layoffs will mean to the many individuals and families affected.

Despite the measures taken to rationalize and to reduce program expenditures, despite the layoffs, Government still was faced with the prospect of an unacceptably large current account deficit for 199192. Clearly, other measures were required.

Reluctantly, Government will impose, effective April I, 1991, a one-year wage freeze throughout the provincial public sector covering all Crown corporations, agencies and boards, including Newfoundland and Labrador Hydro and Memorial University. The wage freeze applies to all unionized employees, managers, executives, Cabinet Ministers and Members of the House of Assembly.

Closely related to Government's ability to fund general salary increases is the matter of our ability to fund pay equity in the public sector. If Government funds the retroactive payments required under the current pay equity agreement in the health sector, it will have little' choice but to close an even greater number of hospital beds, resulting in substantially more layoffs in the health sector.

Instead, Government has chosen to recognize the principle of pay equity, but will not make it retroactive. Government is committed to phasing in the pay equity adjustments over a maximum of five years beginning at the time final pay equity wage adjustments are determined.

Last fall, Government announced steps to correct the financial situation of the two pension plans covering Government employees and members of the Royal Newfoundland Constabulary, firefighters and correctional officers. During this Session of the Legislature the necessary legislative changes will be introduced for these plans. None of those changes involves indexing. Negotiations are currently under way with the Newfoundland Teachers' Association with regard to changes to the Teachers' Pension Plan, which will include steps to correct the financial deficiencies of that plan.

One of the main reasons for the erosion of the pension fund to the point where the unfunded liabilities have reached an estimated $2.1 billion, was the practice of awarding cumulative ad hoc annual cost of living increases in pensions, increases which were not part of the pension plan, and the costs of which were not part of the contributions of either employees or the employers. Government's pension plans, like almost all other pension plans except those in the federal public service and the public service in most provinces, do not provide for indexing or cost of living increases. Moreover, it is clearly unfair for Government to grant cost of living increases from general revenues to its pensioners and not grant similar benefits to other retired citizens. Consequently, there was no general increase in provincial pensions in 1990-1991, and none is contemplated for 1991-1992.

The Commission of Inquiry on Pensions recommended that all increases in pensions should be suspended at least until the funded ratio of the plans had reached 50 per cent. Notwithstanding this recommendation, Government will, during the coming year, be studying the possibility of indexing its pensions, provided the cost is reasonable and shared equally by employer and employees. In this connection, we will be inviting all major employee and employer groups to work with us to see whether indexing programmes can be designed to provide acceptable income protection at reasonable costs and, if so, whether the coverage can be extended to existing pensioners.

Mr. Speaker, Government is committed to strengthening those activities which hold promise for long-term economic diversification. We are currently developing a comprehensive strategic economic development plan which will be the key policy guide for our future economic development.

At the same time, Government recognizes that it has to achieve economies in its economic planning and advisory services. As a result, Government will merge the Economic Council of Newfoundland and Labrador with the Advisory Board of the Economic Recovery Commission, for savings exceeding $200,000. Government has consolidated within Enterprise Newfoundland and Labrador Corporation, which reports to the Minister of Development, its programmes for rural development and for the development of small businesses. This new Crown corporation will deliver a range of assistance programs designed to reach every region of. The Province, through a network of five regional offices. Its 1991-92 Budget has been increased to $44 million.

Support for technology transfer and industrial innovation will be provided under the Offshore Development Fund, Offshore Technology Transfer Program and the Ocean Industry Subsidiary Agreement. In co-operation with the Canadian Space Agency, we will fund several initiatives by local companies under the Strategic Technologies for Automation and Robotics Program. Areas which hold considerable promise for technological development and subsequent business opportunities include aquaculture, environmental industries and biotechnology.

Funding is provided to meet our commitments under a third generation tourism and historic resources agreement, which we hope to sign with the Federal Government in the near future. Funding for tourism marketing has been increased, to reach potential tourists living outside our traditional markets in eastern Canada and the northeastern United States. Funds are provided for a new tourist chalet at Argentina and for the expansion of the Deer Lake chalet.

Mr. Speaker, the fishing industry plays a critical role in our economy. Despite the current problems, Government recognizes that this industry holds considerable opportunity. The Province will continue to promote the realization of these opportunities through its own initiatives and in co-operation with the Government of Canada. Government is strengthening the Department of Fisheries.

