



# Prosperity for all New Brunswickers

Prebudget submission to the  
Government of New Brunswick

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# About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national organization. Today, the CTF has 235,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

Any Canadian taxpayer committed to the CTF's mission is welcome to [join at no cost and receive issue and Action Updates](#). Financial supporters can additionally receive the CTF's flagship publication The Taxpayer magazine published three times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2019-20, the CTF raised [\\$4.8 million](#) on the strength of 31,655 donations. Donations to the CTF are not deductible as a charitable contribution.



# Executive Summary

The pandemic has changed government finances across the country and New Brunswick is no exception. Instead of posting its fourth consecutive surplus and turning back the digits on its debt clock for the first time in over a decade, the province is now projecting a \$183.3 million deficit this year and a debt expected to surpass the \$14 billion mark.<sup>1</sup>

New Brunswick has shown relative restraint in new spending compared to other governments across the country and posted the smallest per capita deficit of all Canadian provinces, but the province's debt remains a cause for concern with debt interest payments costing taxpayers over \$650 million.<sup>2</sup>

For this budget year, the government's challenge is to find the right level of efficiency savings to ensure long-term financial sustainability, while implementing the right combination of policy actions to help the local economy recover.

This will take a mix of efficiency measures within government, to bring the budget back to balance and cut down on waste and duplication in government departments, and tax cuts to help the local economy recover. The measures outlined below

seek to do that with a two-to-one ratio of efficiency savings to fiscal stimulus.

- Cutting income tax bills to boost household disposable incomes.
- Replacing business subsidies with business tax cuts for a broad-based economic stimulus.
- Keeping the Permanent Assessment Gap Exemption in place.
- Reducing government employee compensation by 15 per cent.
- Cutting elected officials' pay.
- Consolidating regional health networks.
- Implementing a gainsharing program to find savings.

With these proposed measures, we are confident that New Brunswick will emerge from crisis in a strong financial position and with a stronger and more resilient economy.

Measures	Fiscal Stimulus	Budgetary Savings
Cutting all income tax bills to boost household disposable incomes.	\$318.4	
Replacing business subsidies with business tax cuts to stimulate the economy.	\$128.7	\$128.7
Keeping the Permanent Assessment Gap Exemption in place	N/A	
Reducing government employee compensation by 15 per cent points.		\$635.9
Cutting elected officials pay to lead by example.		\$0.8
Consolidating regional health networks		N/A
Implementing a gainsharing program		N/A
<b>Total per category</b>	<b>\$447.1</b>	<b>\$765.4</b>
<b>Net budget impact:</b>		<b>\$318.3</b>

All numbers are in millions.

<sup>1</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2020-2021SecondQuarterReport.pdf>

<sup>2</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2020-2021SecondQuarterReport.pdf>

# Using fiscal stimulus for a bottom-up recovery

## Cutting all income tax bills by \$318.4 million to boost household disposable incomes

### Estimated budgetary impact: \$318.4 million in fiscal stimulus

The government's capital budget for 2021-22 shows a significant bump in government spending from \$600 million last year to \$673 million in the coming year.<sup>3</sup> It is clear this government is following the same playbook lots of governments have followed: spending to restore consumer and investor confidence so investment and consumption can get rolling again.

It's important to note that economic research is very clear about the link between tax relief measures and economic growth.<sup>4 5 6</sup>

One of the many tools with which governments can bolster consumer confidence is by increasing household incomes through tax relief. By taking less cash out of taxpayers' pockets, governments can boost household incomes and grow the economy.

As the government rightly recognized in its *Economic Recovery and Growth Action Plan*,<sup>7</sup> New Brunswick has been lagging in private sector investment over the last decade, relying mostly on public sector investment to drive meager growth.

One of the reasons is that fact New Brunswick households have an after-tax disposable income level that's nine per cent below the national average.<sup>8</sup> After New Brunswickers have paid all of their taxes, they have less cash available to spend in local businesses or invest in the local economy.

