CUPE | Canadian Union of Public Employees

SUBMISSION TO THE NOVA SCOTIA MINISTER OF FINANCE PRE-BUDGET CONSULTATION

February 26, 2016

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Canadian Union of Public Employees Nova Scotia

The Canadian Union of Public Employees (CUPE) Nova Scotia is a union of more than 19,000 members province wide working together for better wages and working conditions, strong public services, and a prosperous economy that is enjoyed by all Nova Scotians.

CUPE members work to deliver public services in healthcare, including hospitals, long term care and home care; education, both school boards and post-secondary; municipalities; provincial highways; and community services, among other sectors of the economy.

CUPE members are proud to provide services in our communities as we work toward a better society, a better standard of living and safe working conditions for all.

Our members do this work every day, and their collective experience equips us to make a positive and informed contribution to the budgeting process of the province.

CUPE supports the development of vibrant, healthy communities and strong local economies. A provincial budget that invests in people and public services is key to realizing this goal.

CUPE is concerned that the fiscal plan laid out by the Minister of Finance focused on spending cuts, cuts to services, selling of public assets, privatization and suppression of public sector wages is an economic strategy now widely discredited by leading economists.

Cuts impact public and private sector employment, private sector businesses, tax revenues and out-migration. Cuts disproportionately affect the young, the most vulnerable and rural communities.

As Nova Scotia continues to emerge from the 2008 recession, with an aging population and a significant rural population, it is investment - not cuts - that is needed. As Federal Finance Minister Bill Morneau has said, "The right approach is to invest in the economy."[1]

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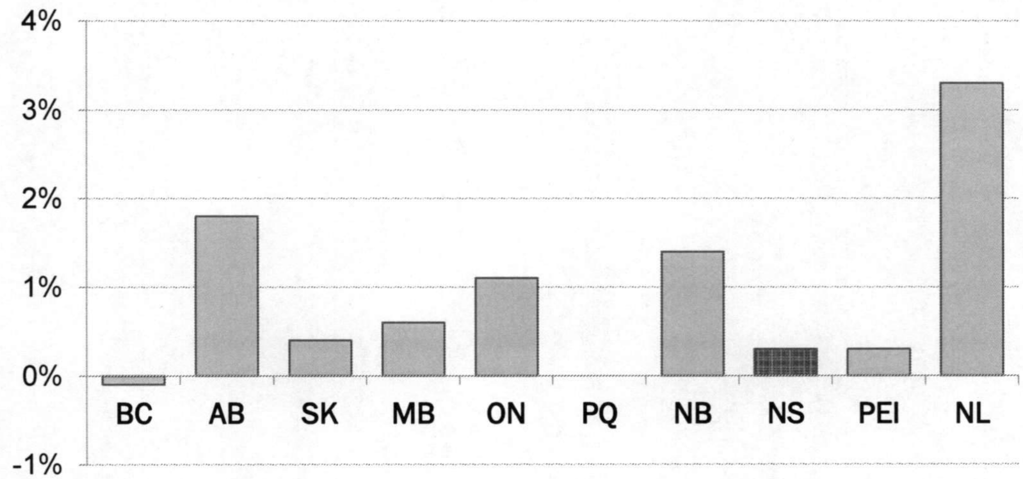
1 Bruce Campion-Smith, "Despite sea of red, Grits commit to investment", *Toronto Star*, February 23, 2016.

Nova Scotia's fiscal situation

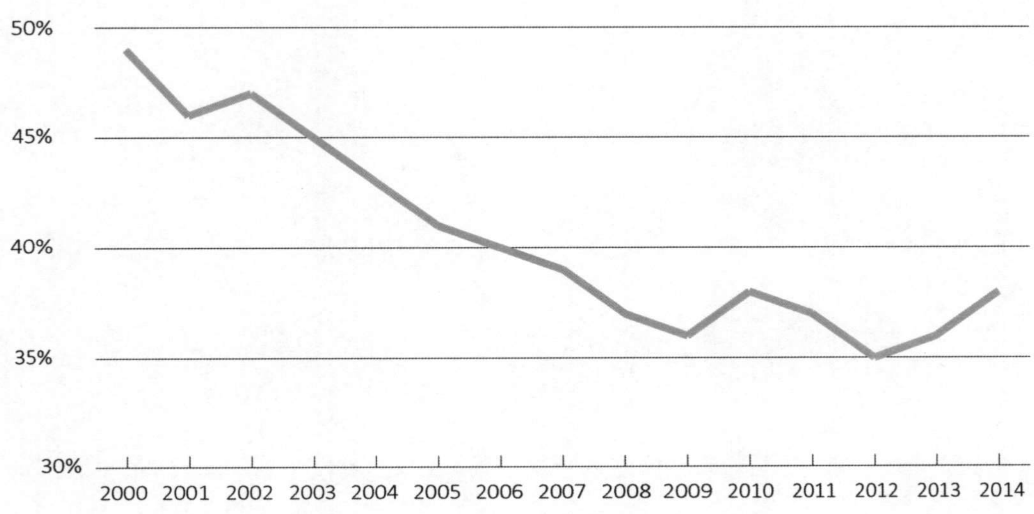
Nova Scotia's 2015-2016 deficit projected at $100 ml or 0.3% of GDP (Sept 28, 2015) revised upwards to $241 ml or 0.6% of GDP (Dec 15, 2015) is very low and compares favourably to other provinces. (See Figure 1)