In the coming year $11. 6 million is provided to support the ongoing development of the industry under both the Canada-Newfoundland Inshore Fisheries Agreement and the Comprehensive Labrador Agreement. Funding is provided to create a Resource Assessment Directorate which will give Government a better appreciation of all fisheries management issues. Funding is provided for a Labrador Fisheries Directorate to co-ordinate the overall activities of the Department of Fisheries in Labrador and to deal with the special development needs associated with the Labrador fishery.

Government is continuing with measures to ease the burden of the employment loss associated with the announced closures of four deep-sea processing plants. This year's Budget makes provision for final expenditures of $7.7 million associated with the Fish Plant Worker Adjustment Program. It is expected that with the downturn in the fishery, there will be less demand for assistance from the Fisheries Loan Board. We have budgeted to add $11.4 million to the Fisheries Loan Board Fund, down $3 million from last year.

Funding of $2.5 million will be provided this year under the new $17.5 million Federal-Provincial Agreement on Mineral Development to strengthen and diversify our mineral industries. In addition, the Province will spend in support of mineral development activities, over $5 million.

Mr. Speaker, as a demonstration of our commitment to the development of our oil and gas industry, the Province and the Federal Government, through the Offshore Development Fund, will contribute to the Bull Arm construction project, $54 million, and to the construction of the Cow Head oil rig repair

A new forestry agreement with the Federal Government will provide funding for various forest management programs, including forest renewal, improvement and protection, as well as private woodlot management, research and development, silviculture and remote sensing technology. Over the five-year period of the agreement, this significant environmental and economic initiative will provide for expenditures of $64.3 million, of which the Province will contribute $19.3 million. This coming year, there will be spent under this agreement $13.8 million.

Our system of stumpage rates will be reviewed with the aim of making modifications to encourage harvesting of previously under-utilized forest stands. The Junior Forest Warden Program will be combined with the 4-H program, resulting in savings to Government.

Mr. Speaker, we will fund a Round Table on the Environment and the Economy which will provide leadership in building consensus between all sectors of our society on the integration of environmental protection with economic development. Secretariat services for the Round Table will be provided by a new Policy and Planning Division to be established in the Department of Environment and Lands.

To clean up contaminated sites in the Province, thereby helping to preserve our relatively unspoiled environment, funding for a joint federal-provincial program is provided in the amount of $2.5 million.

Mr. Speaker, Government is committed to improving the health, education and social well-being of the population, however the size of our spending in these areas dictates that they must share the burden of restraint.

In recent years, rapid changes have taken place in health care technologies and needs, changes which have had a significant impact upon the utilization of our health care facilities. To reflect these realities, we now must take the necessary steps to modify the roles and mandates of these facilities. These changes are consistent with the Department of Health's long term strategy for the health care system.

The modifications contained in this Budget reflect fully the integrated and interdependent nature of the Province's health care system, extending from community services through to tertiary care institutions. The changes were developed after consultations with major health care organizations and are consistent with the general recommendations of the 1984 report of the Royal Commission on Hospital and Nursing Home Costs.

Utilization patterns in the Province's health care facilities have been impacted by improved transportation and communications links and changes in the technology of health care delivery. The availability of specialty services has increased through a network of district, regional and provincial hospitals. We are developing a system which looks at the Province as a whole, a system that maintains for everyone primary health care services within a reasonable distance, and a system which links services into a district and regional hospital network.

This strategy requires that changes be made in the roles and mandates of a number of health care facilities. This, combined with the Province's severe financial problems, will result in the closure of 360 acute care beds in hospitals throughout the Province.

In addition, seventy-eight acute care beds will be converted to provide high level,

long-term nursing care in recognition of the needs of the Province's aging population.

Financial restraint will need to be exercised in the twenty-two nursing homes, although no beds will be closed.

Hospitals at Bell Island, Bonavista, Springdale, Baie Verte, Port aux Basques and Bonne Bay will have their roles modified with greater emphasis on chronic care services. In Bonavista, for example, a fifteen bed special care unit will be developed for patients suffering from Alzheimer's disease. All these facilities will continue to provide outpatient and diagnostic services and will have some acute care beds for short-term treatment. The Baie Verte facility will have to phase down for a period of time to permit the extensive renovations required to enable the facility to carry out its new role.

