

Speaking Notes - The Honourable Siobhan Coady, Minister of Finance
Presentation Title: Where do we go from here?
Conference hosted by CARE (Collaborative Applied Research in Economics),
Memorial University and University of New Brunswick
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Emera Innovation Exchange Room 2007, Signal Hill Campus

Introduction

Good morning everyone. Thank you for participating in this important conversation and for providing your perspective on how best to set a course for the future. I, like you, are passionate about this place, and committed to doing everything possible to ensure it realizes its opportunity and provides for a future deserved by generations to come.

As I noted in my budget speech a few months ago, solutions are needed to address long-standing structural financial issues in Newfoundland and Labrador. Structural challenges of a large geography, an aging and declining population and a dependence on volatile commodities. The reality is we have to, as my mother would say, cut the cloth to suit the garment. For too long we have quite literally spent more than we earned – we all know in anyone’s home finances what that outcome would be if we spent more than we earned. For too long we have been living on debt and it has to stop.

Annually, we are spending more than we are making in revenue and we have limited capacity to absorb further borrowing given our current debt load.

In some ways, I am where I started. I remember throughout the 1990s and early 2000s, as a young business leader, petitioning and encouraging the federal government to address its fiscal challenges. At the time, the debt to GDP ratio for the country was about 70 per cent. I was on the board of the Canadian Chamber of Commerce and meeting regularly with then Federal Finance Minister Paul Martin. I remember at one point - as we sat across from one another - he said to me I was on the wrong side of the desk. That if I truly wanted to make a difference, then I should enter politics and sit on the side of the desk where the decisions were being made. So here I am.

Former Prime Minister Paul Martin called me when I was sworn in as Finance Minister just over a year ago. He wanted to encourage me. I asked his advice on how best to proceed – he said with patience and perseverance.

The fiscal reality

In May, the Premier’s Economic Recovery Team, a talented, independent group of leaders, released their report called The Big Reset. The report outlined that the province’s fiscal situation must be brought under control.

The frank assessment provided by the Premier's Economic Recovery Team has generated much dialogue, including at this conference. I believe people in this province understand the problem and recognize that we must change, that we must address our financial challenges.

Here are some highlights from The Big Reset:

- Expenditures grew from 4.97 billion dollars in 2004-05 to 8.97 billion dollars in 2020-21.
- The province added 12.6 billion dollars to its total debt in seven years.
- When including government business enterprises, other liabilities and obligations – the province's financial exposure is 47.3 billion dollars for 2020-21. This sits on the shoulders of a labour force of about 260,000 people and about 280,000 tax-payers.

Our net expenditures are 8.1 billion dollars for fiscal 2021-22 and this is an improvement over last year of about a billion dollars. On a cash basis, we are short 2.0 billion dollars this year and we are borrowing 1.7 billion dollars. Our gross current and capital expenditures are 9.1 billion dollars.

If we do nothing, our deficit will continue to grow and our debt will become completely unmanageable. Already we spend over a billion dollars a year to service our debt. Imagine that increasing. Better still imagine if we had that money to invest in our communities and our economy.

Budget 2021 sets a path to bring provincial spending under control and a plan to ensure our financial and economic future is secured.

Fiscal forecast

Multi-Year Targets (\$ millions)

	2020-21 Revised	2021-22	2022-23	2023-24	2024-25	2025-26
Revenue	7,089	8,518	7,913	8,167	8,191	8,384
Expenses	8,733	9,344	8,485	8,519	8,470	8,427
Oil Risk Adjustment	-	-	15	25	35	45
Deficit	(1,644)	(826)	(587)	(377)	(314)	(88)

The multi-year forecast will place the province in a surplus position by 2026-27.

As I said in my budget speech – This is an important moment in our history. In this moment we can learn from the past and change the future. This must be our moment to come together: no matter our differences, no matter our interests, no matter our politics. We are all Newfoundlanders and Labradorians. We are all connected. We share common ground.

We all want the same thing: a strong, smart, self-sufficient, sustainable Newfoundland and Labrador. We are all proud of our heritage. Let us be even more proud of our future.

It is now our responsibility to ensure generations to come have better opportunities and healthier, more prosperous lives.

We cannot, must not, and will not allow the deficit and debt to continue to rise and burden this and future generations. It is important to us all to stand together for Newfoundland and Labrador. We are a small, aging population and we must take definitive action now before someone else does it for us.

IF we do what is needed, we can achieve what is great.

Every day the clock resets.

So how do we get there? A wise man once said, “Remember that every day the clock resets. We cannot fret on what was but focus on what could be.”

