

DEPARTMENT OF FINANCE

2008-09 ANNUAL REPORT



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MESSAGE FROM THE MINISTER

In accordance with Government's commitment to greater accountability and transparency, I am pleased to present the 2008-09 Annual Report for the Department of Finance. Its purpose is to account for the progress made towards achieving the intended results of the 2008-11 Strategic Plan and to measure performance within key business areas. As Minister responsible for the Department of Finance, my signature below is indicative of my accountability for the actual results reported within this document.



During the 2008-09 fiscal year the Department of Finance continued to play a leadership role in the prudent financial management of the public purse. Our dedication to this commitment was rewarded during the Fall of 2008 when the Province was declared by the Federal Government as a "Have" province. Never before in our 60-year history as a partner in the Canadian federation have we not received equalization payments from the Federal Government.

Overall economic performance was strong. Employment grew by 1.5% and the unemployment rate declined to 13.2%, the lowest provincial unemployment rate since the 1970s. Personal income grew by 5.2% while disposable income increased by 6.8%, aided by tax cuts implemented by this Government. Total investment in the Province rose to \$4.4 billion, based largely on the strength of residential, public sector and manufacturing spending increases. As of July 1, 2008, Newfoundland and Labrador's population was 507,895, marking the first time in 16 years that the Province recorded an increase in population. Additionally, Government has projected a surplus of \$2.4 billion and a reduction in net debt to \$7.9 billion and net debt per capita to approximately \$15,500.

The Province also received recognition for its prudent fiscal management approach from several credit agencies. Their credit ratings reflected Government's commitment to reducing debt, decreasing taxes and making sustainable investments to further grow the economy. The credit rating of this Province is one of the key factors in its ability to attract investors who may purchase provincial bonds. It is also used by capital market participants to assess the credit worthiness of this Province.

In closing, I would like to take this opportunity to acknowledge all those who contributed towards the success the Department of Finance achieved during the past year. I look forward to your continued support and dedication.

Sincerely,

A handwritten signature in black ink that reads "Jerome Kennedy".

Hon. Jerome P. Kennedy
Minister of Finance

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1.0 INTRODUCTION

The Department of Finance plays a unique role within the Government of Newfoundland and Labrador. As a central agency, it is responsible for providing strategic leadership across the public service on the financial and economic implications of its policy decisions; overseeing the management and control of provincial finances to ensure appropriate use of public funds; and providing centralized and corporate shared services to other government departments (e.g. economic analysis, statistical services, and the administration of such things as compensation and benefits, internal audit services and payment processing).

To fulfill these responsibilities during the 2008-09 fiscal year, the Department employed approximately 380 individuals on a fulltime, temporary or contractual basis. These employees are professionally trained in such areas as professional accounting, economics, statistics, financial management, public policy, information technology and management, administrative support, and human resources. Although the Department is organized in a traditional manner, employees work together across divisional lines to achieve common goals.

This annual report highlights activities and operations for 2008-09 and provides information about the Department's mandate, the environment in which it operates and the manner in which it supports the overall goals and directions of the Province of Newfoundland and Labrador.

2.0 DEPARTMENTAL OVERVIEW

MANDATE:

The Department of Finance plays a key role in establishing, implementing and reviewing Government's financial management, economic, fiscal and taxation policies. These responsibilities are primarily achieved through the provision of timely analysis and advice to Cabinet and its committees, particularly Treasury Board for which the Minister of Finance serves as President. The Department is also the central agency responsible for the provision of financial policy advice, various services and direction to other government departments and its employees. The mandate of the Department also includes the supervision, control and direction of all matters related to:

- Financial planning and budget monitoring
- Tax policy and the administration of tax statutes
- Fiscal policy
- Federal/provincial fiscal arrangements
- Debt management
- Project analysis
- Administration of pensions benefits
- Administration of group and general insurance
- Comptrollership and financial management
- Economic policy and statistics

Vision: A vibrant, self-reliant economy and prosperous people.

Recently the mandate of the Department has been expanded to include the provision of corporate shared services in the area of financial management. This new responsibility includes the management of payroll, time, and attendance; and, the development and future implementation of a new financial model for government departments including the administration of accounts receivable and invoice processing.

The mandate of the Department of Finance is derived from the *Financial Administration Act*, the *Department of Finance Notice to the Executive Council Act* and various other government directives. For further information please refer to the Department of Finance's Strategic Plan 2008-11, available on-line at www.fin.gov.nl.ca/fin/PUBL/StrategicPlan/StrategicPlan2008-10.pdf.

LINES OF BUSINESS:

The mandate of the Department of Finance is delivered to its primary clients through four principal lines of business. Since the development and publication of its 2008-11 Strategic Plan, the Department of Finance has made some minor adjustments to the ways in which it fulfills its mandate in an effort to enhance the efficiency of its programs and services. As such, the following lines of business have been revised to reflect current business processes:

1.0 FINANCIAL PLANNING AND BENEFITS ADMINISTRATION

The Department of Finance coordinates the preparation of Government's annual budget and then monitors expenditures by government departments. It also sets financial policies for government entities, provides advice related to multi-year expenditure plans and recommends allocations of financial resources. Operational support and financial and analytical advisory services are also provided to the Treasury Board Committee of Cabinet to support their financial management responsibilities. Similar financial expertise is also provided to the other committees of government, as well as government departments in support of the cabinet decision-making process. Additionally, the Department administers six provincial pension plans and develops and manages the policies, programs and contracts respecting risk management and group insurance for select government entities and public sector employees/retirees.

2.0 TAXATION AND FISCAL POLICY

The Department of Finance develops options for taxation reform; assesses the implications of changes to existing provincial taxation and fee policies; and, implements legislative measures in support of Government's tax and fiscal policy priorities. It also participates in the negotiation and monitoring of federal-provincial tax and fiscal agreements and forecasts, analyzes and monitors provincial revenues. The Department manages the Province's borrowing and debt servicing programs; provides centralized financial and economic impact analysis of specific projects to assist Government in decision making and/or policy development; and administers various provincial taxes, rebates and incentive programs, which include:

- tobacco tax
- gasoline tax
- health and post-secondary education tax
- mining and mineral rights tax
- insurance companies tax
- utilities tax
- financial corporations' capital tax
- retail sales tax
- school tax
- direct equity tax credit program
- home heating rebate program
- parental benefits programs

3.0 OFFICE OF THE COMPTROLLER GENERAL

The Department of Finance controls and accounts for the receipt and disposition of public money through the development of financial policies and procedures, administration of applicable legislation and the preparation of the provincial financial statements (i.e. Public Accounts) and related financial reports. The Department also develops and maintains government-wide revenue and expense systems and ensures that effective financial management controls, systems and accounting procedures are in place and government departments are properly accounting for their revenues and expenses. These systems and procedures are in place to ensure that no payment of public money occurs that is in excess of the appropriations provided by the House of Assembly and applicable legislative authority. Professional advisory services are also provided to government departments in the areas of: financial management, accounting and systems; financial policy development and implementation; internal auditing; and financial reporting. Corporate shared services are also delivered by this Department to other government departments. The Department of Finance administers and processes payroll, time and attendance transactions for government departments and develops business processes and related policies that will impact accounts payable and accounts receivable. It is also responsible for the operation of a payroll registry and an evolving service centre.

4.0 ECONOMICS AND STATISTICS

The Department of Finance analyzes and forecasts the macroeconomic environment, which feeds into the Province's revenue projections. It also provides economic impact assessments and special studies related to policy, economic events and projects. It maintains and operates the Newfoundland and Labrador Econometric Model, the Input/Output Model, and the Population Projection Model and is responsible for the annual publication of *The Economy* and *The Economic Review*. The Department also fulfills a vital statistical role for Government by collecting, storing and disseminating information that is accessible to clients while guaranteeing confidentiality and privacy of individual information. This is achieved through the Newfoundland and Labrador Statistics Agency under the authority of the *Statistics Agency Act*. The Department acts as Government's official point of contact with Statistics Canada, develops and provides focused sub-provincial data through Community Accounts and provides expertise in spatial analysis and socio-economic simulation modeling.