There is a clear relationship between household disposable income and household consumption,<sup>9 10</sup> and between consumer spending and GDP growth. There is also a clear relationship between household savings and private investment.<sup>11</sup>

By using 50 per cent of the savings outlined in this document to provide a broad-based tax relief, the government would be in a position to lower all current income tax bills by 17.1 per cent, thus directly reinjecting \$318.4 million dollars into the local economy.<sup>12</sup>

Taxable income	Current tax bill	Tax bill with proposed tax cut	Saving under proposed plan
\$50,000	\$3,847	\$3,189	\$658
\$70,000	\$6,759	\$5,603	\$1,156
\$90,000	\$9,774	\$8,103	\$1,671

Source: Intuit TurboTax

<sup>3</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Budget/2021-2022/2021-2022CapitalEstimates-BudgetDeCapital2021-2022.pdf>

<sup>4</sup> [https://www.brookings.edu/wp-content/uploads/2016/06/09\\_effects\\_income\\_tax\\_changes\\_economic\\_growth\\_gale\\_samwick.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf)

<sup>5</sup> <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

<sup>6</sup> <https://taxfoundation.org/what-evidence-taxes-and-growth/#~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living.>

<sup>7</sup> <https://onbcanada.ca/wp-content/uploads/2020/10/ERGAP-final-ENG.pdf>

<sup>8</sup> <http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/provtbl.pdf>

<sup>9</sup> <http://www.econ2.jhu.edu/people/ccarroll/papers/cos-wealth-effects-literature/papers/macklem.pdf>

<sup>10</sup> <https://www.atlantis-press.com/proceedings/emehss-17/25874812>

<sup>11</sup> <https://www.jstor.org/stable/2117526?seq=1>

<sup>12</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2020-2021SecondQuarterReport.pdf>

## Replacing business subsidies with business tax cuts to stimulate all industries

### Estimated budgetary impact: \$128.7 million in budget savings and \$128.7 million in fiscal stimulus for local business

The current recession is affecting the entire province's economy. Given this reality, a targeted governmental approach favouring specific sectors or specific companies does not reflect the needs of New Brunswick's economy. The government has been right to recognize this with regards to Maritime Bus's recent ask for an operating grant, affirming it has a policy to reject subsidies to for-profit companies.<sup>13</sup>

The government is right to recognize that subsidies are not the most effective tool for governments to attract business investment. Instead, governments should focus on creating the right business environment to attract job creators. When job creators decide where to relocate or expand, their primary focus is usually on long-term profitability rather than one-off subsidy packages.<sup>14</sup>

Other factors, such as regulatory burdens, workforce education, and availability of transportation infrastructure, market access having a much bigger impact on decisions to locate in one jurisdiction rather than a one-off financial aid packages at taxpayers' expense.<sup>15</sup> Subsidies merely act as icing on the cake for job creators who have already analyzed the risks and potential returns in establishing a viable location for their investment project.

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.<sup>16</sup> What is clear, is that the level of corporate taxation, compared to competing

jurisdictions, affects a company's productivity, and ultimately its bottom-line and pace of growth.<sup>17</sup>

Competitive tax rates attract job creators and the direct investment.<sup>18</sup> Lower tax rates also contribute to lowering the cost of capital<sup>19</sup> for job creators, thus increasing their ability to re-invest in their company.

Provincial general corporate tax rates	
Canadian Jurisdiction	General corporate tax rate
Prince Edward Island	16%
Newfoundland and Labrador	15%
Nova Scotia	14%
New Brunswick	14%
<b>Canadian provincial average</b>	<b>12.6%</b>
Manitoba	12%
Saskatchewan	12%
British Columbia	12%
Quebec	11.6%
Ontario	11.5%
Alberta	8%

Sources: Provincial government websites

Compared with other provinces, New Brunswick's corporate tax rate puts the province at an investment disadvantage, with a significantly higher rate at 14 per cent versus the 12.6 per cent average rate in other provinces.<sup>20</sup>

