



In the fiscal crosshairs

Avuncular in manner, consultative in political style, New Brunswick Premier David Alward knows his province is facing one of the most serious money meltdowns in its history. With a long-term debt approaching \$10 billion, rolling annual deficits exceeding \$500 million, and a population base insufficient to cover the costs, this first-term leader has “quandary” written all over his competing agendas.

What’s he going to do and how? Atlantic Business Magazine’s contributing editor Alec Bruce caught up with him in November to ask him those very (and several other) questions. Here are excerpts from that interview.

Premier Alward at his farm in Riceville, N.B.

Atantic Business Magazine: It's no secret that New Brunswick's fiscal situation is in near-critical condition. This, more than anything else, undermines the province's prospects for long-term, sustainable prosperity. As there are really only two ways any government can respond in a situation like this — cutting programs and raising taxes — what are your options?

David Alward: Actually, I would say there are three ways: expenditure reduction, revenue-raising through taxation, and growing the economy. But let's look at where we are right at the moment.

We were left with a billion-dollar-plus projected deficit by the previous government. Initially, we came forward with a projected deficit of under \$450 million. Now, after the second quarter (2011), we are over by somewhere around \$100 million. A significant chunk of that was thanks to revenue reductions. We were also dealing with higher expenditures ... in pensions, but also in social development and health programs.

What are the biggest spending items in your budget?

There's health, which accounts for approximately 40 per cent of our overall budget this year. We've seen health care increase by 70 per cent, or more, per year.

This year, we gave health a budget that's three to five per cent larger than last year, and we are looking to hold it to that rate of growth.

The second piece is education. In fact, the department of education and early childhood development is looking into how we can be smarter with our investments in ways that allow us to focus on the classroom for our children. I believe that this department will be a leader as we position ourselves, going forward.

Why don't you just hike the rate of the provincial portion of the Harmonized Sales Tax if you need more money?

What we have said regarding that is — number one — I did not run in the last election with a mandate to increase the HST. In New Brunswick we have the Taxpayers Protection Act which (says) I cannot bring forward an increase in this tax unless I specifically ran on this as part of my (platform). The alternative is that I call for a referendum on the issue. I think we only have to look at what took place in British Columbia to understand the importance of this kind of accountability. ...If you focus only on increasing taxes, then you do a complete disservice to the people of New Brunswick.

So then, again, what are your options "going forward," as you say?

It is clear we need to get our house in order. And, just staying on taxes for a moment, when they are needed we raise them through (levies) on gasoline and diesel, and also on tobacco and liquor. We've halted reductions in personal income taxes for the highest income-earners in New Brunswick, and we will not be moving forward with further corporate tax cuts.

But the real point is we need to go and understand what services we need to provide. ...We need to know what our core values are, what our core services are and focus on those services. We need to find ways to deliver them more efficiently. ...It's about how we can reorganize government. ...In the last four years there has been a growth in the public service of 8,000 (positions). We have to look at the long term.

What we are very focused on now is the work that has been ongoing for months towards government renewal. We are working with every department of government, every agency, and that information is being fed back to government to allow us to make decisions about how we can provide services that the people of New Brunswick need and can afford. ...We are moving very significantly on developing a benchmarking process, a continuous improvement process, that will ultimately bring more transparency and accountability to how government operates,

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so that we know what we're supposed to be doing and we can measure whether or not we're being successful. So, this will ultimately change how the Government of New Brunswick works for the people of New Brunswick.

Can you be more specific? Exactly how will this approach help restore New Brunswick's fiscal health and gird its prospects for future prosperity?

We are doing reviews of both private and public-sector pensions in our province to be assured in the long-term that they are sustainable for the people of New Brunswick. ...We are looking at how we do our procurement. ...We are also reformatting how primary health care is provided in our province. We have just completed a very successful primary health-care forum with many stakeholders, and they will be coming forward with many recommendations about how we can provide better access to primary health care in New Brunswick.

In the coming weeks, we will be presenting a multi-year capital budget to provide clarity to the people of New Brunswick on what our position is to bring ourselves back to

balanced books. This will also provide clarity to financial institutions and bond-rating organizations. So, then, there is a tremendous amount of work that's underway that will allow us to make good decisions.