ORGANIZATION:

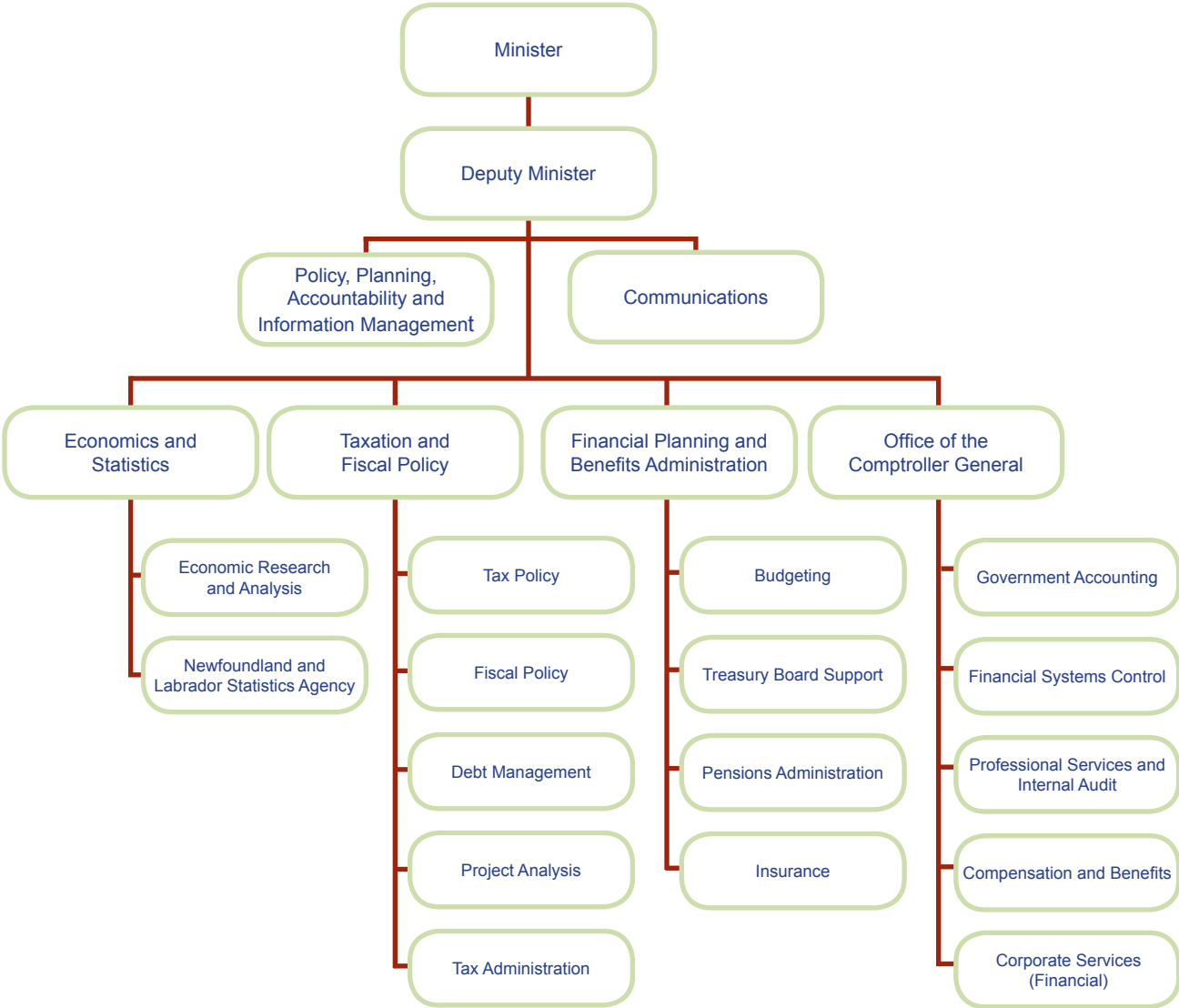
The effective and efficient delivery of its programs and services is supported by an organizational structure that consists of 16 divisions which are organized into four distinct branches:

- Financial Planning and Benefits Administration
- Taxation and Fiscal Policy
- Office of the Comptroller General
- Economics and Statistics

Additionally, all four Branches are supported by the following two departmental-wide service divisions, both of which report directly to the Deputy Minister:

- **Policy, Planning, Accountability and Information Management Division** - primarily responsible for the development, coordination and implementation of the Departments' planning and reporting requirements, which includes the preparation of the Department's Strategic and Operational Plans, and the Annual Report. This Division also takes the lead role in implementing work planning processes, coordinating learning and development initiatives; and implementing strategies identified in the Department's Workforce Plan. The Division is also responsible for developing, implementing and monitoring compliance with information management policies and procedures.
- **Communications Division** - responsible for the provision of strategic communication advice and support to the Minister of Finance and senior officials. It is also responsible for the management and direction of external communications and serves as the key media contact for the Department of Finance.

The following organizational chart depicts the reporting relationships that currently exist within the Department of Finance:



AGENCIES, BOARDS AND COMMISSIONS:

The Minister of the Department of Finance is also responsible for monitoring the annual reporting activities, as required under the *Transparency and Accountability Act*, for the following public bodies:

ENTITIES WITH A MARCH 31ST FISCAL YEAR END:

- Newfoundland and Labrador Liquor Corporation
- Newfoundland and Labrador Municipal Financing Corporation
- Newfoundland and Labrador Industrial Development Corporation
- Newfoundland and Labrador Consolidated Sinking Fund
- Public Sector Pension Plan Joint Trusteeship Transition Committee
- Labrador Transportation Initiative Fund

ENTITIES WITH A DECEMBER 31ST FISCAL YEAR END:

- Newfoundland Government Fund Limited
- Government Money Purchase Pension Plan
- Pension Investment Committee

All of the above entities (with the exception of the Public Sector Pension Plan Joint Trusteeship Transition Committee and the Labrador Transportation Initiative Fund) have prepared separate annual reports to independently inform the public about their respective results. These reports have been tabled in the House of Assembly.

The Public Sector Pension Plan Joint Trusteeship Transition Committee was inactive during the 2008-09 fiscal year and because it shares the same fiscal year end as the Department, its reporting requirements are fulfilled through this annual report (please see appendix A).

The dissolution of the Labrador Transportation Initiative Fund received royal assent on May 28, 2009 in the House of Assembly. It is therefore no longer required to plan and report under the *Transparency and Accountability Act*. The entity did not have any activity during the 2008-09 fiscal year.

Additionally it should be noted that responsibility for the C.A. Pippy Park Commission was transferred to the Minister responsible for the Department of Environment and Conservation. This public body will also be providing a separate annual report to independently inform the public about their performance during the 2008-09 fiscal year.

FINANCIAL RESOURCES AND BUDGETARY ALLOCATIONS:

The financial activities of the Department of Finance for fiscal year ending March 31, 2009 showed gross expenditures of approximately \$78 million, offset by related revenues estimated to be \$3.4 million (see page 31 for further details). The following table provides additional information comparing expected to actual departmental expenditures.

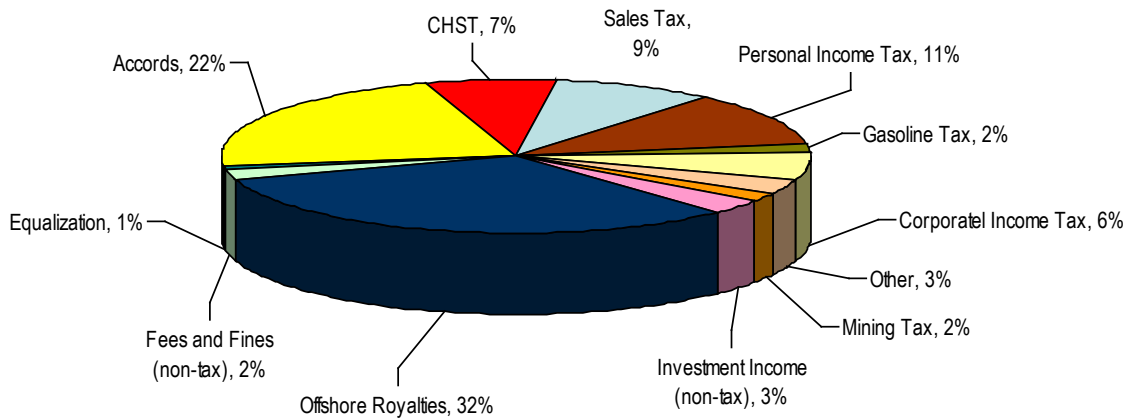
SUMMARY OF DEPARTMENTAL BUDGET			
Expenditures	Original Budget \$	Amended Budget \$	Actual \$
Salaries	183,865,200	46,545,400	18,473,694
Employee Benefits	56,116,100	56,136,000	54,204,125
Transportation and Communications	894,300	944,100	817,593
Supplies	548,900	531,700	445,091
Professional Services	845,100	736,300	267,123
Purchased Services	1,936,500	1,960,000	1,285,128
Property, Furnishings and Equipment	51,600	225,600	189,023
Loans and Advances	500,000	500,000	0
Allowances and Assistance	750,000	750,000	71,808
Grants and Subsidies	13,903,000	13,903,000	2,339,714
Gross Expenditures	259,410,700	122,232,100	78,093,299
Less: Related Revenue	24,270,300	24,270,300	3,366,926
Net Expenditures	235,140,400	97,961,800	74,726,373

Overall actual net expenditures were approximately \$23 million less than the amended budget amount. This can be attributed to a lower than anticipated requirement for allowances and assistance; grants and subsidies; and anticipated salaries adjustments. Included in the Department's statement of expenditures and related revenues are financial assistances related to Government's Fuel Oil Tank Replacement Program and other similar types of initiatives. The actual participation in these programs was lower than expected.

