

Speech for Main Estimates 2003-2004
Department of Finance
Hon. Peter Mesheau
January 22, 2003

Mr. Chair, I am pleased to be here today to take questions on the 2003-2004 Main Estimates programs for which I am directly responsible. These responsibilities include the Office of the Comptroller, the Department of Finance and the Service of the Public Debt. Within General Government, we are also responsible for the following votes: Legislated Pension Plans and Benefit Accruals and Subsidies, the Supplementary Funding Provision, and the Provision for Losses.

Mr. Chair, the finance department, which has \$80.9 million in Main Estimates for 2003-2004, has the overall responsibility for financial resource management in government. It is our mission to manage the Province's public finances in the best interests of New Brunswickers.

On December 10th, 2002, I was honoured to present this government's fourth consecutive balanced budget. This budget fulfils the government's commitment to New Brunswickers to invest more in health care and education, lower income taxes for people and businesses, and strengthen prosperity for New Brunswickers.

We currently project a cumulative surplus of \$57.4 million for the four-year balanced budget period from 2000-2001 through 2003-2004. The department is anticipating a budgetary surplus of \$3.0 million for 2002-2003 and projecting a surplus of \$7.5 million for the 2003-2004 fiscal year.

Balanced budgets and balanced results mean positive credit ratings and increasing confidence from investors. The finance department is responsible for ensuring that the financial markets and the rating agencies are kept well informed about New Brunswick's fiscal and economic position.

New Brunswick has the highest credit rating in Eastern Canada. Our objective is to maintain the credit rating as a strong single A with a view to advancing it into the double A group.

Mr. Chair, as a government, we believe that sound financial management will lead to a secure financial future for our people.

The 2003-2004 Budget could have been a very different budget than the one I tabled on December 10th. It could have been a bleak budget full of cuts. I will take a moment to explain why.

A few years ago, the government recognized there would be fiscal and economic challenges on the horizon. We resolved to prepare ourselves for challenging circumstances – the scope of which we could not be sure about at the time.

As a result, we established a Fiscal Stabilization Fund. Stabilization funds are used in other provinces such as Manitoba and Saskatchewan. These “rainy day funds” are a well-established tool for prudent financial planning and management.

The principle behind such a fund is simple. In times of prosperity, do not spend everything at once because those dollars might be needed later in case of an economic downturn or extraordinary events. At such times, a stabilization fund can help sustain the provision of important services to people, such as health care and education.

Mr. Chair, during the past couple of years, we have experienced a combination of difficult circumstances mostly outside our direct control. I refer to the impacts of Nine-Eleven, slower world economic growth especially in our major trading partners, slower growing revenues, weakened financial markets and increased pension expenses.

However, the money in the Fiscal Stabilization Fund has provided New Brunswickers with the financial flexibility to continue investing in health care and education, as opposed to cutting back on these key priorities.

That is why the 2003-2004 budget is not full of cuts. Instead, it sets out record funding for health and senior care of \$1.88 billion and record funding of \$1.12 billion for education. It also offers capital spending of \$281.1 million.

As well, the budget sets out an additional \$54 million in income tax relief for people and businesses. Lowering income taxes for people and businesses will result in additional savings and strengthen prosperity.

As a result of measures taken by this government since taking office, New Brunswickers will benefit from provincial personal income tax savings of \$130 million in 2003-2004. It means a one wage-earner family with income of \$25,000 will now pay \$519 less in New Brunswick personal income taxes in 2003 than in 1999, a reduction of over 47 per cent from the 1999 level. Cumulative provincial personal income tax savings total \$360 million over the 2000-2001 to 2003-2004 period.

Effective January 1st, 2003, New Brunswick's Low-Income Tax Reduction has been enhanced so that all single tax filers with income up to \$12,500 will no longer pay provincial personal income tax. As a result, New Brunswickers who earn income from a full-time job at the current minimum wage and families earning up to \$20,000 will no longer pay any provincial income tax.