Brookfield Hospital, will have its level of inpatient activity reduced while planning continues for an appropriate health facility to meet the needs of the Bonavista North area. Hospitals at Old Perlican, Placentia and Burgeo will be converted into community health centres with diagnostic services, outpatient services and some acute care beds for short-term treatment.

Funding is provided to finalize planning and design work and commence construction of new multi-purpose health facilities for Burgeo and Port Saunders. The new facilities will provide chronic care services, outpatient services and some acute care beds for short-term treatment.

The community health centre at St. Lawrence will have its hours of operation reduced. After a thorough review of medical needs and now that the hospital at Clarenville is fully operational, it has been decided to close the medical clinic at Come By Chance. On the Burin Peninsula, $800,000 will be provided to commence redevelopment of the Blue Crest Nursing Home in Grand Bank to maintain a high level of nursing care. This project also will include the planning and construction of a new community health centre, adjoining the nursing home. As well, $3.5 million will be provided this year to complete planning and commence construction of a new health care facility to provide a clinic and longterm care beds at St. Lawrence.

An amount of $800,000 will be provided to plan and undertake design work for a new hospital facility for Goose Bay to replace the existing Melville Hospital. Funding also will be provided to commence construction of a new community health centre for Hopedale. As well, funding will be provided to expand the facility to provide long-term care beds at Forteau, and to improve chronic care services at St. Anthony.

Funding of $2 million is provided to complete planning and design work and to commence construction of a new facility for the Newfoundland Cancer Treatment and Research Foundation.

Mr. Speaker, in total, Government will provide approximately $32 million for equipment and capital works programs for the health sector in 1991-1992.

Government has been reviewing the organization and delivery of hospital services in the St. John's Region in consultation with the hospitals, as well as with the St. John's Hospital Council. In the. interest of enhancing quality and eliminating and avoiding duplication, a decision has been reached to centralize or restructure some services among the General, Grace and St. Clare's hospitals in St. John's. Obstetrics and gynaecology will be centralized at the Grace General Hospital, while thoracic surgery will be centralized at St. Clare's Mercy Hospital and urology at the General Hospital. Psychiatric services, now offered at the Grace and St. Clare's Hospitals, will be located at St. Clare's. Orthopaedic, general surgery, as well as respiratory and gastro-intestinal medicine will be further developed at St. Clare's, consistent with that hospital's changed focus.

A detailed review is proceeding with respect to laboratory services, nephrology and the St. John's schools of nursing, to determine if further efficiencies can be achieved. Government will continue to plan for the future development of hospitals in St. John's on two sites to further enhance the delivery of cost effective health care.

There is also a need to rationalize other health care expenditures and redistribute funding to critical service areas to ensure their continued viability. Basic vision assessments will no longer be covered under the Optometry Program and the Medicare Program as of April 1, 1991. There will be reductions in coverage under the dental and drug programs. As well, the medicare budget will be capped at the 1990-91 adjusted level. There also will be a reduction in the level of coverage under the Provincial Hospitalization Plan for hospital services obtained outside Canada, unless residents are referred for specific approved procedures not available in Canada. This will bring Newfoundland's level of coverage more in line with that in other provinces.

Government is committed to expanding and enhancing community care and home support services in the Province to reduce demand on our institutional sector. In 1991-92, an additional $4.8 million will be provided to help operate and develop further these programs, in conjunction with the Department of Social Services.

Overall, Government has budgeted more than $870 million in its current and capital account budgets for the health sector, which represents an increase of approximately 3.6 per cent over the projected revised Budget for 1990-91.

Mr. Speaker, although the education system must share the burden of fiscal restraint, changes must be made in a manner which minimizes the impact at the classroom level, from primary schools through to post-secondary institutions. Students must come first.

Government has frozen per capita student grants and school tax equalization grants to school boards for 1991-92.

Teaching positions eliminated as a result of declining student population will not be filled, as in the past, with additional educational professionals. In addition, some professional positions will be eliminated at the school board level.