Additionally, all costs relating to universal employee benefits programs and departmental allocations for anticipated salary adjustments are centralized in the Department of Finance's budgetary allocation (represented as salaries expenditure in the table above). In the development of the 2008-09 budget, the anticipated salary adjustments were pending the resolution of several collective agreements. As each collective agreement was resolved, these salary adjustments were determined and as a result, the actual expenditure was less than anticipated.

In addition to the related revenues identified as part of the Department of Finance's budgetary allocation, the Department has stewardship over substantially all of the current account revenues generated by the Province. During 2008-09, current account revenues totaled approximately \$7.9 billion, of which about 32% is attributed to offshore royalties. The following pie chart depicts provincial current account revenues by source.

Current Account Revenues (Modified Cash)



Expenditure and revenue figures included above are on a modified cash basis. The figures are un-audited and based on the information provided in the Report on *Program Expenditures and Revenues of the Consolidated Revenue Fund for Fiscal Year Ended 31 March 2009*. Audited financial statements are prepared on the accrual basis in accordance with the generally accepted accounting principles for the public sector. They will be made public upon the release of Volume I – Public Accounts Consolidated Summary Financial Statements and Volume II - Consolidated Revenue Fund Financial Statements.

STAFFING COMPLEMENT:

During the 2008-09 fiscal year the Department of Finance employed 388 people of whom 234 were permanent, 96 were temporary and 58 were contractual. The gender distribution of our staff complement was as follows:

SUMMARY OF EMPLOYEES BY GENDER					
Employee Type	Female		Male		Total
	#	%	#	%	
Permanent	150	64.1	84	35.9	234
Temporary	74	77.1	22	22.9	96
Contractual	43	74.1	15	25.9	58
Total	267	68.8	121	31.2	388

As of March 31, 2009, 13 employees were eligible for retirement and another 9 will become eligible during the 2009-10 fiscal year. Over the next five years it is anticipated that 77 employees will be eligible for retirement, representing 19.8% of our current staff. The following table illustrates potential retirements for the next five years.

SUMMARY OF POTENTIAL RETIREES		
Years of Eligibility	Number	Cumulative
Currently Eligible	13	13
2009-10	9	22
2010-11	12	34
2011-12	16	50
2012-13	12	62
2013-14	15	77

ORGANIZATIONAL CULTURE:

Employees of the Department of Finance are challenged to grow personally and professionally because as an organization, the Department expects excellence and accountability; demands and displays leadership; and shares skills and knowledge. The Department of Finance is an organization that is exciting and united because it welcomes diversity and creativity and is disciplined in applying its policies and systems. The Department is an organization that combines fun with dedication and celebrates our success together. These organizational characteristics define our corporate culture, which is further supported by the following values:

VALUES	EXPECTED BEHAVIORS
Collaboration/Team Work	Each individual contributes to the completion of assigned projects and recognizes the contributions of others
Integrity	Each person ensures that clients are provided with reliable and objective analysis and advice, and that their rights to privacy are protected
Professionalism	Each individual is committed to providing quality services through the efficient use of our resources
Responsiveness	Each individual fulfills requests based on client needs
Timeliness	Each individual meets deadlines consistent with identified priorities

KEY STATISTICS ON FISCAL PERFORMANCE:

Economic Performance 2008:

- Real GDP declined by 0.1%
- Employment grew by 1.5%
- Unemployment rate declined to 13.2%, down 0.4 percentage points from 2007 and the lowest rate since the 1970s
- Personal income growth of 5.2% and personal disposable income growth of 6.8%, aided by tax cuts in Budgets 2007 and 2008
- Retail sales expanded by 7.6% driven by income gains and high levels of consumer confidence
- Total investment increased 3.3% to \$4.4 billion on the strength of residential, public sector and manufacturing spending increases
- Population was 507,895, representing an increase of 1,400 people as compared to a year ago, and the first time in 16 years an increase was recorded

PROGRESS TOWARDS OUR MISSION STATEMENT:

Guided by its commitment to support Government in the effective management of the Province's finances, the Department of Finance will achieve its mission through the provision of high quality, timely and relevant advice and analysis; and the development, implementation and monitoring of financial administration processes. The following highlights progress achieved to date:

Mission: By 2011, the Department of Finance, in its commitment to strong fiscal management, will have supported Government in the effective management of the Province's finances.

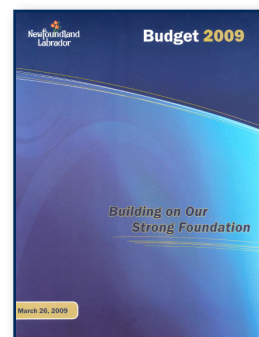
- To improve the development and monitoring of Government's Annual Budget, the Department of Finance has progressed in the Budget Process Upgrade Project. In partnership with the Office of the Chief Information Officer, the Department has moved forward in its documentation of the detailed system requirements for the budgeting process.
- It has been estimated that the total provincial debt has been reduced by 34% over the past 4 years.
- Progressed on the implementation of Government's corporate shared services model for the management of financial functions across government. Two divisions have been established and a review of all policies, procedures and forms has been initiated to ensure consistency and adherence to legislation, collective agreements, best practices and sound financial management.
- Initiated the implementation of a financial transaction review process of government employee expense claims for compliance with financial policies and internal control objectives. The extent and scope of the financial transactions selected for review is determined using a risk-based approach. This initiative is consistent with a number of recommendations set out by the Green Commission.
- Significant reductions in provincial taxes and fees have been achieved as a result of new tax policies.
- Advancements have been made on a Centralized Web-Receipting application which will ultimately enable the public to make virtually any type of payment to Government on-line via credit or debit card.
- Progressed on the development of the Newfoundland and Labrador Market Basket Measure of Low Income (the NLMBM), which will provide reliable and accurate province to neighbourhood level estimates and analysis of low income families and persons.

3.0 SHARED COMMITMENTS

Partnerships can significantly strengthen efforts to achieve common results. The Department of Finance therefore collaborates with a variety of its key partners and stakeholders to help ensure that Government's decision-making process is supported by information which is timely, relevant and accurate; and that public funds are managed appropriately. During the 2008-09 fiscal year the Department collaborated on a number of initiatives to achieve organizational and government-level priorities. The following section highlights some of these accomplishments.

BUDGET PREPARATION AND CONSULTATIONS

The budget preparation process is one which is integrated, collaborative, and consultative, involving all government departments and entities. Each year the Minister of Finance holds pre-budget consultations throughout the Province to give key stakeholders, individuals and interest groups an opportunity to identify budget priorities for the upcoming provincial budget. As part of the 2009 Budget consultation process, a series of public meetings were organized by the Department during the 2008-09 fiscal year. Public meetings were held in numerous communities throughout the Province including Carbonear, Clarenville, Corner Brook, Gander, Grand Bank, Grand Falls-Windsor, Happy Valley-Goose Bay, Labrador City, Marystown, Old Perlican, St. Anthony, St. John's, Stephenville, and Twillingate. In addition to these meetings sectorial discussions took place with representatives from the Regional Health Authorities, School Boards, Memorial University and the College of the North Atlantic. The Department also received numerous written briefs, e-mails, faxes and telephone calls from residents offering their suggestions on budget priorities. The 2009 Budget was delivered in the House of Assembly on March 26, 2009.



CENTRALIZED WEB RECEIPTING AND SECURED ePAYMENT

During the past year the Department of Finance, in cooperation with the Office of the Chief Information Officer and several other government departments, made significant strides in the design and development of a Centralized Web Receipting System. Requirements were finalized and a prototype application was developed and demonstrated. Centralized Web Receipting, scheduled for initial implementation during Fall 2009, will ultimately enable the public to make virtually any type of payment to Government on-line via credit or debit card.