This will remove a further 15,000 tax filers from paying provincial income tax for the 2003 taxation year and beyond. In total, more than 40,000 New Brunswickers will not have to pay any provincial personal income tax in 2003 compared to the 1999 tax structure.

The New Brunswick tax-free income level has increased from \$6,794 in 1999 to \$12,500 in 2003, an increase of 84 per cent. With this measure, New Brunswick's tax-free income level is now second only to Alberta.

Mr. Chair, I would now like to review the measures in the budget that will help small businesses.

The 2003-2004 budget provides two strategic income tax incentives that will help increase the competitiveness and prosperity of New Brunswick. These measures will help build innovation in New Brunswick and encourage investment in small businesses.

New Brunswick's Research and Development (R&D) tax credit will be enhanced from 10 per cent to 15 per cent of eligible expenditures incurred on or after January 1st, 2003. It will be made fully refundable. A fully refundable credit will benefit a New Brunswick company with eligible R&D expenditures even if the company is not in a taxable position.

This initiative will encourage New Brunswick companies to build their innovative capacity and invest in new research and development right here at home. In particular, it will benefit small start-up businesses making R&D expenditures.

It will result in New Brunswick having one of the most competitive R&D tax credits in Canada.

The government will also introduce a new Small Business Investor Tax Credit, which will provide a 30 per cent non-refundable personal income tax credit of up to \$15,000 per year on eligible investments by New Brunswickers.

It will be limited to investments in Canadian-controlled private corporations having assets of \$25 million or less. The credit will be applied against provincial personal income tax otherwise payable.

The Small Business Investor Tax Credit will encourage investment by New Brunswick residents in New Brunswick small businesses, thereby providing an important new source of capital. It will help match New Brunswick entrepreneurs with New Brunswick investors.

Most small businesses in New Brunswick will be eligible to benefit from this new credit. This measure will help generate millions of dollars in new small business investment in the province.

Mr. Chair, I would also like to remind New Brunswickers that the small business corporate income tax rate was reduced to three per cent on January 1st, 2003. It continues to be the lowest rate in Canada. The income threshold eligible for the small business corporate income tax rate has also been increased to \$400,000.

New Brunswick's general corporate income tax rate was reduced on January 1st, 2003 to 13 per cent. This is the third lowest rate in Canada.

As a result of initiatives taken by this government, New Brunswick businesses will realize savings of \$65 million in corporate income taxes in 2003-2004, and will benefit from cumulative savings of an estimated \$122 million over the four-year period.

Still on the topic of taxes, the government will also introduce this session the *Taxpayers' Protection Act*. It will fulfil a promise made in *New Vision/New Brunswick*. The act will require voter approval for certain tax increases and for the creation of new taxes.

Mr. Chair, as much as I like to discuss tax competitiveness, I would be remiss in not highlighting other areas of the finance department's mandate.

For example, the department is responsible for lottery and gaming policy in New Brunswick. The transition to a new operating model for the video lottery program has gone well. Because of the efficiencies gained with the new video lottery delivery model and strong traditional lottery sales, we are estimating overall growth in lottery revenues.

The revenue from lotteries is invested in priorities of New Brunswickers, such as health care, education and other essential programs. One example will be an awareness campaign by the Department of Health and Wellness. The campaign will inform New Brunswickers about the toll-free gambling hotline and the province-wide treatment and counselling services for people who have addictions.

I am also pleased to report that the Atlantic Lottery Corporation will shortly bring to New Brunswick a comprehensive retailer training program. The program will provide both video lottery and lottery ticket retailers with information about responsible gaming, including how to detect problem gambling behaviours and what to do.

This is an initiative that will go a long way to helping establish a responsible gaming program. I support it wholeheartedly, Mr. Chair. I hope to report to the House later this session on the success of the program.

Mr. Chair, the department is also working hard on the important issue of municipal finances.

