

REPLY TO THE BUDGET ADDRESS—KEVIN O'REILLY MLA FRAME LAKE

June 7, 2016

MR. O'REILLY: Mahsi, Mr. Speaker. The new Regular MLAs have almost survived their first budget. I will use my reply to the budget address to set out some thoughts on the following: a description of the process and how it might be improved; public engagement and my assessment of same; and substance of the budget and its consistency with the priorities and mandate of the 18th Assembly.

On the budget process, as I mentioned earlier, this was my first budget as an MLA. I followed GNWT budgets for many years as an interested observer and have partaken in many pre- and post-budget consultations with previous Finance Ministers.

This budget is different in several significant ways. Largely due to the timing of the Fall election, the capital budget was completed by the previous Assembly. While we had some ability to examine capital projects, it was virtually impossible to assess or evaluate these expenditures. We also passed an interim appropriation for the first quarter of 2016-17 that largely maintained the status quo, although Regular MLAs did succeed in adding in funding for an infrastructure program for small communities.

The current budget effectively covers the last nine months of 2016-17. It is based on a review of departmental budgets or business plans that were put together internally by the Ministers and their staff. Work on these budgets and plans has been under way for months, before the current MLAs had even been elected. As we learned later, each department was given specific reduction targets to support the overall fiscal strategy.

Regular MLAs had no direct say in the development of the overall fiscal strategy, the reduction targets, or the actual draft business plans. Yes, we did play a role and treat the mandate of the 18th Assembly, but it was clear that not all departments used or clearly reflected the mandate. For example, even though we rejected the fiscal strategy target of \$150 million in reductions and had it removed from the mandate, Cabinet keeps bringing it back like some sort of zombie.

Regular MLAs have stressed that, if there is to be a fiscal context statement, there must also be a social and environmental context statement as part of the budget. To be clear, I am in favour of some financial management. But if we are to build a large surplus for capital projects, those projects should be well defined, their need researched and justified by clearly outlined cost-benefit analyses. Finally, they should not be built on the back of programs, services, and staff.

Regular MLAs reviewed departmental budgets and business plans for the remainder of 2016-17, using the standing committees during the period of April 25 to May 6. I attended all of those meetings, even though I was not a Regular Member of two of the standing committees. We had excellent assistance from our research staff and clerks. Most of the Ministers and their staff were quite helpful in responding to questions and requests for additional information. Some Ministers were less than helpful and even refused to provide documents. In my view, this is simply not acceptable in a consensus government system. I believe it's also contrary to the Guiding Principles and Process Conventions of the Legislative Assembly, which all Members must abide by.

In any event, all of this was done in a very compressed time frame and involved several rounds of discussion and negotiations behind the scenes that was not open to the public. I think it would be fair to say that Regular MLAs were very diligent in passing their views back to Cabinet and the Finance Minister, but responses were often very slow and incomplete. As noted by the

Finance Minister, the Regular MLAs worked very hard behind the scenes to secure reinstatements of program, service, and staffing cuts that total over \$4.3 million. The budget address specifically mentions reinstatements related to small community employment programming and youth.

I would also add that significant effort by Regular MLAs went into reinstatements for programs that invest in the parts of our economy that continue to grow and diversity, including tourism, arts and crafts, agriculture, and more. Why the Cabinet proposed cuts to these programs is a mystery to me, in light of our mandate's call to strengthen and diversify our economy, but I digress.

As for lessons learned in the process I make the following observations:

- We need to find ways to open up the Budgeting and Business Plan Review to allow for some level of public scrutiny. I recognize the balance of interest in a consensus style system where information can and should be shared but the public also needs to know what is happening and what tradeoffs are being made. I don't have any specific suggestions, but would encourage us all to ponder this issue.
- There should be some firm deadlines around the negotiation process between Regular MLAs and Cabinet, including the exchange of information and views. We may need to review our current process conventions and/or develop a new one for the budget process.