Some departments are currently providing their clients the option of purchasing services on-line with the use of a credit card. During 2008-09 the Department of Finance collaborated with the Office of the Chief Information Officer and the Department of Government Services to expand their on-line payment options for renewing vehicle registrations to include debit card transactions.

CENTRALIZED REBATES ENGINE

In August 2008 the Department of Finance, in consultation with the Office of the Chief Information Officer, developed and implemented a short-term computer-based solution to administer Government's newly announced parental benefits programs and replace the current system being used to manage the Home Heating rebate program. During the months that followed, the Department assessed the benefits of creating a centralized rebates engine which could be used to administer various rebates offered by Government. The intent for 2009 is to replace short term solutions with a long term solution that is built using a standardized technology that incorporates functionality currently not available.

FINANCIAL CONSOLIDATION SYSTEM

Work continued in conjunction with the Office of the Chief Information Officer towards the objective of procuring a software solution to support the preparation of the Province's consolidated financial statements. By fiscal year-end, a Request for Proposals document had been completed for release early in the new fiscal year. This system will not only facilitate and strengthen the process of preparing the consolidated financial statements, but also be responsive to information demands about the Province's financial position and operating results, particularly on a comparative basis. This will ultimately provide an electronic facility for public bodies to submit the necessary financial information to the Province.

SHARED ECONOMIC AND FINANCIAL ANALYSIS

Financial and economic impact analysis is a key ingredient of sound decision making. During the 2008-09 fiscal year the Department worked closely with a number of government departments and agencies that are involved in the evaluation of opportunities for economic development in the Province. The evaluation process is one of due diligence involving many areas of consideration. One key area of consideration is assessing the fiscal impacts of economic prosperity, government costs and risks associated with an economic proposal. The provision of this information is key to the decision making process.

LOANS ADMINISTRATION

During the past year the Department of Finance, in cooperation with the Office of the Chief Information Officer and the Department of Business, completed the initial planning stages for development of a Loans Administration solution. This solution will provide functionality to the Department of Business to administer their loans programs. As well, the solution has scalability to be applied to other departments with similar requirements.

REVENUE COLLECTION PROCESS

During 2008-09 the Department assisted other government departments to initiate the collection of the following account receivables:

- Road Ambulance Services (Department of Health and Community Services)
- Ferry Services (Department of Transportation and Works)
- Property Highway Damages and Signage (Department of Transportation and Works)
- Advertising and permits (Department of Tourism, Culture and Recreation)

To date, 38 collection files have been concluded, representing a collection of approximately \$84,000; 68 have been identified as write-offs (representing approximately \$286,000); and 42 files are currently active (representing approximately \$272,000). The work completed on this initiative contributed towards Government's strategic direction related to fiscal stability.

RECREATIONAL FACILITIES

In partnership with the Departments of Tourism, Culture and Recreation; Municipal Affairs; and Health and Community Services, representatives from the Department of Finance worked to develop a data set of selected recreational facilities and other infrastructure throughout the Province. This comprehensive new dataset is the first of its kind and will be available to Government and other stakeholders. These data will be a core source of information on the Province's infrastructure which will be useful for a wide variety of purposes including policy analysis and location decision making.

COMMUNITY ACCOUNTS

The Department worked closely with various government entities to enhance the use and value of the System of Community Accounts. The following initiatives progressed during the 2008-09 fiscal year:

- In partnership with the Department of Health and Community Services, social and economic profiles of seniors were developed for integration with the System of Community Accounts. The information contained in these profiles will assist in the identification of social and economic characteristics of seniors in communities and regions of the Province.
- Work was also completed with the RCMP to develop a Police Regions geography for addition to the System of Community Accounts. This will allow the RCMP to access Community Accounts data for their administrative regions.



SOCIAL AND ECONOMIC SPATIAL ANALYSIS

The Department of Finance provides provincial, federal and municipal government users and citizens with methods for organizing, analyzing and visualizing large collections of spatially related information through the use of Geographical Information Sciences technologies. These innovative tools provide the ability to dynamically link large numbers of complex interrelated data that have social and economic relevance to stakeholders. Through the use of participatory learning techniques, the Department is able to work with stakeholders to custom develop data products to aid them in understanding the geographic patterns and interrelationships among the various physical, social and economic factors as they relate to their area of interest. The following projects were completed during the 2008-09 fiscal year:

- Representatives from the Department worked with the Department of Business, the Capital Coast Economic Development Association, the City of Mount Pearl and the City of Conception Bay South to assist in the sharing of municipal infrastructure data to be used to support business development capacity in Newfoundland and Labrador.
- Representatives of the Department of Finance worked with the Office of the Chief Electoral Officer (OCEO) to digitize polling divisions. This is a first of its kind in the Province and the delineation of the polling divisions will assist the OCEO with the administration of the voter registry.

POVERTY REDUCTION INITIATIVE

The Department is a full participant in the Poverty Reduction Strategy (PRS), with representatives on the ministers' committee, deputy ministers' committee and the inter-departmental working group. In support of the activities of the PRS, the Department has developed, and continues to refine, models which demonstrate the combined impacts of federal and provincial programs that assist those with low income. To most effectively develop social policy, it is critical to understand all interrelationships between programs, especially how they impact on one another. The Department's involvement with the PRS also ensured that the enhancements to the Low Income Tax Reduction made in the 2009 Budget were developed with a view toward poverty reduction generally, and to complement the initiatives of the PRS specifically.

FEDERAL-PROVINCIAL ARRANGEMENTS

The Department of Finance plays a vital role in maintaining the fiscal stability of the Province. One way in which it fulfills this responsibility is by administering federal-provincial fiscal arrangements. During 2008-09 the Department:

- Liaised with the Intergovernmental Affairs Secretariat on transfer and fiscal issues that have an intergovernmental dimension
- Worked with other government departments on a variety of revenue issues (e.g. requesting their input for revenue forecasting, providing them information on transfer and transfer trust issues, etc.)
- Served as the contact point for governments of other jurisdictions on transfer, fiscal and

budgetary issues through the established multilateral forums of the Fiscal Arrangements Committee, Transfers Subcommittee and Fiscal & Economic Issues Subcommittee

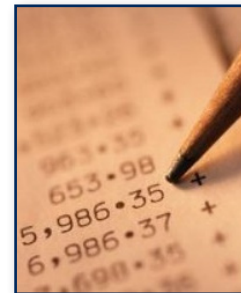
- Supported the work of Finance Ministers nationally through the forums of Atlantic Finance Ministers, as well as Provincial-Territorial and Federal-Provincial-Territorial Finance Ministers
- Maintained contact with the federal departments of Finance and Natural Resources to ensure revenues due are received and recorded

SHARED TAX ADMINISTRATION

A key component to provincial fiscal stability is a tax regime that is fair, efficient and competitive while providing sufficient revenues to fund the Province's constitutionally assigned responsibilities for programs and services. The design of the tax system is a key element in Government's social, economic and fiscal policy, and involves consultation on a regular basis with most departments and the federal government. The Department is involved in continued consultation with the Canada Revenue Agency regarding tools and techniques to ensure the smooth delivery of tax services to the Province. During the 2008-09 fiscal year the Department participated on the Senior Management Committee, Senior Officials' Tax Services Committee, and the Provincial Compliance Working Group. The Department also consulted with Legislative Policy Directorate in preparing new and amended legislation.

GOVERNMENT INTERNAL AUDIT COUNCIL OF CANADA (GIACC)

The Department of Finance has responsibility for Government's central internal audit functions. Through its participation on the GIACC, relationships have been built with other jurisdictions for the purposes of sharing experiences and discussing the development and application of policies and standards.



The GIACC held its annual national forum in Ottawa, October 20-22, 2008. Its purpose was to provide a venue for discussion and exchange of perspectives on issues, strategies and best practices to support the internal audit function as a vital participant in the accountability process. Meeting for the sixth time since they first got together in 2003, the senior internal audit representatives from Canada's federal, provincial and territorial governments discussed the following topics:

- Quality Assurance and Practice Inspections
- Risk, Innovation and Control
- Internal Auditing Capability Maturity Model
- Performance Indicators
- Whistle Blowing

INTERGOVERNMENTAL FORUM

The Intergovernmental Forum (IGF) was created to provide federal, provincial and territorial governments within Canada an opportunity to share experiences related to the implementation and usage of Oracle applications. It also establishes a point of contact between public sector application users and the Oracle Corporation, providing the public sector an opportunity to influence the future development of Oracle products. Members are invited to participate in semi-annual meetings, various initiatives, and teleconferences. This committee is currently chaired by a member from Newfoundland and Labrador.