Unfortunately, despite the government's claim that it has a policy not to subsidize business, the public accounts tell a vastly different story, with nearly \$129 million in direct and

<sup>13</sup> <https://www.cbc.ca/news/canada/new-brunswick/maritime-bus-cuts-covid-1.5861640>

<sup>14</sup> [https://www.mercatus.org/system/files/farren\\_and\\_philpot\\_-\\_policy\\_brief\\_-\\_amazon\\_hq2\\_the\\_story\\_so\\_far\\_-\\_v1.pdf](https://www.mercatus.org/system/files/farren_and_philpot_-_policy_brief_-_amazon_hq2_the_story_so_far_-_v1.pdf)

<sup>15</sup> <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>

<sup>16</sup> <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb6fe36a96e>

<sup>17</sup> <https://www.oecd.org/mena/competitiveness/41997578.pdf>

<sup>18</sup> <https://www.oecd.org/mena/competitiveness/41997578.pdf>

<sup>19</sup> [https://files.taxfoundation.org/legacy/docs/TaxFoundation\\_FF477.pdf](https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf)

<sup>20</sup> <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>

indirect subsidies identified for specific economic sectors through a variety of government funds and programs.<sup>21</sup> It's important to note that the following list of subsidies is not exhaustive, leaving out government organizations such as the Regional Development corporation which would require more extensive study.

Subsidy	Amount
Tourism, Heritage and Culture	\$60.3
Opportunities NB	\$38.8
Research and Productivity Council	\$17.6
Provincial Holdings Ltd.	\$12.0
<b>TOTAL</b>	<b>\$128.7</b>

Source: Public accounts 2019-20. All numbers in millions.

Replacing business subsidies with corporate tax cuts would have an added advantage: reducing the economic distortion associated with targeted financial measures.<sup>22</sup> New Brunswick's economic recovery should not be based on growth expectations in a few targeted sectors, but rather by a broad-based growth of its economy and the associated employment and incomes that come with it.

The province should replace these subsidies with an equivalent tax cut in the general and small business corporate income tax rates. Lowering the small business tax rate from its current three percentage points to 1.95 percentage points, and the general corporate tax rate from its current 14 percentage points to 9.1 percentage points would represent \$128.7 million in savings for New Brunswick businesses of all sizes based on pre-pandemic estimates corporate income tax revenue estimates.<sup>23</sup>

<sup>21</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA2020v1.pdf>

<sup>22</sup> [https://www.jec.senate.gov/public/\\_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf](https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf)

<sup>23</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf/Publications/2020-2021SecondQuarterReport.pdf>

## Keeping the Permanent Assessment Gap Exemption in place to protect household disposable incomes

### Estimated budgetary impact: N/A

In the latest speech from the throne,<sup>24</sup> the government announced its plans to get rid of the Permanent Assessment Gap Exemption in a bid to help municipal governments get more tax revenues.

This measure, put in place by then-minister of local-government Bruce Fitch, was intended to protect New Brunswick homeowners from fast rising home valuations between 2011 and 2013.<sup>25</sup> At the time, Minister Fitch promised New Brunswickers they would enjoy the savings as long as they owned a home,<sup>26</sup> thus explaining where the “permanent” part of the Permanent Assessment Gap Exemption came from. The measure was also defended in the Legislative Assembly by then-minister of finance and current Premier Blaine Higgs.

According to the provincial government’s estimates, removing the Permanent Assessment Gap Exemption would result in a tax hike averaging a \$100/year cost for more than 100,000 New Brunswick families.<sup>27</sup> This comes at a time when the province’s gross domestic product is estimated to have contracted by 4.2 per cent<sup>28</sup> in the past year.

Such a tax hike would be misguided as the province hopes to both recover from the pandemic’s economic hit, and eliminate the economic gap between New Brunswick and the rest of the country, as outlined in the province’s *Economic Recovery and Growth Action Plan*.<sup>29</sup> Hitting New Brunswick families with a \$9.3 million tax hike<sup>30</sup> would effectively reduce their disposable incomes and thus their ability to spend and invest in local businesses.