Figure 1 Deficit as % GDP



RBC Canadian Federal and Provincial Fiscal Tables, September 28.
Data for 2015/16.

Figure 2 Nova Scotia's Debt to GDP Ratio, 2000-2014

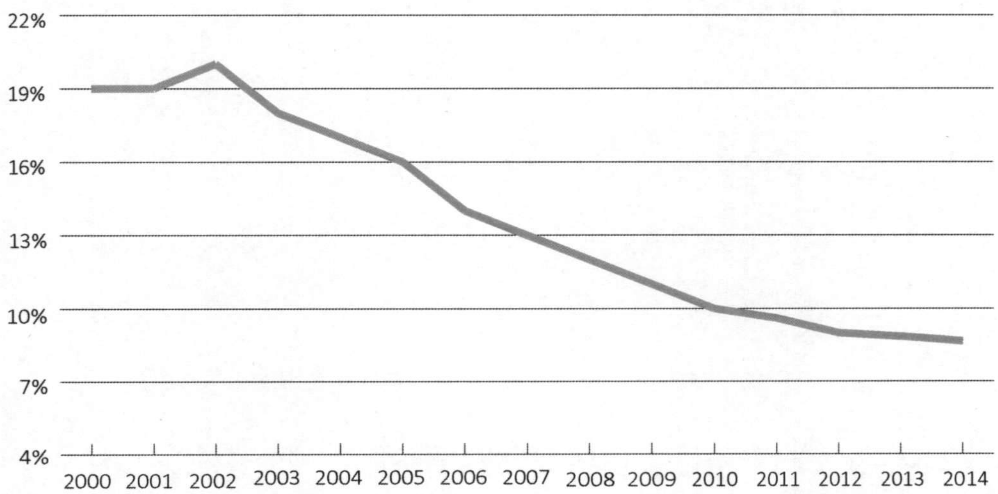


Source: Nova Scotia Department of Finance, Public Accounts, 2000–2014

Nova Scotia's ability to manage its debt has improved significantly over the past decade. Debt servicing charges as a percentage of GDP have fallen. (See Figure 2)

In fact, the proportion of Nova Scotia's total spending on debt charges is dramatically less today than it was 15 years ago. (See Figure 3)

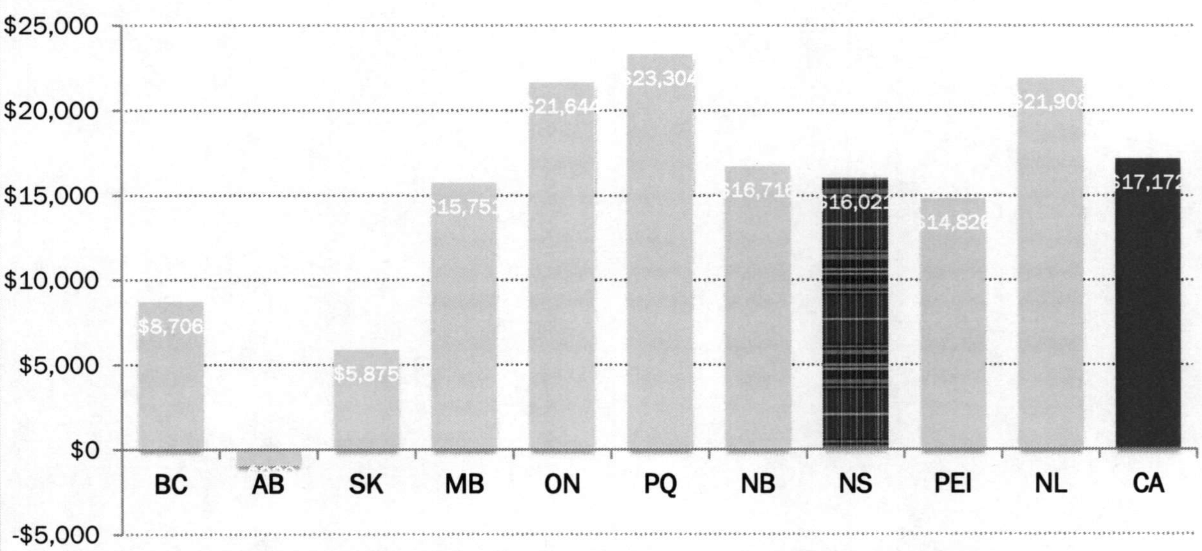
Figure 3
Nova Scotia's Debt Charges as a Percentage of Total Expenditures, 2000-2014