During 2008-09 Newfoundland and Labrador was represented at a forum meeting in Toronto. The focus of which was to obtain best practices and lessons learned during the planning and/or implementation of the current Oracle Release 12 Financial Systems Applications and to discuss various jurisdictional approaches to corporate reporting.

4.0 REPORT ON PERFORMANCE

In 2008-09 the Department of Finance released its 2008-11 Strategic Plan (available on-line at www.fin.gov.nl.ca/fin/PUBL/StrategicPlan/StrategicPlan2008-10.pdf) which identified three priority issues: Financial Planning; Financial Management; and Demographic Change. The purpose of this section is to report on progress made to date by comparing actual performance achieved during 2008-09 to the applicable expectations outlined in the Strategic Plan.

ISSUE ONE: FINANCIAL PLANNING

The Province's financial position has improved significantly during the past few years. This improvement has been largely due to an increase in natural resource revenues. While Government welcomes this increased revenue, it recognizes that these revenues are tied largely to one sector – oil and gas. The amount of oil revenue received is influenced by a number of important factors which are beyond the control of Government, including the price of oil, the value of the Canadian dollar and production levels. Due to the finite nature of these resources, Government must ensure that revenues received from our natural resources are utilized to their fullest potential to benefit future generations and maintain the Province's current and future fiscal stability.

The Department of Finance supports Government in its fiscal planning process by providing timely updates on the Province's financial position. This includes the provision of analysis and advice on the Province's revenues, expenditures and cash requirements to support decisions related to taxation, expenditures and debt reduction. The following goal and objective were therefore identified in the Department's 2008-11 Strategic Plan.

Goal One:

By March 31, 2011, the Department of Finance will have provided comprehensive analysis and advice to Government on the long-term financial outlook of the Province.

2008-09 Objective:

By March 31, 2009, the Department of Finance will have developed a long-term financial outlook for Government.

Measure: Long-term financial outlook

PLANNED PERFORMANCE	ACTUAL PERFORMANCE
<p>Multi-year forecast is developed including:</p> <ul style="list-style-type: none"> • Revenue forecast • Expenditure forecast • Cash requirement forecast 	<p>Each year the Department of Finance provides multi-year revenue, expenditure and cash requirement forecasts through Government's annual budgeting process. In support of the development of the 2009-10 budget (which was released on March 26, 2009), the Department provided comprehensive analysis and advice to Government which was then used to inform budgetary decisions. The information provided consisted of a summarization of economic indicators, revenues generated, expenses paid, and cash requirements on a multi-year basis. The following summarizes some of the types of information provided:</p> <p>REVENUE GENERATION:</p> <ul style="list-style-type: none"> • It was estimated that 2008-09 would see the fourth consecutive surplus - \$2.4 billion after Atlantic Accord revenue recognition and net debt would be reduced to \$7.9 billion. • It was predicted that 2009-10 would see a deficit of \$750 million; a revenue reduction of \$414 million (due to the unilateral action of the Harper government); and a decrease in oil royalties of \$913.5 million due to lower prices and production levels. • Revenue expectations for 2009-10 and 2010-11 were predicted to be \$6.54 billion and \$6.97 billion respectively. <p>EXPENDITURES:</p> <p>The Minister of Finance is responsible for the coordination of the annual budgetary process. The Department of Finance reviews and analyzes all budgetary requests, which is integral to Government's decision making process for the allocation of expenditures. The Department is responsible for monitoring annual expenditures and providing multi-year expenditure forecasts in support of Government's commitment to prudent financial management.</p> <p>During the 2008-09 fiscal year, the Department of Finance supported this Government in making intelligent and well-informed decisions by monitoring government expenditures and providing analysis and advice on the potential impacts on the public purse given various spending scenarios. This information was made available to the public through the annual budgeting process. Total expenditures anticipated for the next three fiscal years were identified as follows:</p> <ul style="list-style-type: none"> • 2009-10 - \$6,743 million • 2010-11 - \$6,978.9 million • 2011-12 - \$7,284.1 million <p>Additionally, each year the Department of Finance prepares an inventory of public and private major capital projects. This inventory provides information on capital projects and spending programs valued at \$1 million or more. The estimated dollar amounts typically span multiple years. Further information is available at www.economics.gov.nl.ca.</p> <p>ECONOMIC INDICATORS:</p> <ul style="list-style-type: none"> • During 2008 the real GDP declined by 0.1%; employment grew by 1.5%; and the unemployment rate declined to 13.2%, the lowest rate since the 1970s. • It was predicted that during 2009 the real GDP would decline by 7.7%, as a result of a decline in exports of minerals, newsprint and oil; employment would decline by 1% (still expected to exceed 2007 levels); and the unemployment rate was expected to rise 1 percentage point. • Beyond 2009 the real GDP was forecasted to increase by 1.7% in 2010 as a rebound in mineral production and increased construction activity on the nickel processing facility is expected to offset a slight decline in oil production; and employment was expected to grow by 1.4% in 2010 as major project construction ramps up and the service sector continues to expand.

PLANNED PERFORMANCE	ACTUAL PERFORMANCE
<p>Multi-year forecast is developed including:</p> <ul style="list-style-type: none"> • Revenue forecast • Expenditure forecast • Cash requirement forecast 	<p>CASH REQUIREMENTS:</p> <p>During the budget process government departments bring forth planned expenditures for the upcoming year, including the impact on future years' expenditures. These expenditures include spending to maintain the individual department's current program requirements, as well as expenditure requirements for any new initiatives/programs which the department wishes to develop. These expenditure requirements are evaluated not only for their individual merit but also in relation to Government's financial resources (i.e. revenues) in order to determine an appropriate level of expenditure. Any excess of expenditure over revenue, when combined with scheduled debt retirements and contributions to sinking funds, is considered to be Government's cash requirement (please see Statement I of Estimates 2009 for additional information).</p> <p>During the 2009-10 Budget process, the Department of Finance determined Government's current and projected cash requirements as follows:</p> <ul style="list-style-type: none"> • 2008-09 – at the beginning of the fiscal year, total cash requirement was estimated to be approximately (\$795,000) which was subsequently adjusted to a cash contribution of \$820,000. • 2009-10 – total cash requirement has been estimated to be approximately (\$1.370 million). <p><small>Note: Revenue and expenditure figures identified above are subject to change upon the release of Public Accounts.</small></p>

The following identifies the expected results for the 2009-10 fiscal year in support of Government's commitment to sound financial planning.

2009-10 Objective:

By March 31, 2010, the Department of Finance will have updated the long-term forecast of the Province to reflect the current economic and financial outlooks.

Measure: Updated long-term forecast

Indicators:

- Multi-year revenue forecast developed
- Multi-year expense forecast including both cash and non-cash items developed
- Forecast of cash requirements determined
- Economic forecast developed
- Review and analysis of the Province's tax competitiveness completed to ensure that the Province remains competitive to the extent fiscally prudent

ISSUE TWO: FINANCIAL MANAGEMENT

In this province, the *Financial Administration Act* (FAA) confers various financial responsibilities and authorities pertaining to the stewardship of public money to the Department of Finance. These responsibilities focus on the proper disbursement, collection, and investment of public money as well as the oversight of appropriate checks and balances for the proper receipting, expenditure and recording of public funds. This serves as part of the foundation for the Department's mandate.

In recent years, there has been an increased focus on transparency and accountability for all levels of government. The general public has come to expect a more open and accountable government; one that protects their interests, including the proper management of the public purse. The Department of Finance has responded to this demand by making the strengthening of government's financial management functions a priority in its 2008-11 Strategic Plan. During the course of this planning cycle the Department intends to enhance its internal auditing capacity and monitor and review current financial management functions with the aim of identifying areas and implementing new (or revise existing) processes to enhance efficiencies. The following information describes the results achieved during 2008-09 which will contribute towards a strengthened financial management function.

Goal Two:

By March 31, 2011, the Department of Finance will have strengthened the financial management functions for government departments.

2008-09 Objective

By March 31, 2009, the Department of Finance will have taken preliminary actions necessary to strengthen financial management functions.