As has been extensively outlined in the income tax cut portion of this submission, the relationship between disposable incomes and consumption<sup>31 32</sup> and investment<sup>33</sup> is very clear for economists. The relationship between household consumption and investment and economic growth is also very clear as both are key components of the GDP equation.

It is also clear that New Brunswick households are already at a disadvantage when it comes to disposable income, sitting a full nine per cent below the national average.<sup>34</sup>

In order to avoid further reducing New Brunswickers’ disposable incomes and harming the province’s economic development and recovery goals, the government of New Brunswick must keep the Permanent Assessment Gap Exemption in place.

<sup>24</sup> <https://www2.gnb.ca/content/dam/gnb/Corporate/pdf/ThroneSpeech/2020/TS-2020.pdf>

<sup>25</sup> <https://www.electionsnb.ca/content/snb/en/sites/property-assessment/understanding/valued.html>

<sup>26</sup> [https://www1.gnb.ca/legis/OP/index-e.asp?legislatureName\\_E=57&sessionName\\_E=3&button=Submit](https://www1.gnb.ca/legis/OP/index-e.asp?legislatureName_E=57&sessionName_E=3&button=Submit)

<sup>27</sup> [https://www2.gnb.ca/content/gnb/en/news/news\\_release/2020/11/0609.html#:~:text=Currently%20about%20102%2C000%20home%20owners,market%20value%20of%20their%20homes.&text=%E2%80%9CThis%20funding%20could%20be%20used,to%20lower%20their%20tax%20rate.](https://www2.gnb.ca/content/gnb/en/news/news_release/2020/11/0609.html#:~:text=Currently%20about%20102%2C000%20home%20owners,market%20value%20of%20their%20homes.&text=%E2%80%9CThis%20funding%20could%20be%20used,to%20lower%20their%20tax%20rate.)

<sup>28</sup> <https://www2.gnb.ca/content/dam/gnb/Corporate/pdf/consultations/2021-2022PreBudgetConsultation.pdf>

<sup>29</sup> <https://onbcanada.ca/wp-content/uploads/2020/10/ERGAP-final-ENG.pdf>

<sup>30</sup> <https://tj.news/story/101414653>

<sup>31</sup> <http://www.econ2.jhu.edu/people/ccarroll/papers/cos-wealth-effects-literature/papers/macklem.pdf>

<sup>32</sup> <https://www.atlantis-press.com/proceedings/emehss-17/25874812>

<sup>33</sup> <https://www.jstor.org/stable/2117526?seq=1>

<sup>34</sup> <http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/provtbl.pdf>



# Controlling government spending to ensure financial sustainability

## Reducing government employee compensation costs by 15 per cent

### Estimated budgetary impact: \$635.9 million in budgetary savings

Expenditures related to government employee compensation continue to present a significant cost for New Brunswick, with the salaries and wages making up the largest expense item for the province over the past six years<sup>35</sup>.

	2015	2016	2017	2018	2019	2020
<b>Employee compensation</b>	\$4,009	\$3,782	\$3,894	\$4,034	\$4,149	\$4,240
<b>Total Consolidated Expenditures</b>	\$8,801	\$8,647	\$9,019	\$9,272	\$9,625	\$9,843
<b>Share of Total Consolidated Expenditures</b>	45.6%	43.7%	43.2%	43.5%	43.1%	43.1%

Source: Government of New Brunswick, Department of Finance. All numbers in millions.

Last year, the province spent over \$4.2 billion on employee compensation, representing over 88 per cent of what it collected from tax revenues.<sup>36</sup> If New Brunswick wants to chart a course back to balanced budgets and fiscal discipline, it must address its biggest line item: compensation costs for provincial bureaucrats.

Prior to the pandemic, provincial government employee wages were on average 11.9 per cent higher than the average wage offered by other employers, when adjusting for education.