Source: Nova Scotia Department of Finance, Public Accounts, 2000–2014

Nova Scotia's net public debt is also mid-range among the provinces. At about $16,000 per person, the debt level is well below any level that would be of concern. (See Figure 4) This debt financed public assets such as schools, roads, bridges, hospitals, community centres and the like that contribute to the quality of everyday life for Nova Scotians.

Figure 4 Nova Scotia's Net Public Debt per Person



RBC Canadian Federal and Provincial Fiscal Tables, September 28. Data for 2015/16.

An examination of Nova Scotia's fiscal situation shows that government does not need to impose drastic measures in a mad rush to eliminate the deficit.

Government is projecting a return to surplus in 2016/2017 based largely on a public sector wage freeze and cuts in public spending.

Cutting public services and public sector wages will not improve the fiscal situation. Time and again such austerity measures have proven to be disastrous for the economy.

The former Conservative government in New Brunswick, for example, introduced significant cuts to public spending and services. This resulted in the worst economic downturn in 30 years for the province and increased unemployment above rates during the Great Depression. Revenues declined and the deficit increased.

Nova Scotia needs a different approach to the economy and it needs a fundamentally different fiscal strategy.

Public Sector Jobs and Growth Multipliers

Instead of cutting spending to deal with a fiscal problem that has been wildly exaggerated, the province should focus on growing the economy, creating jobs and providing better services to families.

Using the federal government's economic growth and job creation multipliers, the positive effects of public spending on jobs and growth are clear. For every million dollars spent on these investments, the return are significantly higher than for tax cuts. (See Figure 5)

The International Monetary Fund (IMF) study, *Fiscal Multipliers and the State of the Economy* released in December 2012, analyzed decades of data on the world's major industrialized countries to estimate how changes in government spending or revenue affect economic output. The study found that it is much better to deal with deficits by increasing taxes, rather than implementing drastic austerity budget cuts.[2]

Public spending drives private spending. Public sector wages buy groceries and cars. Public sector workers shop in downtowns. As the economy grows, the public sector needs to grow as well to sustain private spending by consumers and business alike. If the economy shrinks, the public sector needs to grow even faster to compensate for the fall in private spending.

Investing in public services strengthens the provincial economy, enhances our communities and attracts people and investment to Nova Scotia. This is a fiscal strategy that will create a sustainable economy, grow revenues and address any deficit issues.