Measure: Preliminary actions taken

PLANNED PERFORMANCE	ACTUAL PERFORMANCE
<p>Reviewed Rebuilding Confidence Report (Green Report) and assessed areas where financial management functions may be further strengthened</p>	<p>The Green Report was reviewed to identify areas where financial management functions may be further strengthened. While the report focused primarily on the legislative branch of Government, it reflected on improvements for the Executive branch as well. In partnership with the Office of the Clerk of the House of Assembly, the following items were actioned in support of this commitment:</p> <ul style="list-style-type: none"> • An enhanced internal audit oversight was developed with the establishment of the House of Assembly Audit Committee. • In consultation with the Office of the Chief Information Officer, an Expense Claim Management System (ECMS) for members of the House of Assembly was developed. • In collaboration with the Centre for Learning and Development, several educational sessions were held for executive government officials to inform them of the required financial management processes and policies. • New control mechanisms have been developed for constituency allowances.
<p>Enhanced internal audit capacity</p>	<p>Internal auditing capacity of Government was enhanced by:</p> <ul style="list-style-type: none"> • Increasing the staff compliment through the addition of two internal auditing managers and the creation of an additional five auditing positions. • Developing updated audit policies, methodologies, plans and working papers. • Providing further training opportunities for staff. • Achieving accreditation for the Office of the Comptroller General as a Chartered Accountant training office and subsequently obtaining approval for four trainee positions.
<p>Completed financial management review, including identification of current best practices</p>	<p>The Department of Finance is continually reviewing the financial management functions of Government and identifying industry best practices. During 2008-09, the Department implemented the following measures as a means of ensuring the sound financial management of public funds:</p> <ul style="list-style-type: none"> • A new Expense Claim Management system was developed and partially implemented throughout Government - the first self-service financial management application designed to provide enhanced reporting and financial controls. • Functional tasks were completed as part of the development and implementation of a web-based receipting application designed to streamline the process of receiving money into Government, reducing clerical time associated with high volume receipting and increasing customer satisfaction. • A business continuity plan for the financial management systems within Government was developed. • A review of department controls for expenditures, revenues and assets was completed. • Consultant's Guidelines for Departments were revised; the purpose of which is to reflect Government's principles for fairness in allocating consulting work to industry and provide for further delegation of decision making to Departments. • The pre-audit transactional review and compliance function was re-vitalized and will continue to be developed as part of the Corporate Services initiative. • The evaluation of potential software tools to assist the Department in consolidating its financial information to support the development of Government's GAAP-based financial statements was initiated. • The Department continued its implementation of Government's Corporate Shared Services (Financial) Model (further details provided in the Highlights and Accomplishments section of this report).

The following identifies the expected results for the 2009-10 fiscal year in support of Government's commitment to strengthen its financial management functions.

2009-10 Objective:

By March 31, 2010, the Department of Finance will have taken further actions towards strengthening financial management functions.

Measure: Actions taken to strengthen financial management functions

Indicators:

- Additional components of the Corporate Shared Services (Financial) Model implemented
- Areas for internal audit testing identified and audits commenced, using new audit guidelines and working papers
- Proposals for the development of systems to support the preparation of the Province's Public Accounts and annual budget are evaluated and project implementation is initiated
- New technologies implemented
- Training needs assessment for Corporate Shared Services staff completed

ISSUE THREE: DEMOGRAPHIC CHANGE

International, national and provincial demographics are projected to change significantly in the coming years. World population growth is slowing, the population continues to age, and total fertility rates are approximately half of what they were just 40 years ago. These demographic shifts will continue to be a constraint on population growth. The future expansion of the population will be largely dependent upon migration and less dependent upon natural population changes (births minus deaths). These changing demographics will pose challenges for all levels of government, particularly in the areas of policy development, program service delivery and the financial management of the public purse.

As the central source of demographic data and analysis for Government, the Department of Finance is committed to the provision of accurate and reliable demographic data to assist in sound decision-making practices. The Department has therefore identified the need to enhance its data collection capacity to support the provision of comprehensive data/information to Government and the public at large. The following goal and objective were identified in the 2008-11 Strategic Plan.

Goal Three

By March 31, 2011, the Department of Finance will have provided comprehensive demographic data/information to inform Government, and others who need it, regarding major policy and program decisions.

2008-09 Objective:

By March 31, 2009, the Department of Finance will have completed a review of its major demographic data and information.

Measure: Reviewed completed

The 2008-09 fiscal year was very successful for the Department of Finance. The following provides additional information on some of its key highlights and accomplishments which helped to support the Department as it works towards fulfilling the strategic directions of Government.

PLANNED PERFORMANCE	ACTUAL PERFORMANCE
Review completed of demographic data and information sources	The Department carried out a series of consultations with other provincial government departments and agencies in 2008-09 with a view to improving access to demographic and labour market information important for policy planning throughout Government. In total, 15 consultations were held during which the Department reviewed its current economic and statistical services and solicited feedback from stakeholders to help identify data needs and possible gaps. The most predominant need identified was for information to assist in various types of strategic planning processes (e.g., detailed population based projections to assist in the long-term planning of health related expenditures). Parallel to the consultation process was a review of current demographic data and information sources. The results of these processes are currently being compiled and consolidated into recommendations for Government's consideration.
Data gaps identified	

The following identifies the expected results for the 2009-10 fiscal year in support of Government's commitment to enhance its capacity to provide comprehensive demographic data/information.

2009-10 Objective:

By March 31, 2010, the Department of Finance will have developed a plan to address demographic information gaps.

Measure: Plan developed to address information gaps

Indicators:

- Population projection model updated
- Information gaps prioritized
- Methodology to address information gaps determined
- Prepared information on the gaps identified for consideration by Government

5.0 HIGHLIGHTS AND ACCOMPLISHMENTS

PARENTAL BENEFITS PROGRAMS

On May 2, 2008 the Minister of Finance, along with the Minister of Health and Community Services, announced the details of Government's parental benefits programs. The Progressive Family Growth Benefit provides \$1,000 for every child born or adopted and the Parental Support Benefit provides \$100 per month to parents for the first 12 months for each child born or adopted. Both benefits were retroactive to include all children born or adopted as of January 1, 2008. Budget 2008 included an allocation of \$12.4 million for the program this year, and \$9.9 million annually thereafter. The combined total of births and adoptions each year is approximately 4,500. As of March 31, 2009, the Department processed 4,103 applications and made payments of \$7,314,800. The work completed on this initiative contributed towards Government's strategic direction to have personal and business taxes which are competitive within Atlantic Canada.

HOME HEATING REBATE PROGRAM

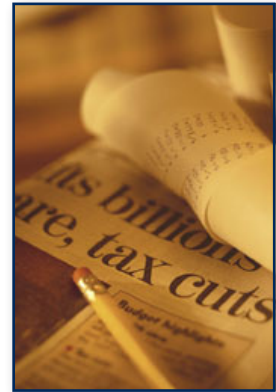
On December 8, 2008, the Honourable Jerome Kennedy, Minister of Finance and President of Treasury Board, announced that residents of the Province with family net income of \$40,000 or less who incur costs to heat their home will once again be eligible to receive financial assistance through the Newfoundland and Labrador Home Heating Rebate Program. Eligible residents may receive up to a \$300 rebate for households which use heating oil, stove oil or propane, up to \$200 for households which use electricity, wood or wood products, and up to \$500 for those living in coastal Labrador communities. Families with net income up to \$35,000 may receive a full rebate. The rebate will gradually decrease as income levels rise to \$40,000, with no eligible family receiving less than \$100.

Despite the lower costs of home heating fuel compared to the previous year, rebates were kept at the same levels, with the exception of coastal Labrador communities due to the high costs associated with home heating fuel in that region.

This Government first introduced a Home Heating Rebate Program in 2004, continuing it in each of the last five consecutive years. Since then the program has been expanded to include electricity, and the income threshold has been increased to \$40,000 or less. During 2008-09 approximately 52,000 rebates were provided to residents. The total value of the program was in excess of \$11 million. The work completed on this initiative contributed towards Government's strategic direction to have personal and business taxes which are competitive within Atlantic Canada.

TAX CUTS AND FEE REDUCTIONS

Budget 2008 (presented on April 29, 2008) announced that Government would once again put money back into the pockets of Newfoundlanders and Labradorians by further reducing personal income tax rates; enhancing the senior's benefit for single seniors; removing more businesses from the payroll tax rolls; reducing motor vehicle registration fees and ferry rates; and eliminating the 15% sales tax on insurance premiums.



On June 4, 2008 sales tax on insurance premiums was eliminated with the passing of legislation to amend the *Retail Sales Tax Act*. The 15% tax on insurance premiums was eliminated retroactive to January 1, 2008.

These measures put about \$75 million annually back into the hands of individuals, businesses, municipalities and the not-for-profit sector.

On December 18, 2008 the *Income Tax Act, 2000* was amended and the *Financial Corporations Capital Tax Act* was repealed to provide for harmonization of the provincial capital tax on financial institutions with the federal capital tax (effective October 31, 2008). This alleviated compliance burden and costs for taxpayers, while achieving administrative efficiencies for Government.