	New Brunswick Labour Market	Composite Labour Market Adjusting for Education of Provincial Employees	Provincial Government Employees	Government Employee Premium
<b>Average Employment Income</b>	\$31,820	\$48,507	\$55,032	11.9%

Source: Statistics Canada and authors' calculations.

This composite model excludes pension, as well as other non-wage benefits afforded to government employees which ultimately contribute to the province's higher compensation expenditures.

For instance, government employees have higher enrollment numbers for registered pension plans in comparison to private sector employees. Data from Statistics Canada show a 92 per cent pension enrollment rate for all government employees in New Brunswick, compared to only 23 per cent of private sector workers<sup>37 38</sup>.

	Total Employment (2019)	Registered Pension Plan Enrollment	Percentage of employees with Registered Pension Plans
<b>Government Employees</b>	90,200	83,381	92.44%
<b>Private Sector Employees</b>	238,600	55,404	23.22%

Source: Statistics Canada

<sup>35</sup> [https://www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public\\_accounts.html](https://www2.gnb.ca/content/gnb/en/departments/finance/comptroller/content/public_accounts.html)

<sup>36</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA2020v1.pdf#page=67>

<sup>37</sup> <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110013301&fbclid=IwAR2pwhhk1uSgWqQ2ufZRkqz6ZY53z8ZL1pEdaP0SOX6g-H9fOIGFYSPGT7o>

<sup>38</sup> <https://doi.org/10.25318/1410002701-eng>

Government employees also tend to be covered under a defined benefits pension plan unlike their private sector counterparts which tend to be covered by defined contribution plans. Government defined benefit pension plans shift the investment risk from bureaucrats to taxpayers, resulting in taxpayer funded bailouts when pension funds do not perform well. Unfortunately, New Brunswick's 13 pension funds have a combined actuarial pension liability of \$735 million<sup>39</sup> at the moment, representing a significant risk to taxpayers.

Government employees also enjoy other non-wage benefits such as earlier retirement, and better job security compared to the average private-sector employee<sup>40</sup>. These non-wage employee benefits overwhelmingly favour government employees over their private sector counterparts and, while there is no direct compensation cost associated with them, they are still part of the economic calculations that individuals make and should be considered when looking into compensation data.

Given the province's projected deficit and ever-increasing compensation costs, New Brunswick must make significant changes to its biggest line-item expense: government employee compensation. With government employees already benefiting from a 11.9 per cent wage premium before the current crisis, it would be quite unfair to ask already struggling taxpayers to shoulder an overly bloated government sector.

In order to close the gap between government and private sector compensation, the government of New Brunswick must implement an immediate 15 per cent reduction in the cost of government employee benefits.

This will reduce the estimated costs for government salaries and benefits from \$4.2 billion to \$3.6 billion, saving the taxpayers of New Brunswick an estimated \$635 million by the end of the fiscal year. These savings can be used to provide much needed tax-relief for taxpayers, while securing the fiscal sustainability of the government of New Brunswick.

	Current Costs	Projected Costs with Proposed Reductions
<b>Employee Benefits</b>	<b>\$4,239.5</b>	<b>\$3,603.6</b>
<b>Budgetary Savings:</b>		<b>\$635.9</b>

Source: Government of New Brunswick, Department of Finance. All numbers in millions.

<sup>39</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA2020v1.pdf#page=58>

<sup>40</sup> <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada.pdf>

## Cutting politician pay to lead by example

### Estimated budgetary impact: \$840,000 in budgetary savings

Political leaders worldwide recognized that governments had to show leadership and solidarity with their constituents in the face of the pandemic. Many political leaders voluntarily cut their pay to show that they were not exempt from the sacrifices they were asking of their constituents. New Zealand Prime Minister Jacinda Ardern sparked a global trend when she announced a voluntary 20 per cent pandemic pay-cut for her and her cabinet ministers<sup>41</sup>.

