

Analysis of Newfoundland and Labrador Budget 2022

Things can change a lot in one year.

Newfoundland and Labrador's fiscal situation has improved significantly since May 2021. The doomsayers, who a year ago beat the drum of bankruptcy, were not very good predictors of the future.

- The deficit was less than half of what was predicted in the 2021-2022 budget (\$826 million to \$400 million).
- NL debt to GDP fell back in line with pre-pandemic levels (similar to the 2015-2019 period, an approximate level of 43%).

On the surface, the budget appears to not make any cuts this year. The CBC reported on the budget in this way: "NL is reporting a brightening financial picture in a stay-the-course budget that doesn't follow through on previously planned spending reductions." However, that's only half the story.

Funding for programs and services did not keep up with inflation for the most part.

The outcome is a real cut to health care and social services

- The government continues to focus on cuts and has maintained that it will eliminate the deficit by 2026-2027.
- To do that, it will continue to freeze and reduce expenditures on health, education, and social services, so that spending in 2026-2027 will be lower than it is in 2022-2023.
- Important for provincial bargaining coming up, the budget does not set aside money and plan for "real wage increases" in this round of negotiations.

Bottom line

The government has hidden some money away (by underpredicting oil revenues) to make a surprise budget surplus quite likely.

The austerity threat hasn't passed. According to its projections, the government is just postponing bigger cuts to 2023-2024, and later years of its mandate. Our goal remains the same: to knock them off that course.

Seven takeaways for CUPE members

1. Amalgamation of health authorities into one provincial “superboard” health authority

- The Health Accord and the PERT report recommended moving to one health authority. The budget confirmed this by announcing it as a priority for the next year.
- Amalgamation will not save valuable health dollars for health care, nor will it result in better care for Newfoundlanders and Labradorians.
- In other provinces where it has been enacted, most recently in Nova Scotia and Manitoba, the outcome has been less attention to rural and regional needs.
- Cape Breton used to have its own health authority, and since it lost that structure, the recruitment of doctors and local needs have been negatively affected.

2. The budget makes real cuts to program spending

- For most departments – health, social services – the amount of program spending was “frozen” at the 2021-2022 level. However, the Consumer Price Index (CPI) rose 3.7% last year, so freezing funding to departments really means that they are getting only 96.3% of what they got last year.
- Therefore, the 2022-2023 budget made cuts to health care, but perhaps because people were expecting something so much worse, it came off like a good news budget.
- These freezes quickly add up to big cuts, and the government’s plan is to do this every year until 2026-2027 to balance the budget.
- A handful of departments did receive funding to keep up with inflation. K-12 education was a rare budget line to receive a 3.8% increase, so it was one of the only departments to undergo a true “freeze”.
- The premier’s office received a 10% funding increase, getting a robust real increase.

3. There is a golden egg hidden in the budget that has a good chance to hatch

- The government has projected the average price of oil for 2022-2023 to be USD\$83/barrel. At the time of writing this analysis, the price was USD\$106/barrel, and most banks are predicting the price to average a bit over USD\$100/barrel for the next year.
- If the price keeps up as predicted, this may mean \$205 million or more in royalties (in the 2022-2023 budget year), which provides the government with a lot of room to maneuver.
- In a provincial bargaining scenario where the government is crying poor, it will be important to make the point that the budget has been very conservative in its estimates of oil royalties.

4. Government spending on public sector salaries and benefits fell by 17% since 2015

- The 2015-2016 budget allocated \$3.5 billion for salaries and employee benefits in 2015 dollars.
- The 2022-2024 budget allocates \$3.5 billion for salaries and employee benefits in 2022 dollars.
- In seven years, the dollar figure has remained the same, however, \$3.5 billion is worth 17% less because of inflation.

- It's simple: public sector workers' salaries and benefits have not caused a "fiscal crisis". The crisis is that salaries and benefits have been drastically cut, when compared to increases in the cost of living.

5. Privatization of crown corporations is a bad idea

- The budget lists three Crown corporations (Atlantic Lottery Corporation, Nalcor Energy, and the NL Liquor Corporation) as contributing \$497 million to government coffers in 2021-2022.
- The amount that these three Crown corporations are expected to contribute to 2022-2023 budget revenues is nearly double, at \$914 million.
- Why would anyone think privatizing corporations that contribute nearly a billion dollars a year to provincial coffers is a good idea?

6. Balanced budget legislation

- The budget documents announce that the government intends to introduce and pass balanced budget legislation in this session of the legislature.
- Such legislation could freeze the growth of public sector employment, freeze wage and benefit improvements, and cut public sector services and employment during an economic downturn.
- CUPE also is watching closely, with our allies in the NL Federation of Labour, if such legislation would attempt to limit or withdraw collective bargaining rights for public sector workers.
- This legislation is a political tool to pretend to tie the hands of the current government or future governments, but like any legislation passed by the House of Assembly, it can be overturned by a majority vote. Regardless, such legislation could still be used to do serious damage.