This will mean transformation and change. Modernization and improvement. Our partners in this transformation include everyone here today - the people of this province, business leaders, community leaders, our labour force and their leaders. We need everyone engaged and involved.

Thankfully, this summer, the Premier and Prime Minister announced an agreement in principle for the financial restructuring of the Lower Churchill Projects. This lifts a huge burden financially from the province and reduces the cost of financing, providing more certainty for people and businesses. It provides \$2 billion in federal financing, including a \$1 billion investment in the province’s portion of the Projects’ Labrador-Island Link and a federal loan guarantee of \$1 billion for the Projects’ Muskrat Falls and Labrador Transmission Assets.

It also provides annual transfers to the province equivalent to Canada’s yearly net revenue from the Hibernia offshore oil project Net Profit Interest (NPI) and Incidental Net Profit Interest (INPI), which current estimates indicate will total \$3.2 billion between now and the end of the Hibernia project’s life.

This \$5.2 billion announcement lets the people of our province breathe a sigh of relief, knowing their power bills will not double.

We are focused as a government on improving our financial position; on making Newfoundland and Labrador one of the healthiest provinces by 2031 – you will hear from Health Accord NL today; on improving educational outcomes; on growing the population of Newfoundland and Labrador with a goal of welcoming 5,100 newcomers a year by 2026; on driving economic growth in our resource industries both renewable and non-renewable, in technology, in film and television production, in tourism and on addressing climate change with a goal of being net neutral by 2050.

Barack Obama once said, “Change will not come if we wait for some other person or some other time. We are the ones we’ve been waiting for. We are the change we seek.”

What if we do nothing?

If the province does not address its structural challenges, our high debt will limit our ability to borrow in the future.

The unsustainable debt levels will have to be carried by our children and grandchildren and our province’s future will not be all that it could be instead it will be even more difficult.

If we don’t change, there is a very real chance of a chaotic and uncontrolled adjustment in the future. I think everyone understands this by now.

This would mean substantially reduced government services with quick and painful adjustments. Our economy could suffer long term harm. This is why we must plan, we must engage, we must transform, and we must change.

Where to begin?

In Budget 2021, we outlined a number of measures we are taking to address the deficit and debt and to transform and modernize government.

The plan was recognized for its strength. DBRS Morningstar said that Newfoundland and Labrador's deficit is projected to fall sharply and steadily.

Moody’s said that the province has demonstrated a commitment to strong treasury management to minimize risk from any volatility arising from financial planning. And TD Economics said: in what will likely be well received by investors and rating agencies, Budget 2021 commits to significantly improving Newfoundland and Labrador’s fiscal position in coming years.

We must embrace change and take the action necessary to meet our target of a surplus position by 2026-27 by transforming government and the province.

We must find better ways to deliver services if we are to achieve all that we hope for a strong, smart, self-sufficient, sustainable Newfoundland and Labrador. The time for action is now.

Embracing change is not always easy but certainly the past year and a half of living with COVID-19 has shown us how we can all work through a challenging situation, adapt and innovate.

Everyone has their COVID story. I remember in early March 2020, I was Minister of Natural Resources, the department received a media call asking if any of our team had gone to PDAC – a mining conference in Toronto.

They were asking because there were people at PDAC who had gotten COVID-19. We did have people at that conference and while they did not get COVID-19, the pandemic was immediately on our radar. Within weeks, our offices – as well as many shops, businesses and industrial projects had shut down – here in the province and throughout the world. The global economy came to a stand-still.

Devastating, tumultuous, scary. Yet, we did what we do best - we found the strength to come together as a community – to help each other and to cope with the impacts of the pandemic. People started working from home, businesses pivoted to create products needed such as masks and hand sanitizers. We adjusted – adapted – survived - thrived. We may not recognize it in our daily actions and routines, but we adapt to change all the time.

Building the future

As J.F. Kennedy once said, ‘change is the law of life and those who look only to the past and present are certain to miss the future’. We must build the future we want.

Budget 2021 outlined actions to be undertaken to transform and modernize government. These are bold, decisive actions that will result in better service delivery and improved financial outcomes. They are the start of our broader transformation as we look at areas where we have the highest expenditures, such as within government entities, education and health. We need to reinvent government and the economy.

We have established a change team, reporting to me as Minister of Finance and President of Treasury Board, to lead government’s transformation. This team consists of senior officials in government who are coordinating and driving the change needed. The intent is to improve and enhance the quality of service delivery to citizens while at the same time doing it in a cost effective manner, removing duplication, and striving for clear and measurable outcomes.

As we speak, the team is focusing on cultural change to lead continuous improvement. It is developing an accountability framework for departments, agencies, boards, commissions, as well as the not for profit sector and those that receive public monies.