I found it very difficult to relate the information in the Business Plans to the Main Estimates. Better cross-referencing of the activities is needed. Perhaps more details from the Business Plans could be included in the Main Estimates as appendices to each departmental budget.

- There should be a clear and concise section that provides a summary of the changes in the Main Estimates from the Business Plans.
- There should be clear tables showing the changes in staffing by departments and by community in relation to full time and part-time employees as a result of sunseting of programs, reductions and new initiatives. Such information should be public while protecting the privacy of individuals may be the subject of such changes.

Public engagement around the 2016-17 Budget.

In the past, Finance Ministers have conducted both pre- and post-budget briefings and meetings with the public, business, non-governmental organizations and others. I've been at many of these sessions over the years and while some have been rather frustrating, if the process appears fair and balanced there will be greater public confidence in the results.

Early on in the Budget process of 2016-17 Regular MLAs encouraged the Minister of Finance to conduct public consultations. While I recognize the limited timelines of the current process and special timing considerations through a later election we can and should do a much better job on public engagement. A website and a rather biased discussion paper on revenue options do not constitute adequate public consultation. Regular MLAs highlighted the extensive efforts of the Newfoundland and Labrador Provincial Government in consulting its citizens and we can learn a lot from those efforts.

I reviewed the Budget Dialogue Report from our limited efforts on the 2016-17 Budget and it was little more than a compilation of submissions with no analysis or overall summary. It was also very disappointing that our limited consultation efforts began so late in the process and that the public was told that any substantive suggestions would only be considered for the 2017-18 Budget. We can and should do a much better job in engaging our citizens about our next

budget. Effective consultations on the Budget should be one of the priority tasks assigned to the new communication staff approved in this Budget for the Department of the Executive. The Priorities and Planning Committee should be given an opportunity to comment on the communication plans developed for future budget consultations.

I'd like to move to the substance of the Budget. Last week on Budget Day I said that the public at large would be wondering what the past 12 months of austerity messaging of gloom and doom have been all about. The public and our civil service have lived in anxiety at the prospect of deep cuts. This, in my view, was counterproductive and unnecessary.

As the Finance Minister stated, \$27 million in spending will end with scheduled termination of some programs, and there's \$31 million in program reductions in the fiscal year. This is more than offset by \$29 million in forced growth and \$35 million in new initiatives. So spending will actually be higher than last year at 0.9 per cent, almost the rate of inflation. This is not the austerity budget we were led to believe it would be.

While the Budget may not seem as harsh as was expected, there will be real losses for the 58 GNWT employees that may be out of work in the wider economic impacts. Although I pushed very hard for some economic analyses of these job cuts and the potential losses from induced and indirect impacts in the private sector and lost revenues from taxes and transfer payments, this work was not done well and it is not publicly available as part of the Budget. That's why I asked the Finance Minister last week to table this information in the House.

Throughout this budgetary process Regular MLAs were firm in insisting that drastic austerity measures would not be supported and would cause more harm through removal of spending in local economies. Just as the Federal Government has turned to fiscal stimulus, messages of hope and change, our government was sending out very contrary signals and taking us in the opposite direction.

In my view what has been driving Cabinet is the belief that big projects and non-renewable resources are the preferred future for the Northwest Territories. We have to build a significant cash surplus to provide subsidies in the form of infrastructure to support more non-renewable resource development in the hope that federal funding will fall from heaven. That way of thinking was blown out of the water in the fall with the election of a new government in Ottawa and was further confirmed with a first federal budget in March where the new priorities for infrastructure are a cleaner economy, a more inclusive society, a low carbon economy and transformative change.

We are still locked into the roads to resources paradigm when we should be developing plans and strategies for adequate housing so our residents can engage in the economy, getting our communities off diesel with renewables, and developing a University of the Northwest Territories. This is where the federal dollars are and these initiatives will help us reduce our cost of living while creating a more diversified, resilient economy. These sectors also create more local jobs than non-renewable resource development. That was the kind of the leadership I had hoped for in the Budget.