In Canada, Manitoba Premier Brian Pallister reduced his base salary by 25 per cent<sup>42</sup> while he negotiated for reduced hours and temporary layoffs for government employees to redirect funds towards essential services such as health care. Halifax Mayor Mike Savage voluntarily cut his salary by 20 per cent<sup>43</sup> as his municipal government moved to cut 1,480 positions to deal with budgetary shortfalls from the pandemic.

New Brunswick must implement significant expenditure reductions, namely expenditures related to government administration and compensation costs. Similarly, the province's political leadership should not be immune to wage reductions in times of economic hardship.

Total compensation for the members of the Legislative Assembly costs taxpayers \$5.2 million every year, with \$4.1 million covering basic indemnities and \$1.1 million covering top-ups for government ministers and other positions.<sup>44</sup>

Members of the Legislative Assembly should lead by example and take a 15 per cent reduction on base salaries and a 20 per cent reduction for leadership position premiums, including members of the cabinet, the leader of the opposition, and the house leadership.

We estimate that voluntary changes in compensation for the political leadership in the province will save New Brunswick taxpayers about \$840,000. This will signal to taxpayers and government employees that government leadership is not exempt from the pandemic's economic burden.

Total Compensation Cost for Members of the Legislative Assembly		
	Current compensation costs	Compensation costs with proposed cuts
Annual indemnity for Members of the Legislative Assembly	\$4,104,410	\$3,488,749
Ministerial and other salaries	\$1,119,614	\$895,691
<b>Total indemnity and secondary salaries</b>	<b>\$5,224,024</b>	<b>\$4,384,440</b>
<b>Budgetary savings:</b>		<b>\$839,534</b>

<sup>41</sup> <https://www.nzherald.co.nz/nz/covid-19-coronavirus-politicians-pass-temporary-law-for-own-pay-cuts/EEPZBFROPNIZE7SZCWIZVE4FXE/>

<sup>42</sup> <https://winnipeg.ctvnews.ca/manitoba-premier-takes-pay-cut-as-he-seeks-public-sector-cuts-during-pandemic-1.4905764>

<sup>43</sup> <https://www.cbc.ca/news/canada/nova-scotia/halifax-mayor-taking-cut-to-190k-salary-during-pandemic-1.5534267>

<sup>44</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA20-salaries.pdf#page=114>

## Consolidating health networks to focus on more efficient service delivery

### Estimated budgetary impact: Unknown

New Brunswick's taxpayers continue to fund two separate health bureaucracies – the English HorizonHealth Network, and the French Vitalité Health Network – which perform exactly the same roles, but for different language groups at an expensive cost.

Outgoing Vitalite Health Network's CEO Gilles Lanteigne, correctly diagnosed the province's health-care budget woes by recognizing that New Brunswick had "too many programs in the province for the population we have."<sup>45</sup> Eliminating the duplicative costs of having two provincial health authorities, and as Lanteigne suggested, "concentrating (resources) in one place"<sup>46</sup> is an obvious place for savings; especially when the health services cost taxpayers \$3 billion, representing more than 64 per cent of all revenue from taxes collected in 2020.

Furthermore, costs associated with salaries and benefits of bureaucrats in each of these regional health authorities present added strain to an already costly health-care system. Three top bureaucrats, within their specific health authority, are paid upwards of \$300,000 each<sup>47</sup>. An additional four make between \$275,000 to \$299,000 each.<sup>48</sup> Instead of paying for one top bureaucrat, New Brunswick taxpayers pay top-dollar for several executive-level bureaucrats because they have two health authorities, which mean two executive suites.

Consolidating the two regional health authorities would result in significant savings in administration costs and would help better utilize the various resources health authorities have at their disposal. Reducing the cost of redundant healthcare bureaucracy must be a top priority for New Brunswick to control its ever-increasing healthcare expenditures.