Treasury Board has established a new branch responsible for continuous improvement and program review. Every program will be evaluated and outcomes measured.

Realigning agencies, boards and commissions

All agencies, boards and commissions will be reviewed to determine if they are better positioned within government.

A House of Assembly committee will be created to review financial statements, budgets, and the annual reports of agencies, boards and commissions. This will provide greater financial oversight, transparency and due diligence through the democratic process.

NL 911, which operates the province-wide emergency 911 service, will become part of core government. Removing any duplication while we modernize and enhance the system to provide even better service.

The Newfoundland and Labrador Centre for Health Information, which focuses on eHealth and provides quality health information and data analytics is being reviewed with the intent of providing a more responsive and effective framework servicing the health care sector. (RFP for Newfoundland and Labrador Centre for Health Information has been issued).

Integrated corporate services will streamline the delivery of functions for the four health authorities such as payroll, finance, accounting, human resources, IT and procurement. Health Accord NL will consider the full review of the new delivery of the health system including the boards themselves.

We are making changes to our energy corporation.

Nalcor Energy operations will be moving under Newfoundland and Labrador Hydro (Hydro).

The corporation will evolve to a steady-state utility operation focused on cost reduction while providing safe, reliable electricity, and will focus on maximizing the economic potential of its energy portfolio.

A Request for Proposals has been issued to retain strategic advisory services to guide the province as it seeks to maximize the value of its asset portfolio. The province has a number of assets and interests for which it is considering monetization to satisfy financial and policy objectives. Each asset identified will require extensive analysis and evaluation process before any final decisions on such actions are taken.

This Fall we will launch a process to maintain and improve service delivery through joint solutions. We will ask business, social enterprises or other organizations for their proposals on how to more effectively deliver facilities management, ferry services and other government services.

Consistent with improved service delivery, we are looking at our municipal structure and working towards a model of regionalization that will make our rural communities stronger.

Building on the success of MyGovNL, and to ensure better interactions with government, improvements will be made to the content of government websites ensuring that information is service-focused, easily located, tracked and actioned. Improvements will present a single view on interactions with government.

We are reinventing the education system.

Our children must leave school with the technology and change skills needed in this new era. To this end we are making changes to the system to make it more responsive to the changing needs of a modern, economy. We are taking steps to integrate the Newfoundland and Labrador English School District into the Department of Education to make better use of our investment in education and ensure that these investments target the classroom, not administration. We are committed to making our K-12 system the best in the country.

We are also developing a more defined accountability framework for Conseil Scolaire Francophone.

Substantial changes have been announced for post-secondary institutions.

We are committed to keeping post-secondary education affordable and accessible. We will do this by maintaining the most attractive and competitive student financial support package in the country.

The newly announced Tuition Relief Grant Program will ensure that low- and middle-income individuals are supported to access post-secondary education.

Newfoundland and Labrador's post-secondary institutions make valuable social and economic contributions to our province. They support economic activity, contribute to our communities and attract students from around the world.

We intend to move forward with revisions to modernize the Memorial University Act. This process was announced in Budget 2021, and follows recommendations from both the Premier's Economic Recovery Team and the Public Post-Secondary Education Review Committee to see the Act updated and modernized.

We are taking a proactive approach to treasury management.

Budget 2021 sets the course to achieve fiscal stability by ensuring our government spends within our means. We are introducing balanced budget legislation to ensure this and future governments are held to that requirement. We cannot continue to run huge deficits and pass this debt to future generations.

We are also committed to a Future Fund that will create a mechanism to tackle the debt and make strategic investments to capitalize on the future economy.

This work will be monitored and government will be tracking deliverables and producing scorecard results. A process for public reporting will be undertaken as part of this work.

All of this important work is to transform and modernize government and build a better province. After all, CHANGE starts here.

Credit Rating Agencies

I'm encouraged that DBRS Morningstar has taken our actions into account in their latest rating. Earlier this month, they changed the trend on the province's long-term rating from negative to stable, and confirmed the long-term rating at A (low). In their rating, they also noted that we are achieving our rate mitigation targets through the recent agreement in principle signed with the federal government.

In August, Moody's Investor Services also said publicly that: "increased federal support for Muskrat Falls is credit positive for the province because it lowers the burden on the province to provide financial relief to MF/LTA itself to achieve rate mitigation."

Also, just last week, S&P publicly released an update on the province's finances. They affirmed our rating at A and are continuing a negative outlook due to heightened risk that a prolonged pandemic disruption could lead to persistently low liquidity levels over the next several years. It was encouraging to hear that they, "expect that the Province of Newfoundland and Labrador's budgetary performance will steadily improve as the economy posts a strong recovery and fiscal measures announced in the budget are enacted, putting the province back on its path toward financial sustainability."