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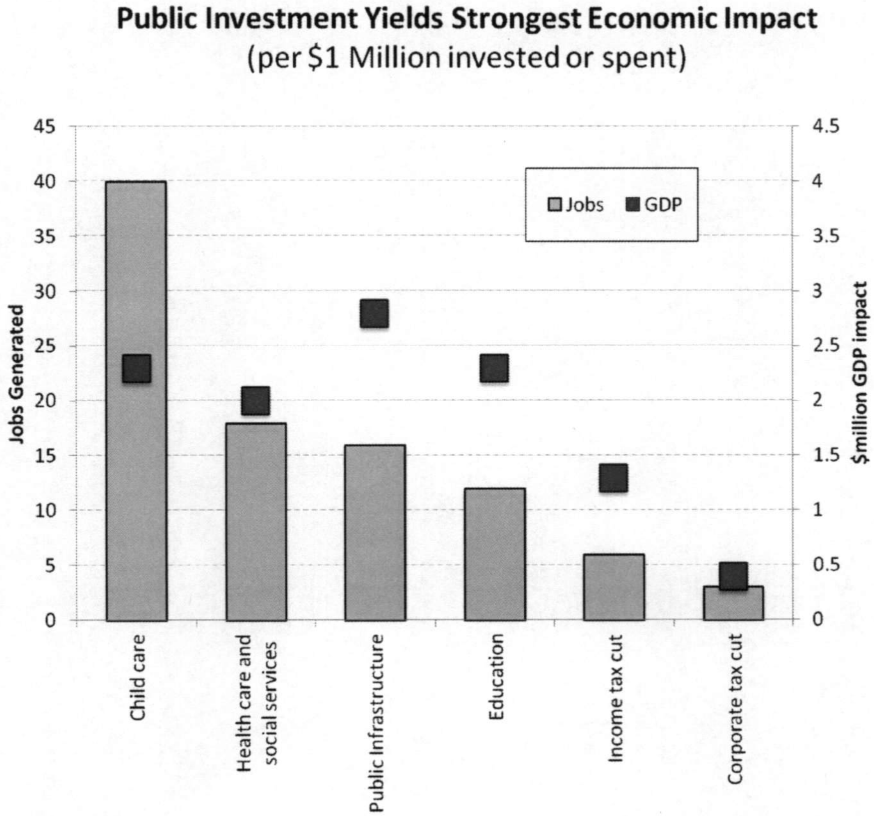
[2] Anja Baum, Marcos Poplawski-Ribeiro, and Anke Weber, *Fiscal Multipliers and the State of the Economy,* IMF Working Paper /12/286, December, 2012

Figure 5 Public Investment Yields Strongest Economic Impact



Source: *Federal Budget 2009* (p.240), Informetrica Ltd *Macroeconomic Impacts* (2009) and Centre for Spatial Economics, *Economic Impacts of Early Learning and Care* (2011). Prepared by Toby Sanger CUPE National

Spending on early learning and child care provides more short-term economic stimulus than other major sectors of the economy. The GDP multiplier (the increase in GDP generated from a dollar increase in spending) in the early learning and child care sector is $2.23.

Early Learning and Childcare

Well directed public spending on child care is a public investment, not a public cost and is part of the solution to Nova Scotia's economic challenges. Every $1 million invested in high quality child care creates 47 jobs and brings a $2.23 million return in short and long-term benefits to Nova Scotia — including educational benefits as well as increased earnings and reduced social costs.[3]

[3] Robert Fairholm, "Short-term impact analysis of an expansion of regulated early learning and care in Nova Scotia", Centre for Spatial Economics", December 2011, www.childcarecanada.org/documents/research-policy-practice/11/12/short-term-impact-analysis-expansion-regulated-early-learni.

Recent analysis by highly-respected economist Robert Fairholm shows that investing in early learning and childcare would provide the strongest economic boost in terms of jobs and economic growth for Nova Scotia, significantly higher than other sectors. What's more, it could also almost pay for itself in terms of increased revenues for governments from the additional jobs and economic activity.[4]

TD Economics went further in 2012 by recommending that public spending on child care become a top priority. It concluded that the widespread and long-lasting economic, social, and health benefits for children and society far outweighed the costs. It also noted that Canada is last among its peer countries on public spending on child care.

The Nova Scotia government is severely underfunding regulated child care. Low wages make it difficult to attract and retain the qualified staff needed for high quality programming. Volunteer boards without adequate resources are pressed to meet community needs. For-profit corporations are expanding their reach in the absence of a long-term policy framework. Fees of $30 to $40 a day are prohibitive. Parents across the province struggle to access affordable, quality, public child care despite the wealth of research that shows good public policy on child care is pivotal to a healthy economy. CUPE continues to encourage the use of schools or other public education facilities to provide a publicly funded and publicly delivered early learning and child care system.

Pitfalls of toll road privatization

CUPE is alarmed that the government of Nova Scotia is paying almost a million dollars to a private company to recommend if there should be tolls on eight section of series 100 highways totaling 301.2 kilometers. The company is also to handle public consultations on the issue. [5]

As studies in both Canada and the United States have shown, the economics and governance of privatized roads are "highly problematic"[6]. For existing roads, outsourcing borrowing against future toll revenue to a private entity is likely to generate less money than a public entity could produce with the same tolls because private toll operators have higher borrowing costs and must divert some revenues to their shareholder profits. In addition to the fiscal downsides, fragmentation, loss of public control over transportation

[4] Matthew Pearson, "Boost child care spending for big payoff, bank urges" *Ottawa Citizen, 26 November 2012* www.ottawacitizen.com/business/Boost+child+care+spending+payoff+bank+urges/7612611/story.html#ixzz2OrNg45Kt

[5] Nova Scotia Department of Transportation and Infrastructure, News Release, "Tender Awarded for Tolling Feasibility Study", September 21, 2015.

