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From : "Williams, Tina"

To : "Dalley, Derrick" , "Hynes, Darrell" , "Bown, Charles W." , "English, Tracy" , "Carter, Paul" , "Morris, Paul J." , "Quinton, Diana"

Subject : Media: Canadian Press - AG raising concerns about province's finances

Auditor general raising concerns about province's finances

N.L. has highest spending per person in Canada

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Newfoundland and Labrador's auditor general is red-flagging projected deficits, potential cost overruns for the Muskrat Falls hydro project and hefty unfunded public pension benefits.

Terry Paddon delivered a report Friday to the legislature that outlines these and other concerns for a government that spends about 40 per cent more per person than any other province in Canada.

"On a per capita basis we're considerably higher than everybody else in the country," he said in an interview. "There may be some good reasons for some of it, but perhaps not all of it."

Spending has soared since 2004 by 51 per cent to \$7.7 billion from \$5.1 billion, says his report. The province would have to cut \$2.3 billion from its budget to reach the national average of spending per person, it notes.

Newfoundland and Labrador is in the midst of a historic economic boom but recorded a deficit of \$195 million for the last fiscal year, with a deficit of \$451 million forecast for this year.

Provincial net debt increased by \$511 million to \$8.3 billion last year, and Paddon said this year's deficit will push that higher.

Unfunded pension concerns looming

Perhaps most worrisome is the extent to which massive public retirement plan obligations loom over the fiscal picture.

"We've still got significant issues with the retirement benefits that we provide to employees of the province through pensions and provision of group health and life insurance," Paddon said of unfunded benefits that make up more than 60 per cent of the province's net debt.

"You've got a \$5.6-billion liability for both of those components."

Finance Minister Tom Marshall said the province is working with public sector unions in hopes they can work together on changes needed to sustain those plans.

"For many, many years there was just no money available in the province," he said of spending increases since the Progressive Conservatives took power in 2003.

"There was a lot of catch-up," Marshall said of new social programs, building projects and other investments funded with cash mostly earned from offshore oil royalties.

Six of the last eight provincial budgets racked up oil-fuelled surpluses as the government paid down net debt from a high of almost \$12 billion in 2004.

But lower offshore production and falling global demand took a toll in a province that relies on oil royalties for about one-third of its revenues, Marshall said.

"We went through a major efficiency review and we're continuing," he said of government spending. It also costs more to deliver services to a population of just 527,000 people spread over a vast area, much of it remote.

But Marshall said the government is committed to a 10-year sustainability plan introduced in last spring's budget to control costs. The first two years focus on trimming expenses for a return to surplus in 2015, the same year the next provincial election is set.

The fourth to 10th years highlight debt reduction and economic diversification.

Marshall said the government is overseeing the \$7.7-billion Muskrat Falls development now under construction in Labrador to minimize any risk to taxpayers and ratepayers.

The auditor general's report warns that the province is on the hook for cost overruns — a common problem for publicly funded megaprojects.

Assurances 'not good enough'

Provincial Crown corporation Nalcor Energy released a report Thursday that \$230 million was spent on the development between January and November 2013.

But there was no update on the extent to which spending met or exceeded expected benchmarks.

"The numbers will come out from time to time," Marshall said Friday in an interview.

Kevin Lacey, Atlantic director of the Canadian Taxpayers Federation, said such assurances aren't good enough.

"This has been the issue with Muskrat Falls from the very beginning. It's about the taxpayers and the utility users not knowing all the details of this agreement and being able to judge whether or not this is a good deal or a bad deal.

"One has to question why many of these numbers are not public so that groups like ours and the average taxpayer can judge them for themselves."

Nalcor President and CEO Ed Martin said in an emailed response late Friday that fresh Muskrat Falls cost estimates will likely be released before April.

He said the last of the major contracts will be in place by then.

Project expenses include capital investments, operating costs and financing, Martin added.

"To date, some of these elements are lower than budget, some are similar and some are higher."