Premier's Economic Recovery Team

I'd like to take a moment now to update you on the consultations regarding the Premier's Economic Recovery Team recommendations.

Consultations ongoing this summer have been completed.

We've had lots of interest – with over 1,500 submissions online and 110 participants to the public consultations.

A summary document of “what we heard” via the consultation process will be made available to the public on the engageNL website. Government will be considering this input and feedback when reviewing the recommendations included in the Big Reset Report.

The Big Reset provided us with a sober look at our fiscal circumstances and options for a path to greater prosperity. The report is a guide. Some recommendations government will accept; some may be adjusted; and some not progressed. What the Premier’s Economic Recovery Team has done is begin a thoughtful and meaningful dialogue about the future of our province.

Economic Performance

There are also positive signs that the provincial economy is emerging from the pandemic. This is particularly evident in consumer spending, real estate, exports and the labour market.

Consumer Spending

For the first six months of the year, retail sales in the province are up 12.9% compared to pre-pandemic levels for the same period in 2019.

Sales at food services and drinking places have shown strength in recent months with lifting of COVID-19 health restrictions on travel and in person dining. However, sales for the first six months of 2021 were still 11.2% below 2019 levels.

Motor vehicle sales in 2019 totaled 30,510. For the first six months of 2021, there were 15,097 (January to June) motor vehicle sales.

Real Estate

The real estate market in Newfoundland and Labrador is performing well so far in 2021 as low interest rates and a post-pandemic jump in demand led to a strong rebound.

Urban housing starts for the first seven months of the year are 29.6% higher than even pre-pandemic levels for the same period in 2019.

Home sales are up 68.1% for the first seven months of the year when compared to the same period in 2019.

Due to increased demand, the average price of a home has also increased. For the first seven months of the year, the average house price was 12.1% higher than in the same period of 2019.

Labour Market

Although the labour market has not fully returned to pre-pandemic levels, there has been steady improvement in recent months.

Labour compensation for the first six months of 2021 is up 1.7% compared to the same period in 2019.

Employment has improved in recent months from the lows of the pandemic shutdowns, but was still down 4.3% in the first eight months of the year compared to the same period in 2019.

The unemployment rate has also declined in recent months in line with increased employment, but for the first eight months of 2021, it was still 0.9 percentage points higher than the first eight months of 2019.

Oil and Mining Exports

The value of oil production was 3.2% lower in the first seven months of 2021 when compared to pre-pandemic levels in the first seven months of 2019. I remind everyone that Terra Nova has been offline since December 2019. It is very positive news that Suncor has just announced its sanction to extend the life of the Terra Nova FPSO.

International exports of minerals and mineral products have increased by 68.9% in the first seven months of 2021 compared to the same period in 2019. This is largely due to near-record high mineral prices and increased iron ore production.

As the Minister of Finance, I am encouraged by the growth in these key indicators. They highlight a sense of renewed confidence.

There are also signs of optimism and hope in relatively new sectors of our PROVINCIAL economy. Technology and film and television in particular are opening doors to new career and business opportunities.

The 165 company technology sector that is valued at \$1.6 billion annually is competing globally. It is proving our strength in the sector.

Highlighted by the US \$2.75 billion sale of Verafin, as well as the injection of venture capital investments in such companies as Mysa and CoLab Software, we're witnessing positive growth. It is a sector that is poised to add another 2,000 jobs over the next three years – jobs that will help attract talented, highly-skilled newcomers to our province.

As well a rapidly growing segment of our cultural industries, the film and television industry generates close to a half a billion in economic activity annually, we are seeing more production this year than ever before.

For example, Disney's Peter Pan and Wendy employed about 150 people, including local technicians, artists and film workers, while shooting in several locations on the island. Astrid and Lilly Save the World will employ nearly 1,000 Newfoundlanders and Labradorians when it begins filming later this year.

Not only are we bringing international recognition to the province, but we are bringing in close to a \$100 million in production activity this year.

There are positive indicators we are moving in the right direction but there is much work to do.

Transformation is powerful

As I said in my budget speech: A child born in this province today owes debt for their birthright. In a place as rich with resources and strengthened by talent, a place carved with grit and granite. Without fear of contradiction this isn't what any of us want. We want to bestow with certainty the opportunity and potential of this place. We want to give every ounce of its character, every stone of its worth for this child to mold and yield a better life.

Let us all have the courage to make the bold decisions and the faith to work together.

Thank you.