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COMMENTS ON 2017-2018 O&M BUDGET

March 6, 2017

MR. O'REILLY: Merci, Monsieur le President. It was almost a month ago that I gave my reply to the budget address. So what has changed since then in terms of the 2017-18 budget now that we have an Appropriation Bill in front of us? I will review of the budget process, the offer from Cabinet, the Amended Budget, and draw some conclusions.

The Budget Process

Let no one be fooled, the reduction targets are driving this budget in an effort to build larger surpluses to spend on infrastructure projects or roads to resources. That has been Cabinet's fiscal and economic development strategy since the mandate was proposed early in 2016.

In September 2016, Regular MLAs reviewed the departmental business plans during the presentations and exchanges Ministers and their staff over and over again, and even last week, made reference to the reduction targets given to each department and the overall target of cutting \$150 million later reduced to \$100 million.

Regular MLAs were very clear on items deemed to be unacceptable reductions and provided supporting rationale for our opposition. The response was to roll back some of the cuts and then offer some new initiatives that were largely based on issues raised in the House in the fall sitting. The new initiatives were not discussed with us first and did not necessarily reflect any particular approach or linkage to the mandate. Further reductions were also introduced that were greater than the cuts that had been rolled back.

Given the lack of consultation on the new initiatives, Regular MLAs spent considerable time developing our own list of strategic investments that were clearly driven by the mandate. These were completely rejected by Cabinet at first. After some discussion, one major reduction was rolled back and then a vague promise of more funding later on in our term for junior kindergarten. This morphed into the so-called "full funding" which, of course, is not true as clearly demonstrated by questioning of the Minister of Education.

Thus began our review of the main estimates. Regular MLAs deferred those activities within the departments where our proposed rollbacks of unacceptable changes were located and our new initiatives would be found. This continued until almost all the departments were deferred. Regular MLAs pared down our list of unacceptable reductions and new investments based on the discussion we heard in Committee of the Whole, which was subsequently discussed at a high level with the Minister of Finance.

The pared-down list was not requested and not discussed by Cabinet. An offer was presented to the Regular MLAs by the Finance Minister last week. More clarification on that offer was sought, but we still have not received a response. The offer was more

than I had expected from Cabinet. The Finance Minister revealed the offer in the House on Friday of last week, which the majority of Regular MLAs appeared poised to accept.

Few will ever know how hard the Regular MLAs had to work and work together on behalf of our residents to extract any concessions from Cabinet. It was far worse than pulling wisdom teeth, Mr. Speaker, and I would like to avoid that again next year.

I have proposed a number of ideas to ensure that future budgets are developed in a more collaborative approach, and I'll discuss them again at the end of my speech here.

The requested revisions from the Regular MLAs amounted to a very minor proportion of a \$1.7 billion overall budget, less than 2 per cent. To be clear, there were no true negotiations. Exchanges of written ultimatums were made with limited discussions. In my view, Cabinet was never willing to openly negotiate. What could be viewed as a command-and-control model of leadership does not seem consistent with the principles of consensus government.

I'll move on to the offer from Cabinet. I won't repeat the Minister's statement from last Friday, but I offer some observations and know that there are a number of limitations around the budget offer. There will be some welcomed new investment in the social envelope, including homecare, suicide prevention, and anti-poverty projects. I support these initiatives and clearly made the case for an increase in the anti-poverty funding in our Committee of the Whole discussions last month.

On the economics side, I support the increased investment in our fishing sector and small communities. However, increasing subsidies for mineral exploration is something I have some difficulty with. Repeated studies have shown, and GNWT's economic multipliers show, that if you invest the same amount of money in virtually any other economic sector more jobs will be created, whether it is arts and culture, agriculture, forestry or anything else. If the objective is diversify our economy and even to create a more equitable society, these funds could and should be better invested.