[6] U.S. PIRG Education Fund, "Private Roads, Public Costs: The Facts About Toll Road Privatization and How to Protect the Public", Spring, 2009.

policy and the inability to plan for future public needs in contracts that stretch over multiple decades are damaging to the public interest.

New Brunswick's Auditor General determined that the province paid $55 million more in interest costs for the Fredericton to Moncton highway contract to MRDC because the roadbuilder had to borrow money at higher interest rates than government could.[7]

The government of Nova Scotia is paying an effective interest rate of 10 per cent for 30 years, twice its rate for borrowing, for the P3 Cobequid Pass Toll Highway. A briefing note prepared on P3s for government estimates that more than $300 million in tolls were produced by this stretch of highway, for a deal that saw private financiers put up just $66 million. That's a return on investment of more than 350 per cent![8]

Road privatization deals may look like an easy "quick fix", but taxpayers will not receive full value for the years of toll revenues paid for by future generations and not collected for public uses.

Auditor Generals find public-private partnerships increase costs

Public-Private Partnerships (P3s) are proven to unnecessarily increase costs. Despite many promises of private sector efficiency for the delivery of public services, this has not been borne out. Recent high-profile failures of these schemes have resulted in cost over-runs, poorly managed facilities, loss of democratic control, and undermined workers' wages and benefits.[9]

Successive Auditor General Reports have highlighted problems with P3s[10]:

In her 2014 Report, Ontario's Auditor General reviewed 74 P3 projects and concluded that the province paid $8 billion more to private contractors than would have been spent had these projects been provided through the public sector. She also questioned the main justification for using P3s – the assertion that they transferred risk to the private sector. The P3 projects used unrealistically high risk transfer, averaging about 50 per cent of the capital costs.

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[7] CBC News, "Auditor-General questions toll highway deal", December 7, 1999 at http://www.cbc.ca/news/canada/auditor-general-questions-toll-highway-deal-1.192397 .

[8] Nova Scotia Public Accounts Committee, *Hansard*, December 2, 2015.

[9] The Centre for Civic Governance, *Public-Private Partnerships: Understanding the Challenge A Resource Guide,* Second Edition, June 2009.

[10] CUPE Research, *CUPEFACTS*, "What provincial auditors have said about P3s", April 2015.

In 2014 the Auditor General of British Columbia raised major concerns about the high cost of debt through P3 projects. The interest rates on this $2.3 billion of P3 debt ranged from 4.42 per cent to 14.79 per cent. Her review shows that P3 projects are creating higher levels of debt than if the government had financed the projects itself, since interest rates are almost double with P3s.

In 2010, the provincial auditor of Quebec found that the Montreal University Health Care Centre (MUHC) P3 cost more than the public option, and that the analysis used to compare the P3 model to a conventional public model was extremely faulty. Instead of the P3 model saving $33 million, the provincial auditor found that the public model would have saved $10 million. The auditor's special report to the National Assembly also found that there was a cost overrun of over $108 million to the original price tag of $5.2 billion.

In 1998, the Auditor General of New Brunswick reviewed two P3s in that province: Evergreen P3 School and Wackenhut's Miramichi Youth Facility. The Auditor General concluded that the capital cost of the Evergreen School would have cost $774,576 less had the province done the work itself and that the Youth Facility cost the Province $700,000 more because of higher financing costs through the private corporation Wackenhut.

In 1995, the Auditor General of Canada reviewed the Confederation Bridge P3 project and concluded that the construction cost $45 million more than if the government had directly borrowed the money.

Nova Scotia can learn from its own P3 schools experience. Auditor Generals found the P3 route to build 39 schools has cost the province millions more dollars to build and operate than the traditional public procurement program. Beginning in June 2016, Nova Scotia must decide to purchase the schools outright or renew the leases. CUPE believes these public assets should be returned to public ownership and control.

Public-private partnerships (P3s) have been shown to be a false economy, costing far more over the long-term and delivering less. Now that the new federal Trudeau Liberal government has eliminated the "P3 screen" requirement that recipients of federal infrastructure funding must consider P3s, Nova Scotia should follow the lead of their federal counterparts and move away from P3s.