7. Shoes still left to drop – privatization and centralization of services

- The government makes mention of the [PERT Report](#) (The Big Reset), the [Review of Provincial Assets Portfolio](#) (Rothschild Bank report), and the [NL Health Accord](#).
- All these reports are political tools the government is using to soften up Newfoundlanders and Labradorians to believe that there is no alternative to cutting services and selling our public assets to the highest well-connected bidder.
- Some of the biggest issues that we may face this year were not revealed in specifics in the budget. The government tailored this budget in such a way to sell it as a good news story.

Background

The Furey government was elected in March 2021. Since that time, Minister Coady presented the 2021-2022 Budget in May 2021, a fiscal update in November 2021, and the 2022-2023 Budget on April 7, 2021.

Over that time, the Furey government has spent a lot of time and money trying to convince people that the province is in a major crisis that can only be solved through drastic cuts, privatizations, and reorganization that will result in less say and services in rural NL.

The 2022-2023 Budget continues the government's austerity agenda, by shrinking real government spending, regardless of its happy title of "Change is in the Air".

What makes this budget a bit difficult to understand is that it also contains measures such as the expansion of publicly subsidized childcare and a 10% increase to social assistance. Those aren't usually part of an austerity budget, but they aren't enough to change the budget's basic character.

Budget documents can be found at: <https://www.gov.nl.ca/budget/2022/>

Overview

The deficit

The provincial deficit came in at less than half of initial projections, and the 2021-2022 deficit is better for the size of the NL economy than Saskatchewan's and Quebec's deficit situations. The deficit has improved because revenues were up by \$400 million due to:

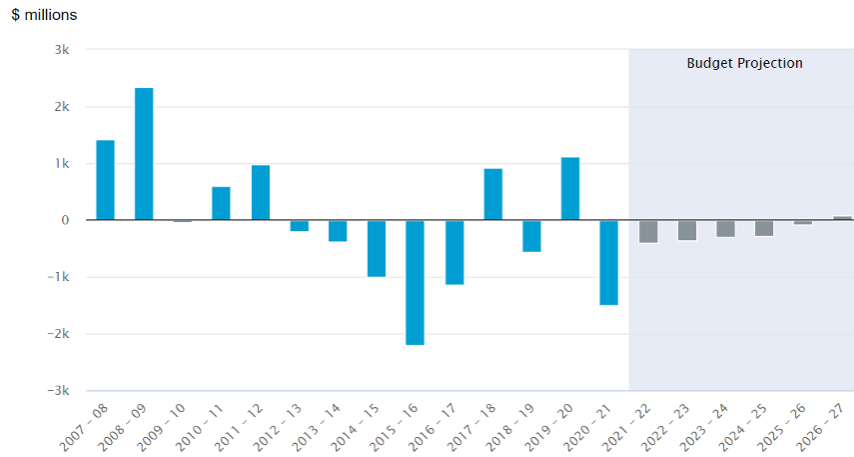
1. Increased revenue from corporate taxes (especially in the iron ore sector)
2. Increased income tax from people going back to work as the economy restarted
3. Increased sales tax, because as prices go up due to higher inflation, the government collects higher sales tax revenue

Federal transfers helped in large measure, as they were up by \$420 million in 2021-2022, due to one-time pandemic transfers and increased funding for cost-shared programs.

In 2022-2023, federal transfers will fall by \$57 million, but overall revenues are expected to grow by 4.7% due to the three factors listed above. Expenditures in 2022-2023 are budgeted to grow by only 4%. Therefore, the deficit will shrink to its lowest level in a decade, at \$351 million (see chart below).

It is important to understand the government's plan for cutting expenditures over the next four years. The government plans to balance the budget deficit by cutting expenditures to 3% lower in 2026-2027 than they are in this year's budget.

Newfoundland and Labrador budget balance



Source: Newfoundland and Labrador Department of Finance, RBC Economic

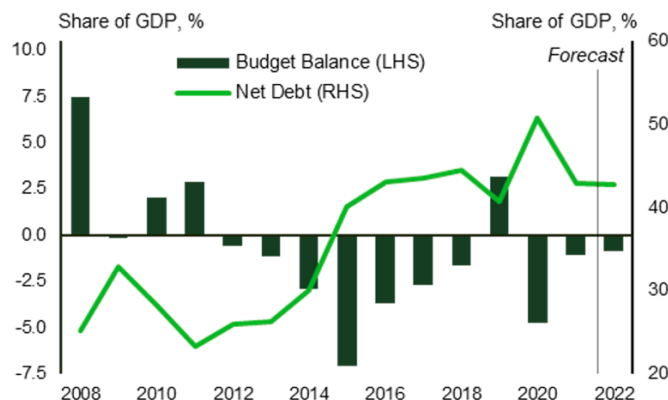
Therefore, austerity is still very much on the table, and the real reduction will be huge – 3% lower, while inflation eats into program spending by 10-15%, or more. This would result in a 13-18% cut in overall spending, since the Furey government is set on big reductions.