Now for the loose ends. The homecare increase may not be as large as it seems and some of it may actually be needed to make up for losses in federal funding. Ministers have noted that some new programs will need to be designed or old ones modified and implemented to get some of the new money out the door, including homecare, suicide prevention, and converting the Small Communities Employment Fund into a job creation program.

In my mind, the most problematic part of the Finance Minister's announcement about a budget deal last week was the mention of the deferral of Aurora College programs. As far as I can tell, there are no changes in Cabinet's approach. The Minister of Education has already approved that no new students will be allowed into the programs. Teachers will now be under-utilized and fewer grads will emerge, all leading to conditions supporting the full cutting of these programs. I cannot condone and do not support this approach.

The problem is with the programs, so redesign them and better support students. Don't cut the intake of students and then cut the programs.

I'd like to move on, Mr. Speaker, to the amended budget. I've already covered the good things in this budget in my reply a month ago, including 911, income assistance increases, homelessness, aging-in-place, and others. I can support these items, but let's look at the bigger picture. Regular MLAs attempted to get more strategic investments that benefit the greatest number of our residents, help diversify our economy, and create lasting benefits or avoid future costs.

We were able to extract over \$20 million from Cabinet in rolling back some reductions and in making new investments. In terms of the overall budget of \$1.7 billion, this amounts to 1.2 per cent. Undeniably, the budget as amended is better, but as my colleague, the honourable Member for Mackenzie Delta, said earlier in the session: good is the enemy of great, or in this case better does not necessarily mean good or even great.

Overall, this budget continues Cabinet's fiscal strategy of cuts to jobs, programs, and services. Seventy-nine positions will be lost through the discontinuation of programs and services and reductions. Whether the positions are currently filled or not is not the issue. Some of our neighbours will lose their jobs and some will move away. There will be less spending, less money in our local economies, less taxes paid, and reduced payments under the Territorial Formula Funding Agreement. Cabinet did not do any economic analysis of the impacts of these reductions and, if it was done, it was certainly not shared with Regular MLAs.

There are \$68 million in reductions according to the budget address; more than three times the concessions the Regular MLAs were able to extract from Cabinet. Cabinet seems still locked into the roads to resources paradigm when we should be developing plans and strategies for adequate housing and early childhood programs so our residents can engage in the economy.

We need to get our housing out of core need while creating local jobs, provide stronger support for tourism, agriculture, and the fishing industry, reduce greenhouse gas emissions, lower the cost of living, and develop a real post-secondary education system with a university of the Northwest Territories. These sectors also create more local jobs than non-renewable resource development. That was the kind of vision and leadership I had hoped would be reflected in the budget.

The only new tax initiative in this budget is a small increase in tobacco taxes. I cannot accept Cabinet's approach of continual cutting without some corresponding and commensurate effort at raising additional revenues. I will repeat my words from the Reply to the Budget Address:

"The world, this country and the Northwest Territories have witnessed growing and unparalleled gaps between rich and poor. Our government has done little to address this issue through the tax system. For example, we should create a new income tax bracket for our high income earners. Competitiveness and capitalism rule in our race to the bottom.

"If our government is to have any credibility and moral authority to implement the drastic austerity it preaches, there must be an equal effort to raise additional revenues through

our tax system and a fair return to government from the extraction of our non-renewable resources."

Some of the specific reductions that I believe are particularly short-sighted and harmful include things like:

- The environment not really, in my opinion, being a high priority with Cabinet. No new investment in renewable or alternative energy, but a decrease through the sunsetting of \$760,000 of funding leveraged by Regular MLAs during the bail-out of the NWT Power Corp. for diesel to replace hydro power during low water levels. To be clear, Regular MLAs proposed an increase in funding for the Arctic Energy Alliance of \$1.5 million a year, but this was rejected.
- Within Environment and Natural Resources there will be five positions cut at headquarters, four of these in corporate management, that are related to communications, policy, and legislation. My main concern is the internal capacity of this department, which has a lot on its plate with a high number of complex legislative initiatives, major public policy initiatives including the Climate Change Strategic Framework, and a heavy a heavy communications responsibility with caribou and fire management. This work is already well behind schedule, and I will continue to call attention to further delays.
- The Department of Lands, which will also take some of the heaviest cuts, of almost 7 per cent, or almost \$2 million. Travel for field operations or inspections is being slashed by a whopping 33 per cent, or \$415,000. When pressed, the Minister could not produce any evidence of a reduced workload for our inspectors. We already have funding to do this work from the federal government, and this will now be diverted to fund a surplus for infrastructure. Hardly consistent with the promises made by our Premier at the time of devolution.
- Severe cuts are being made to our efforts at economic diversification and business support. Seventeen per cent, or \$2 million, will be cut from grants and contributions compared to last year.
- There is about a 14 per cent reduction in the NWT Housing Corporation total expenditures between the revised 2016-17 estimates and 2017-18 mains. Not good when our housing stock continues to decline, without a real plan to get our housing out of core need.
- Off-loading costs onto others jurisdictions, including the implementation of junior kindergarten. The Minister of Education continues to talk of full funding but neglects to mention that this is under the current formulas that do not include junior kindergarten students. This is not fooling anyone, especially the education authorities.
- The contribution to education authorities is also to be reduced by \$1.86 million at a time when they are being told to take in junior kindergarten students without increases to inclusive schooling and Aboriginal culture funding and no plan for busing of junior kindergarten students. Ordering school authorities to do more with

less funding is not something I can support.

- I've already mentioned the cuts to Aurora College. What a bad idea in the middle of a -- I guess now it's going to be called a foundational review, the outcome of which seems to inevitably point towards further cuts.
- Departmental amalgamations are driven by the goal of cost cutting only. Again, let no one be fooled that the motivation is to improve public services and find efficiencies. I am particularly concerned with the amalgamation of Aboriginal Affairs and Intergovernmental Relations into the Executive, where there will be a continued decline in capacity to carry out negotiations on land rights with Indigenous governments.

With all of these significant cuts to the environment, education, housing, economic diversification, and our workforce, this budget takes us in the wrong direction, even with the changes the Regular MLAs have championed. At a time when our economy needs more public investment, Cabinet's reduction strategy rules the day.

How can we all avoid this painful process next time around? There need to be earlier, meaningful consultations with Regular MLAs about the overall fiscal context and direction of the budget, even before the development and review of the business plans or departmental budgets. The review of the business plans was a failure this time around. There was little room for dialogue or discussion as Cabinet had already set reduction targets. Cabinet needs to be open to a more collaborative process, with real negotiations, done face-to-face rather than through written ultimatums. I think we also need to develop a process convention for the budget.

Conclusions

Undoubtedly, this is a much better budget as a result of the Regular MLAs working together on behalf of all of our residents. I am proud of the Regular MLAs for having pushed for these improvements, and I am very happy to continue to work together.

However, even with these changes, there are significant cuts in terms of the environment, our education system, and economic diversification. The overall direction from Cabinet's fiscal reduction strategy of cutting jobs, programs, and services to fund infrastructure continues unabated.

I cannot support this direction or that vision of the NWT and will be voting against the budget appropriation bill. At the same time, consensus government is not working well around the budgeting process. There were no real negotiations, only a series hard lines and ultimatums, and that includes our side, as well. Budget consultations with Regular MLAs have to be meaningful and earlier in the process to help determine the overall direction.

There are some exciting initiatives in this budget, and I sincerely thank my Cabinet colleagues and their staff and my Regular MLAs and our staff for all the hard work that we've done to get us to this point. However, on balance, I cannot support the 2017-18 budget, given the fiscal austerity and debt-management approach of Cabinet over the needs of my constituents and, indeed, all of our residents. I will be voting against this

appropriation bill. Mahsi, Mr. Speaker.