Seniors' benefits were enhanced such that 31,500 seniors received more money. The tax free exemption threshold for payroll tax was increased to \$1 million to benefit almost 900 businesses. Motor vehicle registration fees were reduced from \$180 to \$140 and ferry rates were also decreased.

RECOMMENDATIONS OF THE GREEN REPORT

In accordance with recommendations of Justice Derek Green's Report of the Review Commission on Constituency Allowances and Related Matters, an amendment to the *Members of the House of Assembly Retiring Allowances Act* was passed in the House of Assembly. Prior to this amendment a Member's pension was based on a percentage of the average of the best three years pensionable salary and included a sessional amount plus the tax free allowance. This totaled approximately \$74,000. Based on recommendation 56 of the Green Report, the annual salary was converted to an equivalent taxable amount of \$92,580.

However, using the higher taxable amount in the average for pension calculation purposes would inflate the pension payable at retirement. As a result, recommendation 57 of the Green Report proposed that the pensionable portion of the salary be limited to 81.2% of the new salary. The legislation amendment therefore adopted recommendation 57. This adjustment affected only Members elected prior to the last general election. New pension arrangements

would be developed for newly elected Members of the House of Assembly, as recommended by the Green Report.

RED TAPE REDUCTION

During 2008-09 significant work was undertaken to consolidate seven pieces of provincially administered tax statutes into one piece of legislation. The goals were to eliminate a number of inconsistencies among the statutes which had caused significant burden on taxpayers and Government, as well as to make a significant contribution towards Government's Red Tape initiative. The new consolidated *Revenue Administration Act* was introduced into the House of Assembly on April 2, 2009 and received royal assent on May 28, 2009.

CORPORATE SHARED SERVICES – FINANCIAL

In January 2007 the Department of Finance was tasked with the responsibility of implementing a corporate shared services model for the financial management functions across Government. These functions include the administration of compensation and benefits as well as the management of accounts receivables, collections, purchasing and the processing of invoices.

During 2008-09, the Department progressed on this commitment by consulting with all government departments to identify those positions which would be transferred to the Department of Finance and those which would remain in the frontline departments. Descriptions for new positions were also developed, as well as a communications plan and a transition information package. Approximately 40 staff were transferred to the Department of Finance to form the new Corporate Services - Compensation and Benefits Division. A new organizational structure for this division was approved and implementation will begin upon the classification of positions. Space was also secured in the West Block of the Confederation Building. The Department also initiated a review of all policies, procedures and forms related to the processing of payroll to ensure consistency and adherence to legislation, collective agreements and the defined roles and responsibilities. This work will continue in the new division.

A tender for space requirements was awarded and a Director of the Corporate Services – Financial Division was hired. The Department also initiated a review of all policies, procedures and forms related to the processing of accounts payable and accounts receivable transactions. This review facilitated the development of revised roles and responsibilities and as well as the development of a new financial model for future implementation within the financial divisions of other government departments.

ECONOMIC BENEFITS OF THE OIL INDUSTRY

In 2008-09, the Department prepared estimates of the macroeconomic impacts of the oil industry including development, exploration and production activities on the provincial

economy for the period 1999 – 2007. The report provided key information for a larger study prepared by Stantec which documented how the oil and gas industry is transforming the economy of Newfoundland and Labrador and is an update of previous studies. This update was prepared for Petroleum Research Atlantic Canada (PRAC), the provincial Department of Natural Resources, and the Canadian Association of Petroleum Producers (CAPP).

SYSTEM OF COMMUNITY ACCOUNTS

The NLSA is currently supporting the development of a prototype of the System of Community Accounts for the Prince Edward Island (PEI) government. The MOU for this inter-governmental project was signed in early 2009 and the prototype will be completed in 2009-10. PEI is the second province (after Nova Scotia) to adopt the System of Community Accounts concept.

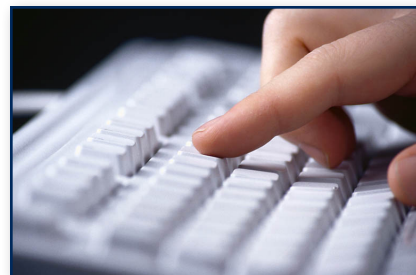
In July 2008 Government announced an investment of \$282,180 to support a crime prevention project called Building Knowledge for Community Safety in Newfoundland and Labrador. This project is helping to develop the Community Safety and Social Vitality Account of the System of Community Accounts. When completed, this initiative will provide quality statistics regarding crime and community safety.

DEMOGRAPHIC AND HOUSEHOLD PROJECTIONS – NORTHEAST AVALON

In January 2005, the provincial government announced a comprehensive review of the St. John's Urban Region Regional Plan. This is the planning and policy document that guides development and land use for the Northeast Avalon Peninsula (which includes the areas between Witless Bay and Holyrood, as well as Bell Island). As a part of this review, the Department of Finance was asked to prepare population and household projections for the Northeast Avalon Region. In June 2008, the Department released these projections in a report titled *Population and Household Projections – Northeast Avalon* (available on-line at <http://www.economics.gov.nl.ca>). This report presents a review of past population and household trends for the Northeast Avalon Region as well as projections for the coming years. Historical data (census years) from 1981 to 2006 are presented along with projections to 2026. The results are available by five-year age groups and gender for the region.

INFORMATION MANAGEMENT

The Department's development and deployment of an Electronic Content Management Application (TRIM) continued during 2008-09 with the implementation of several new modules to support departmental business process. Additionally, TRIM was deployed to select employees (on a priority basis) throughout the Department.



In consultation with the Office of the Chief Information Officer, the Department also developed an Information Management Guideline based on industry best practices and standards. This Guideline was distributed to all senior management and communicated to administrative and clerical staff.

Appropriate retention schedules were also developed to manage the secure and safe retention and disposal of government records. Various training sessions were provided to employees of the Department of Finance through lunch and learns and an Information Management Retreat. Staff were also provided information bulletins on various topics concerning the Department's information management framework.

6.0 OPPORTUNITIES AND CHALLENGES

Newfoundland and Labrador recorded a solid fiscal performance during 2008-09 with all major economic indicators recording increases from the previous year. Real GDP grew by an estimated 1.8%, due to strong consumer and government spending. Growth in consumer spending can be attributed primarily to increased car sales and housing starts. Consumption growth was fuelled by three consecutive years of strong gains in disposable income, increased employment and high levels of consumer confidence. Public sector capital expenditures also increased, reflecting the Provincial Government's capital infrastructure program.

The coming fiscal year will be a challenging year for most industrialized economies and Newfoundland and Labrador will be no exception. The global economic slowdown has already impacted some sectors in the Province. Several mining companies have announced plans to reduce production, take temporary shutdowns and/or lay off employees. The newsprint industry has been hit by the closure of Abitibi Bowater's Grand Falls-Windsor mill and a production cut at Kruger's Corner Brook mill. While these events will undoubtedly have a negative impact on GDP, other economic indicators are expected to post modest increases. Notwithstanding employment losses as lay offs in the resource sector trickle throughout the economy, personal income is expected to rise as retroactive pay increases for a large segment of the public sector are paid and negotiated wage increases take place. In addition, the minimum wage is set to increase to \$10.00 per hour by July 1, 2010. Investment is expected to increase due to increased major project investment and increased provincial government infrastructure spending.

The Department of Finance must position itself to support Government as it responds to fluctuations in the economy and uphold its commitment to maintain a prudent fiscal approach to the management of the public purse. Therefore the Department has identified the following opportunities and challenges which must be taken into consideration as it prepares for the coming months:

OPPORTUNITIES:

- Government's decision to implement a corporate shared services model for the management of financial functions is an opportunity for the Department of Finance to enhance the support it provides to Government in the prudent financial management of the public purse. The standardization of policies and practices, consolidation of services, and reengineering of business practices and technology will enhance the processing of financial transactions by ensuring a consistent and controlled environment.

- In the coming year, the Department will continue to implement, where feasible, self-service financial management applications (e.g. Expense Claim Management System). This work will provide the opportunity to improve reporting and financial controls.
- The Department's role in the design and implementation of a Centralized Web Receipting service will provide the Department with the opportunity to support improved service delivery across all of Government. A Centralized Web Receipting service will give the public the option of making any type of payment to Government (using a credit or debit card) via the internet. This new service will also help to enhance the efficiency of Government's financial management practices by consolidating the processing of various types of financial transactions.