Capital funding for building and equipping schools, which was increased from $20 million to $27 million in 1989-90, will be maintained at that level for 199192. Meanwhile, Government will be developing a comprehensive long-term capital plan for the elementary-secondary school system which will identify future capital requirements.

Funding restraint for community colleges and institutes will result in reduced duplication of program offerings, the elimination of outdated and low enrollment courses, and the elimination of positions. Additional management and administrative savings will be achieved through the integration of institutions resulting from the implementation of the White Paper on Post-Secondary Education. Sufficient funding will be provided to enable the community college at Baie Verte to maintain the same level of programs as last year.

The Government has agreed to provide Memorial University with a combined operating and capital grant of $115.5 million for 1991-92. Government has budgeted an additional $3.4 million to cover additional anticipated demand by students at postsecondary institutions for student aid and other allowances and benefits.

Funding for the Newfoundland and Labrador Youth Advisory Council will be terminated.

Additional funding of $100,000 will be made available to the Newfoundland and Labrador Arts Council.

Overall, Government has budgeted more than $795 million in its current and capital account budgets for the education sector, which represents an increase of approximately 2.8 per cent over the projected revised budget for 1990-1991.

Mr. Speaker, as part of Government's commitment to improving the economic and social well-being of those among us who are in need, we have decided to implement, effective November I 1991, a fuel allowance of $50 a month for social assistance recipients living on the island portion of the Province who maintain households and do not have heat included in the cost of rent. Labrador recipients already receive a monthly heating allowance. This allowance will be paid for the months of November through April when the need for fuel consumption is at its highest.

In addition, Government has decided to improve the Social Assistance Programme's response to single parents with dependent children by introducing a single parent's monthly supplement of $55. This allowance recognizes the special needs 'of single parent families and will bridge the gap between the amount paid to single parent families and that paid to two-parent families. These two measures will cost $8 million in the next fiscal year. Government will no longer pay municipal taxes for those recipients requiring short term social assistance. There will be no other change in social assistance rates.

Government continues to support the efforts of social assistance recipients to enhance their training and thereby improve their long-term employment prospects. Funding of $3.5 million will be provided for the new Vocational Services Programme, a two year pilot project which will provide vocational counseling and training.

Government is committed to the development of new secure custody and remand facilities for young offenders. Work is continuing on the construction of the Newfoundland and Labrador Youth Centre at Whitbourne. Phase 1 of the new youth centre, which includes the central facilities as well as accommodations for up to thirty residents, will be ready for occupancy in 1991. Construction of Phase 2, which will provide accommodation for an additional thirty residents, will begin this spring and will be completed in the summer of 1992. Construction of the Comer Brook Youth Centre has been deferred.

Mr. Speaker, I am pleased to announce a grant of $200,000 toward the construction of a new day care facility on the campus at Memorial University. This is a relatively modest contribution towards a $2 million facility, the funds for which are being raised by the students, whose efforts are to be commended for assuming responsibility for this undertaking.

The new facility will provide 168 day care spaces, thus providing increased opportunities for mature students to balance family responsibilities and academic life.

Overall, Government has budgeted $259 million in its current and capital account budget for the social service sector.

Mr. Speaker, a number of initiatives will be funded in 1991 to create a more effective court system. The jurisdiction of the Small Claims Court has been raised from $1,000 to $3,000, thereby enabling the adjudication of claims on a more timely and inexpensive basis. I am pleased to announce that funding is provided for additional Provincial Court staff for this purpose, and to move all court cases more quickly through the Provincial Court system. Furthermore, the operations of the Provincial Court will be consolidated with a greater emphasis on circuits to areas where a full-time court is not warranted. This will reduce the need to replace several retiring judges.

In response to concerns raised by the Auditor General and the Public Accounts Committee, improved financial management in the court system will be given a high priority.

In addition, Mr. Speaker, there will be constructed in Gander, a new court house.

In recognition of the problems and emotional difficulties experienced by victims of crimes in dealing with the criminal justice system, funding has been provided to develop a victim services pilot project in several locations throughout the Province. The Crimes Compensation Board will continue to provide financial compensation to victims of crime.

Additional funding of $500,000 will be provided for the Newfoundland Legal Aid Commission to ensure critical needs are met. The Commission has been experiencing some difficulties in meeting the demands for legal services, which have been compounded by the Federal Government's freeze on contributions under the Criminal Legal Aid Cost-Sharing Agreement.