The debt

The debt to GDP ratio fell from 50% to 43% in one year from 2020 to 2021. The forecast for 2022-2023 is very close to Ontario’s ratio at 44%. Debt servicing takes up 7.7% of expenditures (see chart below).

Considering everything that the province has weathered, this level of debt is not more important than the social needs of the population.

Chart 1: Net Debt-to-GDP to Remain Closer to Pre-Pandemic Levels in FY 2022/23



Source: Newfoundland and Labrador Department of Finance, TD Economics.

Commentary

The Furey government is working from a well-worn right-wing playbook. They are trying to scare people with a crisis to justify cuts. The government is also being very careful to not raise extra revenues that will allow a balanced budget through more revenue. Right-wing parties are committed to shrinking the government and leaving the market to run society. The problem with this is that leaving things to the market makes for very unequal outcomes for Newfoundlanders and Labradorians.

Right-wing governments are not really interested in balancing the budget. They use the mantra of balancing the budget as a way to reduce taxes and government spending on programs.

The Furey government could have easily eliminated the deficit this budget with a few tweaks to the plan. The first step would have been to not hand out \$50 million in tax and fee cuts, raise taxes very modestly on profitable corporations, and apply extra oil revenues to the deficit. However, this wouldn't achieve their long-term goal of shrinking the size of government.

The 2022-2023 Budget is in line with the right-wing playbook. There were no provincial tax or fee increases on corporations and top income earners. The NL Federation of Labour [presented](#) a clear list of additional revenue options that the government could pursue, however, the government decided to ignore all these suggestions.

But the spend of the economic recovery meant that the government couldn't help but bring in more income tax and sales tax revenue. This is an awkward problem for a government that is arguing it is broke to have.

So, the government came up with a way to not collect \$50 million in vehicle registrations and home insurance.

- Cut in vehicle registration fee from \$180 to \$90 on 350,000 passenger vehicles which will cost the treasury \$31.5 million.
- Waving the 15% tax on house insurance (\$780 average) is a \$117 reduction for each household costing \$29 million.

What could \$50 million get you otherwise? It could stop the \$13 million in cuts to Memorial University, or use the \$50 million to pay for wage increases for public sector workers.

Instead, the budget was completely quiet on wages for workers, who carried us through the pandemic and help keep the economy going.

Budget overview by CUPE sector

Community services

- Budget announcement: “This year, a new application and assessment process will be implemented for core funding.” It is yet unclear what changes are going to be made or what the new process will emphasize.
- Increased funding for community services by \$5 million.

Education

- The budget for K-12 education was one of the few sections that kept up with inflation. Funding went from \$935 million to \$971 million, an increase of 3.8%.
- Enrollment is projected to increase by 1,000 students this year.

Early childhood education and childcare

- \$46 million to bring in \$10/day childcare by the beginning of 2023 (\$41 million Federal contributions).
- Plan to create 6,000 new regulated early learning spaces by 2026.
- \$3 million to increase seats in early childhood education programs in post-secondary.
- \$400,000 to hire outside consultants to do a wage-grid analysis to inform the government’s position on what early childhood educators should be paid.

Health care and long-term care

- Funding reduction from \$3.66 billion to \$3.59 billion for 2022-2023.
- This may not seem like a big cut, but consider that health care advocates tell us that an aging population adds 1% to health care costs per year, and CPI increased by 3.7% last year.
- The health care budget would need to increase by 4.7% this year to stand still (adjusted to \$3.82 billion in funding). The missing funding between the adjusted amount and the actual funded amount this year amounts to a \$242 million dollars this year.
- \$2.5 million to increase the number of seats for personal care attendant, practical nursing, and other health programs at the College of the North Atlantic. New seats are not enough, more tuition and grant supports are needed to allow workers to switch careers into health care.

NL Housing Corporation

- Budget increases the allocation to the NL Housing Corporation by \$22 million, from \$120 million to \$142 million.
- Additional funding to improve housing stability and prevent homelessness. This funding comes in a range of measures, partly a funding increase to NL Housing for repairs to public housing.
- Other amounts mentioned in the budget will be transferred to people directly to assist in paying private landlords, or for community groups operating supportive living arrangements.

Libraries

- The Provincial Information and Library Resources Board received \$11.4 million in funding in 2021-2022. This amount is only increased to \$11.6 million for 2022-2023.
- If funding had kept up with CPI, funding should have been \$11.82 million for 2022-2023.

Municipalities

- Continuation of past funding: \$141 million through municipal operating grants, special assistance grants, Community Enhancement Employment Program grants, and the Canada Community Building Fund.

Post-secondary

- Memorial University has funding cut from \$319 million to \$305 million, a cut of \$13.6 million. Over five years, the Furey government will be cutting \$68.4 million from MUN's budget.
- Tuition offset funding to be phased out.

Group homes, transition houses

- Budget is silent on the needs of clients and workers in transition homes and group homes.