To be fair to Cabinet, there are good things in the Budget, they include:

- increased student financial assistance for students aimed at developing their potential and retaining more of our young people;
- changes to the way that we fund daycare and day homes with a commitment to universal and affordable childcare;

- change to income assistance so the NWT and Canada child benefits and spousal support are not clawed back;
- funding for the implementation of the new Mental Health Act;
- negotiation and implementation of trans-boundary water agreements;
- increased funding for our community governments at about the rate of inflation, but we still need more funding to ensure a fair distribution of such funding to address the infrastructure deficit and additional funding for the Arctic Energy Alliance.

I appreciate the work of Cabinet in moving these initiatives forward and fully support them in this regard and believe they are consistent with our Mandate.

While on the subject of our Mandate, I think it is the root of some of the issues I raised earlier in this reply. There are simply too many competing priorities without much guidance on how our scarce resources should really be allocated. For example, the Mandate refers to work to secure funding for the Mackenzie Valley Highway, a road to Whati, and a road to the Slave Geological Province. Clearly, all three of these projects will not proceed at the same time and in my view the odds are slim that money will be found to complete any of them within the term of the 18th Assembly.

Unreasonable expectations have been raised by our Government on these projects. Some of my colleagues and I have questioned how these infrastructure projects should stack up against the competing needs for adequate housing or other priorities. I think Cabinet should show stronger leadership in working with the Regular MLAs to better refine our priorities and how we allocate our resources through the Budget.

There are some proposed expenditures and reductions that we reviewed during the Budget process that were clearly at cross-purposes, for example, reduced funding for renewable energy in one department and increased funding in another. Or increased water monitoring in one program and reductions in another aimed at protecting sources of drinking water. All of this to say that some higher level review of the Budget should be conducted for internal consistencies, especially in light of our Mandate.

Lastly, the biggest disappointment for me with the Budget was the failure to seriously consider raising revenues for a more balanced approach to fiscal sustainability. The Budget address boasted of no new taxes. This is rather ironic given that this Budget proposes increased landing and terminal fees when flying through Yellowknife and airport improvement fees. These fees will clearly increase the cost of living for Northerners yet are inconsistent with the no new taxes approach.

I'm not opposed in principle to these fees, but we also need to develop a business plan and fully engage the public on this initiative. In addition, the Revenue Options Discussion Paper was, in my view, clearly biased against any new or modified revenue measures.

We should be raising more revenues in ways that will promote healthier lifestyles and protect lower income families and remote communities. In the short term, increases in taxes on cigarettes and liquor will help reduce consumption. A tax on sugary and caffeinated drinks has been done in Mexico. Create a fifth personal income tax bracket for high incomes above \$150,000 and/or a high income surtax. Create a whole hotel tax and dedicated resources to support tourism. Increase the tax rates for industrial uses in the area outside of communities to capture more revenue from the diamond mines.

Over the longer term, comprehensively review and consider increases to our comparatively low royalty and taxation rates on mining and oil and gas and dedicate a defined revenue stream into our Heritage Fund. We should be investigating other ways to even out our volatile revenues from corporate income taxes through a capital investment tax, a carbon tax or a resource tax. And we should also review opportunities to raise more revenues as a result of devolution legislation, for example, an increase in water use fees.

I believe there a number of other fees that have not been reviewed or raised in years and we should seek the assistance of our departmental staff in identifying additional opportunities to raise more revenues.

I fully understand that we cannot rely on own source revenues alone to fund all that we wish to accomplish, but I look forward to a much more robust and objective consideration of revenues in the next budget.

This was a difficult budget for a number of reasons. I've offered some thoughts on how to improve the process, highlighted the need for better public engagement, suggested clear messaging, a focus on diversifying our economy in line with new federal funding, and ensuring a more balanced approach that includes more revenues. Although we may disagree on a number of matters, there's some exciting initiatives in this Budget and I sincerely thank my Cabinet colleagues and their staff and my Committee colleagues for their hard work in a compressed timeframe. I can hardly wait until we get back at it again in about three months for 2017-18.