The largest area of expenditure in the justice system is policing services. Mr. Speaker, Government has had to reduce the number of police in both the RCMP and the Royal Newfoundland Constabulary. As a cost-saving measure having no significant impact on police protection on the Burin Peninsula, the Burin RCMP detachment will be merged with the detachment at Marystown.

Mr. Speaker, in an effort to ensure that we have an efficient and economical transportation system, next year will be one of the busiest on record for highway construction in this Province. Under federal provincial cost-shared programs and the Newfoundland Transportation Initiative, funding will be provided for major new projects throughout the Province. This is in addition to the Provincial Road and Bridge and Construction Program. Overall, Government expenditures on highway and bridge construction will be approximately $106 million.

As part of Governments restraint effort, we have deferred the construction of the $24 million ice breaker ferry at Marystown Shipyard for the Fogo service. The Department of Works, Services and Transportation also will implement changes in the operations of several intraprovincial ferry services to take effect later this year.

As a result of the measures taken to restrain expenditures, growth in the current account budget will be held to 3.3 per cent on a gross expenditure basis, and 1.5 per cent net, the lowest rate of increase in many years. Overall expenditure in 199192, current plus capital, will increase by 4.8 per cent gross, but only 0.8 per cent net.

In conclusion, Mr. Speaker, this Budget contrasts the relatively bright prospects for the economy with the extremely difficult financial position of the Government.

Though now in recession, the Newfoundland and Labrador economy is expected to be one of the first to recover, mainly as a result of the large Hibernia development. Prospects in the medium term for future offshore developments, such as Terra Nova, will further strengthen our economy, as will possible hydro developments on the Churchill River, and the recovery of the fishery which will, indeed must, occur over the next few years.

If the Government's financial position were as promising as the economy, this Budget would have been more pleasant for all of us. But the reality is quite different. A structural problem exists, our expenditures have been outpacing our revenues. Persistent growing deficits have been the result. That other provincial governments and the Federal Government are encountering the same problem, makes our task no easier.

I have mentioned the reasons we find ourselves in our present position. A major factor is the unrealistic financial expectations we have of Government. Another is the Federal Government's decision to combat its $400 billion debt problem by restraining transfers to provinces in a very significant way. The cost to this province of federal transfer restraint imposed since 1982 on equalization and EPF transfers will approximate $180 million for the 1991-1992 fiscal year alone, and exceed $750 million in total since 1982-1983. It is easy to see how different our Budget would have been without these federal transfer restraints.

As well, the recession has hurt our financial position by reducing provincial tax revenues and by necessitating additional expenditures.

For these reasons, we have struggled over the past several months to cope with the prospect of a $200 million current account deficit for 1991-1992. .

Mr. Speaker, we could have chosen to do nothing to reduce this deficit, but rather to borrow the whole amount. However, such an unprecedented borrowing requirement could lead to a day when the Province would be unable to finance its programmes, simply because the capital markets would not be interested in buying our bonds, or would do so at greatly increased costs to the Province.

We could have chosen to tax away the $200 million deficit. But that would have meant enormous tax increases for an already heavily taxed people. Instead, we borrowed prudently, we increased taxes modestly, and we restrained expenditures in the public sector, over a broad range of activities.

The health sector will be rationalized as a result of this Budget, but the result will be a better, more efficient, more balanced and more future-oriented system. Post-secondary educational institutions will re-arrange their programmes to reflect new realities. Government departments, agencies and Crown corporations will be streamlined. Major layoffs will occur, a wage freeze has been instituted, pensions will not be increased.'

Mr. Speaker, this budgetary process has been difficult. For many individuals the result will be painful. To implement the measures we have outlined will require the co-operation of all parties involved. We believe the steps we have taken in this Budget are essential to maintain the integrity of the Province's fiscal position and to assure the economic future of the people of Newfoundland and Labrador.

Mr. Speaker, I move that the debate be adjourned until tomorrow, Monday, March II.

On motion, debate adjourned until tomorrow, Monday, March II, tomorrow to discuss in some detail what I would plan to do over the next two weeks.

On motion, the House at its rising adjourned until tomorrow, Monday, at 2:00 p.m.