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<sup>45</sup> <https://tj.news/story/101401508>

<sup>46</sup> <https://tj.news/story/101401508>

<sup>47</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA20-salaries.pdf>

<sup>48</sup> <https://www2.gnb.ca/content/dam/gnb/Departments/tb-ct/pdf/OC/PA20-salaries.pdf>



## Implementing a gainsharing program to incentivize government employees to propose cost-saving measures

### Estimated budgetary impact: unknown

Cost-saving measures within government can come from major restructuring initiatives as well as simple logistical changes on day-to-day operations. Whether these measures improve government structures on a division or a departmental level, any cost-saving measures that can save taxpayer dollars should be explored.

Gainsharing programs have worked in the private sector and can be adopted to suit government organizational structures. Gainsharing is a pay-for-performance program that awards employees with pay incentives if they help the organization generate cost savings.<sup>49</sup>

Jurisdictions in regional and local governments also adopted similar programs and benefited from savings eventually shared between the local government, government employees, and taxpayers<sup>50</sup>. Within one year of launching its pilot gainsharing program, the municipal government of Baltimore saved more than \$950,000<sup>51</sup>.

The government of New Brunswick should implement a directive to incentivize government employees to share any cost-saving ideas, and reward cost-cutting measures through a gainsharing program. Such incremental savings should not be disregarded as they help make service delivery more efficient, and marginally lower its cost.

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<sup>49</sup> <https://www.innovations.harvard.edu/gainsharing-program>

<sup>50</sup> <https://www.washingtonpost.com/archive/local/1998/03/26/md-counties-try-productivity-bonuses/2ed5418c-50db-431c-837c-97c47c776799/>

<sup>51</sup> <https://mayor.baltimorecity.gov/news/press-releases/2019-02-15-mayor-pugh-announces-savings-over-950000-city-gain-sharing-plan>

# Conclusion

New Brunswick's fiscal situation remains a cause for concern for local taxpayers. While credit rating outlooks remain stable,<sup>52</sup> the latest report from the Parliamentary Budget Officer shows New Brunswick is suffering from a fiscal gap equivalent to 0.6 per cent<sup>53</sup> of its gross domestic product. This means government finances are not sustainable as they are.

Given the fact employee compensation accounts for nearly 45 cents of every dollar the government of New Brunswick spends, it is clear that reductions in employee compensation will be necessary to address this fiscal gap and help make the province's budget sustainable. In order to make such reductions palatable, it's important that legislators show they are not exempt from such sacrifices. Together, the reductions in employee and legislator compensation outlined in this submission represent over \$635 million in budgetary savings.

In order to reduce inefficiencies in service delivery and management structures, the government of New Brunswick's approach needs to be twofold. First and foremost, it needs to consolidate health networks in order to realize savings both by cutting in upper management costs and by combining its limited resources under one structure. Secondly, it needs to implement a gainsharing program to incentivize frontline employees to propose cost-savings measures and make service-delivery more efficient.

Given COVID-19's impact on all sectors of the province's economy, as well as the government's desire to eliminate the economic gap between it and the rest of the country, the province must take steps to make the province more attractive to investment in all industries by replacing its subsidies with corporate tax cuts.

Economic research is clear about the positive relationship between disposable incomes and economic growth.

Given this, the government should also use part of the savings outlined to bring tax relief to all New Brunswickers as a way to boost household incomes and increase New Brunswickers ability to spend and invest in local businesses.

Given the negative impact that removing the Permanent Assessment Gap Exemption would have on disposable incomes, the government must keep the mechanism in place to prevent disposable incomes from falling further than it already has as a consequence of the pandemic.

All in all, the proposed measures will put \$447.1 million back in New Brunswickers pockets and help save \$765.4 million in government operations. This would ameliorate the province's fiscal situation by \$318.3 million.

<sup>52</sup> [https://www2.gnb.ca/content/gnb/en/departments/finance/investor\\_relations/content/credit\\_ratings.html](https://www2.gnb.ca/content/gnb/en/departments/finance/investor_relations/content/credit_ratings.html)

<sup>53</sup> [https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-033-S/RP-2021-033-S\\_en.pdf](https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-033-S/RP-2021-033-S_en.pdf)