Earlier you suggested that the third peg of the fiscal stool is "growing the economy." Could you elaborate?

Absolutely. We have announced Invest New Brunswick, an initiative that is being led and driven by the private sector. With Invest NB, we will present our vision for economic development in the province in the coming months. It will include a sector strategy that focuses our energies on areas that demonstrate the best opportunities for growth. One such sector is Information and Communications Technology (ICT) and the advanced learning technology sector. I formed an advisory council with a number of our top leaders in the ICT sectors of the province and they are working directly with me to develop a strategy for that sector.

We've also just completed a lot of work on our energy sector. We know the amount of discourse there has been in New Brunswick over the past couple of years because of the

failed sale of NB Power. But, just recently (October 2011), we were very pleased to bring forward a blueprint for the next decade of our energy sector in the province. We believe that NB Power is an integral part of this future, and it will be a more efficient, robust profitable company in the future.

Also, we have just moved forward with an economic initiative in the northern part of the province. It employs a much more focused approach than ever before, with a concentration on innovation and research and development, on increasing productivity, and, ultimately, on creating good jobs in the north and in the Miramichi. Here, we are, among other things, strategically positioned to create opportunities that stem from new hydro-electric development in Newfoundland and Labrador.

Then, of course, we can look forward to the tremendous opportunity in Halifax, with the \$25-billion shipbuilding contract for the Irving yards. We are poised, along with Nova Scotia, to see real economic development benefits coming out of that.

In this vein, would you position the emerging shale gas industry as a growth

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Shown here is one of our valued employees in Atlantic Canada, Brandon, and his two boys Kieran and Isaac, enjoying an ride in Greater Moncton, NB. Brandon managed our consulting services in the development of this subdivision.

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leader in the province's future? As you know, its hydraulic fracturing methods, and the potential for consequent environmental degradation and community dislocation, have become enormously controversial over the past few months.

We do believe there is a tremendous opportunity there, though it is not without challenges and risks. But I think we can find the balance between the development of our economy and protecting our environment. As a government, we have a responsibility to provide information, and part of the process is to learn from other jurisdictions that have already seen the gas sector move forward — to learn from their mistakes and their successes. We must also ensure that we have in place a robust regulatory regime that will provide clarity to the companies and also to the communities. That is work that we have been doing for several months.

New Brunswick also needs to understand how governments provide the services they want and need. Ultimately, it's through revenues. As a province, we obtain more than 40 per cent of the revenues necessary to fund health and provide education and

take care of the most vulnerable among us from the Government of Canada. Many of those revenues come from the oil and gas sector, from natural resources. We believe that if we have the resources here in New Brunswick, we need to be able to develop them in a responsible way to generate the same prosperity that's available in Alberta, Saskatchewan, British Columbia and, now, Newfoundland.

You mentioned NB Power. But, the biggest elephant in that room is the Point Lepreau nuclear generating station, which is offline, millions of dollars in the red and three years overdue in its refurbishment. As this is entirely the fault of the "Government of Canada," or more accurately its Crown corporation, Atomic Energy Canada Limited — how do you square this circle given the province's prosperity challenges?

It is our number one priority. The latest update I have received indicates they are on target to come back online next fall. There are critical points between now and then. But we will continue to hold the feet to the fire. The project does appear to be moving forward in a positive way. As far as our

discussions with the federal government are concerned, every time I meet with the prime minister, Point Lepreau is on my agenda.

In your first year at the helm of government in New Brunswick, you have consistently talked about the big, but not insurmountable, challenges that beset the province. Would you care to conclude our discussion with a comment about the difficult choices that average citizens must face in the days, weeks, months and even years ahead?

In recent days, we have announced changes within the health care system, including a reduction of hours in some community health centers. We've announced an increase in the amount seniors will have to pay in the provincial drug care program before their full contribution has finished. The bottom line is we can't afford not to make changes. These are not easy decisions, but, again, we have a responsibility to get our fiscal house in order for future generations.

Quite frankly, the past government dug us into this deep hole. If we don't deal with these issues today, we're not going to be able to afford other things tomorrow. | ABM

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