Monetization of public assets reduces revenues

Selling off public assets – particularly those that generate revenue or those that will increase in value – and privatizing public services are very short-sighted and regressive measures. While it may provide an immediate cash grab, it rarely pays off over the long-run and increases costs on those who can afford the least.

The sale or "monetization" of Nova Scotia's Land Registry, Registry of Joint Stock, and Registry of Motor Vehicles would involve not just a sell-off of valuable public assets (and so a lower level of assets), but also lower revenues and potential revenues.

Nova Scotia's registry of motor vehicles alone generates about $120 million a year and costs about $35 million to operate. Selling the registries for a lump sum now means the loss of millions of dollars in future revenues. It makes no economic sense. [11]
Nova Scotia land surveyors claim outsourced land registries elsewhere in Canada have seen a tripling of fees and reduced access.[12] For example, Ontario's land registry system was fully privatized in 2003. After being purchased by Teranet, offices were closed, services were cut and new fees introduced.

No matter how the service is managed, the public ends up paying for it. We either pay up front, with taxes, or we pay while accessing the services, with user fees. In 2005 the top 15 executives at Teranet made $167.2 million. [13]

Instead of selling off its public assets, the province should be increasing them, as smart governments elsewhere in the world are doing. [14]

Home support should not be commercialized

CUPE Nova Scotia commends the provincial government for not restructuring home support through the introduction of a compulsory competitive bidding system. Competitive bidding is the wrong policy choice and would throw Nova Scotia's home support system into chaos. Ontario's twenty-year experience is evidence of that.

Competitive bidding would pave the way for commercialization of Nova Scotia's home support services, pushing out non-profit agencies with deep roots in Nova Scotia's communities. Instability in the sector would negatively impact continuity of care. Uncertainty around working conditions would contribute to staff turnover and recruitment and retention issues. Scarce health care dollars will end up paying for higher administrative fees and corporate profits.

CUPE has long advocated that homecare must operate under the principles of the *Canada Health Act* and should be integrated into the continuum of health care services.

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[11] Michael Gorman, "Private Sector asked for interest in N.S. motor vehicle, land registries", *Chronicle Herald*, July 21, 2015.
[12] Paul Withers, "Nova Scotia land surveyors stand against privatization of land registry", *CBC News*, September 10, 2015.
[13] Eric Reguly, " Why Teranet Plans came up short", *Globe and Mail* June 6, 2006
[14] Christopher Hume, "Selling off assets a bad bargain for city," *Toronto Star*, March 1, 2015.

Care should provide dignified lives for care recipients and dignified employment for workers in the homecare system.

Improve and expand our public health care system

Better quality public health care is not only important in its own right, but also helps businesses compete, creates jobs and improves productivity. Improved health care is estimated to be responsible for about 25 per cent of productivity growth in recent decades.

Nova Scotia's public health care system is threatened by recent federal funding restrictions, cuts, privatization and the abandonment of federal leadership in improving health care. The federal government used to fund 50 per cent of provincial health care funding; soon it is projected to be less than 20 per cent. This leaves the province of Nova Scotia facing the fiscal pressure of rising health care needs.

CUPE urges the Nova Scotia provincial government to continue to press the federal government to negotiate a new health care funding accord with provinces and territories, providing annual 6 per cent increases in federal funding over a decade, tied to improvements to public health care. This was a key recommendation of Premiers at their 2015 Council of the Federation meeting.

CUPE further urges the Nova Scotia government not to back-track on demands to re-establish the equalization component of the Canada Health Transfer (CHT). Changes made by the former Federal Conservative Government to the CHT have cost Nova Scotia dearly ($20.3 million in 2014/2015 and $24.3 million in 2015/2016). A long-term agreement that takes the aging population of some provinces into account is essential to the fiscal health of Nova Scotia. CUPE is concerned that Atlantic premiers may now be backing away from asserting this position with the new Liberal federal government.[15]
A new Health Accord and reinstatement of the equalization portion of the CHT would have positive impacts on Nova Scotia's bottom line.

Conclusion

Instead of narrowly focusing on spending cuts, outsourcing and privatization, CUPE urges the government to focus on what they were elected to do, what their federal cousins are promising to do and what's best for Nova Scotia: creating jobs, improving public services for families and growing the economy.

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[15] Jacques Poitras, "Premiers say increase in transfer payments for health care unlikely", CBC News NB, February 10, 2016 at http://www.cbc.ca/news/canada/new-brunswick/atlantic-premiers-health-care-1.3442644

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