Last fall, we announced that the 103 municipalities would receive \$67 million through the unconditional grant program for the 2003 calendar year, the same level of funding as in 2002. Most municipal associations supported the grant freeze but, understandably, they are anxious to have the funding issue resolved.

The finance department is involved in two tasks on this challenging file. One task is to take part in a provincial-municipal working group examining funding arrangements – reform of the unconditional grant system. The other is to assist in reviewing the cost of provincially provided local services in unincorporated areas.

These two committees have made progress. Their work is ongoing at this time. The issue is complex. We want the groups to take the time they need to do it right. We want them to be thorough and creative and to make the best possible recommendations.

Once their work is complete, the two reports will be reviewed, considered and responded to by government, along with the report produced by the Select Committee on Local Governance.

These issues are inextricably entwined and must be considered in tandem. In this way, viable solutions for the future will be brought forward.

Mr. Chair, the Department of Finance also has a significant role to play in the commercialization of NB Power and the search for equity participation in the refurbishment projects at Coleson Cove and Point Lepreau.

The decisions this government has made regarding NB Power help to address a major financial concern: minimizing financial risk to taxpayers while maintaining affordable and fair electricity rates to ratepayers.

By retaining ownership of NB Power, changing its structure, inviting private sector equity participation in the major generation projects, and ensuring the utility operates on a more commercial and financially-sustainable basis, this government has taken great strides in reducing financial risk to the taxpayers and the ratepayers of the province.

This approach flows quite logically from the analysis and recommendations in recent reports on the future of N.B. Power, and from the plan we set out in the Energy Policy. It is also firmly rooted in our commitment to maintaining the financial health of the province. The work on this very important file continues.

On another matter, Mr. Chair, the finance department is proactive in its commitment to create a business climate that is free of unnecessary rules, regulations and red tape. We are committed to effective and efficient service for New Brunswickers.

The government as a whole has made significant progress in implementing recommendations identified by New Brunswickers in the Red Tape Reduction Committee Report.

In this department, we continue to work on a review of the fee policy and will bring a finalized policy to government for consideration. We amended the *Real Property Transfer Tax Act* to exempt from the payment of the tax a person who transfers real property to a corporation that is beneficially-owned by himself or herself.

We also brought in amendments to the *Revenue Administration Act*, the *Financial Corporation Capital Tax Act*, and the *Tobacco Tax Act*. This will require business owners to retain their records for a period of time that is consistent with federal requirements, or a shorter period under certain conditions.

We complied with another recommendation – to table a capital budget prior to the start of the construction season. In December, we brought down a capital budget for 2003-2004, which includes gross capital spending of \$281.1 million. This is an increase of \$25.5 million, or 10 per cent, over 2002-2003 revised spending. The budget for the Department of Transportation is up 17 per cent from 2002-2003, which is good news for road construction and road repairs.

Positive news is also contained in the estimates of the Department of Supply and Services as well as the estimates for the Education and the Health and Wellness departments. Capital spending

will more than double in health infrastructure this coming year, growing by \$12.4 million to a level of \$24.0 million. The capital budget also invests \$34 million in education infrastructure, which includes \$25 million for the fourth year of the Healthy Schools Program.

Speaking of education, I am pleased that we were able to bring forward a new three-year funding plan to increase university base funding by 10 per cent. Our ordinary account budget provides for a 3.4 per cent increase in 2003-2004. This is a \$6.1 million increase over last year.

In closing, I can assure New Brunswickers that the Department of Finance will continue to provide strong fiscal management, competitive taxation policies and spending directed to the clear public priorities of health and education.

We also pledge to meet all of the challenges we face this year. The department will continue to carry out its many important responsibilities with professionalism and attention to detail - qualities for which the Department of Finance employees are well known. I would like to take this moment to thank the staff for their hard work and their ongoing dedication.

Mr. Chair, I will now take questions on the votes for which I am responsible.

Thank you.