CHALLENGES:

- There is a growing requirement for timely economic, demographic and labour market information and analysis at a sub-provincial level, as well as a new awareness and prioritization of evidence-based decision making. There is also increasing pressure for policies and proposals to be reviewed through an "economic lens" with an economic quantitative perspective being brought to the development of programs and policies (e.g., economic impacts of Green House Gas emission regimes). All of these demands challenge the Department to research and develop innovative approaches to address these commitments. Furthermore, obtaining quality, relevant data to perform the required analysis is a significant challenge. While national statistical agencies provide a wide range of quality information, more is needed to meet provincial data/information needs.
- As a result of the steep declines in the global equity markets, the investment performance of the public service pension fund during 2008-09 had a negative impact on the funded status of the pension plans for the year. However, Government's decisions in 2006 and 2007 to make significant payments to the pension plans ensured that while the funded status of the plans could be impacted in the short term, the fund would remain well positioned to avail of the exceptional investment opportunities that will arise as the market recovers. The Department will therefore be challenged to ensure that the funded status of the plans remain well situated while the market improves, which is predicted to be sometime toward the end of 2009.
- Several years ago Government committed to reducing personal income tax rates. Since then Government has worked aggressively to ease the burden on residents through substantial tax cuts and reductions. Recently the Government of New Brunswick released its plan to reduce personal income taxes by more than \$380 million in annual

tax savings by 2012-13. This Department will therefore be challenged to support Government in preserving its commitment to maintain the lowest personal income tax rate in the Atlantic Region.

- Illicit tobacco has been identified in both Canada and the United States as a serious problem affecting the tax revenue that fund social programs. The Department of Finance is responsible for providing assurance to the public that tax revenue is collected in accordance with the legislation. As the product being sold is illegal, with no tax due, the Department's role is limited to supporting the RCMP in their criminal investigation efforts. Nevertheless, the public will expect Government (specifically the Department of Finance) to deal with contraband issues as tax revenue that fund social problems are affected.
- Government is promoting a growing and diversifying economy. There are numerous opportunities occurring in a wide range of economic sectors, both current and emerging, with much diversified characteristics that present many challenges for economic analysis. Analyzing a business proposal within this diversified framework of economic sectors and government funding programs is a challenge since the Department has to work with these dissimilarities and provide a standardized approach to project analysis and report results in a concise and meaningful way. This will enable decision makers to make decisions based on consistent economic analysis.
- Government has worked hard in the past three years to use unprecedented surpluses to secure a positive fiscal situation for the future. Significant progress has made to repay debt and lower borrowing costs. In 2003 the total provincial debt was \$11.5 billion. By March 31, 2009, this amount has been reduced to \$7.9 billion. The Province still has a way to go in terms of reducing our net debt, which is currently \$15,500, well above the national average of approximately \$10,000. Given the global economic slowdown, the Department will be challenged to support Government in meeting this commitment.
- Government is heading into a period of significant change with respect to its financial management systems due to the development of the new Human Capital Management System, the implementation of an intergrated budgeting system as well as a significant upgrade to the Oracle Financial System Applications. These projects will require considerable human resource commitments as well as a reengineering of current business processes which will impact all government departments.

7.0 LEGISLATIVE UPDATE

The Department of Finance made significant adjustments to the legislative framework which establishes its mandate. These adjustments were made to support Government in meeting its commitments related to provincial taxes, public service pension plans, a transparent provincial budgeting process and debt management. The following provides an overview of these statutory amendments.

TAX LEGISLATION

LIQUOR CONTROL ACT RESPECTING A LICENSEE LEVY

This Act was amended to impose a tax on purchasers of liquor and to consider licensees and permittees as agents of the Crown in the collection of that tax. The amendment also identified that any money collected as a licensee levy after January 31, 2001 and before March 31, 2006 was collected as a payment for the tax, effective February 1, 2001. Royal Assent was granted on June 4, 2008.

INCOME TAX ACT, 2000

This Act was amended to reduce the rate of personal income tax by one percentage point in each personal tax bracket effective January 1, 2008. Royal Assent was granted on June 4, 2008.

HEALTH AND POST-SECONDARY EDUCATION TAX ACT

The Act was amended to alter the exemption threshold to exempt the first \$1,000,000 of an employer's payroll effective January 1, 2008. Royal Assent was granted on June 4, 2008.

RETAIL SALES TAX ACT AND THE TAX AGREEMENT ACT

These Acts were amended to eliminate retail sales tax on insurance premiums effective January 1, 2008. Royal Assent was granted on June 4, 2008.

LIQUOR CONTROL ACT

This Act was amended to authorize the making of regulations respecting the vacating of premises after the sale of liquor has ceased. Royal Assent was granted on June 4, 2008.

INCOME TAX ACT, 2000 AND FINANCIAL CORPORATIONS CAPITAL TAX ACT

These Acts were amended to provide for harmonization of the provincial capital tax with the federal capital tax, effective October 31, 2008. Royal Assent was granted on December 18, 2008.

The following is a list of regulations were also Gazetted:

NAIN ALCOHOL COMMITTEE REGULATIONS UNDER THE LIQUOR CONTROL ACT

This Regulation was amended to prescribe the mandate and organizational rules for an alcohol management committee in the town of Nain (filed April 8, 2008).

HOME HEATING TAX CREDIT REGULATIONS UNDER THE INCOME TAX ACT, 2000

This Regulation was amended to prescribe rules relating to the home heating program for the 2008 winter (filed May 26, 2008).

GASOLINE TAX REGULATIONS UNDER THE GASOLINE TAX ACT

This Regulation was amended to make a technical amendment to the definition of “council” (filed October 28, 2008).

RESORT PROPERTY INVESTMENT TAX CREDIT REGULATIONS UNDER THE INCOME TAX ACT, 2000

This Regulation was amended to make technical amendments related to the rental pool requirement, credit allocation between spouses, property title, and compliance (filed February 10, 2009).

PENSIONS LEGISLATION

PUBLIC SERVICE PENSIONS ACT, 1991

This Act was amended to provide for pre-retirement death benefits consistent with the Pension Benefits Act. Royal Assent was granted on June 4, 2008.

TEACHERS' PENSIONS ACT

This Act was amended to provide for pre-retirement death benefits consistent with the Pension Benefits Act. Royal Assent was granted on June 4, 2008.

UNIFORMED SERVICES PENSIONS ACT

This Act was amended to provide for pre-retirement death benefits consistent with the Pension Benefits Act. Royal Assent was granted on June 4, 2008.

MEMBERS OF THE HOUSE OF ASSEMBLY RETIRING ALLOWANCES ACT

This Act was amended to provide for pre-retirement death benefits consistent with the Pension Benefits Act and to adjust the definition of pensionable salary to be consistent with the recommendations of the “Report of the Review Commission on Constituency Allowances and Related Matters” by the Hon. J. Derek Green. Royal Assent was granted on June 4, 2008.

PROVINCIAL COURT JUDGES' PENSIONS ACT

This Act was amended to provide for pre-retirement death benefits consistent with the *Pension Benefits Act*. Royal Assent was granted on June 4, 2008.

SUPPLY PROVISIONS

SUPPLY ACT

To provide budget appropriations for the 2008-09 fiscal year. Royal Assent was granted on June 4, 2008.

SUPPLEMENTARY SUPPLY 2008-09

To ratify special warrants issued during 2008-09. Royal Assent was granted on December 18, 2008.

DEBT MANAGEMENT LEGISLATION

LOAN AND GUARANTEE ACT, 1957

The Act was amended to add the Newfoundland and Labrador Immigrant Investment Fund Limited to the schedule to the *Loan and Guarantee Act, 1957* and to update information provided in the Act related to the Newfoundland Symphony Orchestra Association, the Labrador-Grenfell Regional Integrated Health Authority and the Torngat Fish Producers Co-operative Society. Royal Assent was granted on June 4, 2008.

8.0 FINANCIAL INFORMATION

Expenditure and revenue figures included in this document are based on public information provided in the Report on the Program Expenditures and Revenues of the Consolidated Revenue Fund for Fiscal Year Ended 31 March 2009 (Unaudited)

	Estimates		
	Actual \$	Amended \$	Original \$
EXECUTIVE AND SUPPORT SERVICES			
1.1.01 Minister's Office	<u>270,231</u>	<u>363,000</u>	<u>340,800</u>
General Administration			
1.2.01 Executive Support	1,320,118	1,359,600	1,272,300
1.2.02 Treasury Board Support	332,713	364,200	339,000
1.2.03 Administrative Support	<u>336,604</u>	<u>349,000</u>	<u>171,900</u>
Total: General Administration	<u>1,989,435</u>	<u>2,072,800</u>	<u>1,783,200</u>
General Government			
1.3.01 Government Personnel Costs	53,946,632	83,205,000	221,821,100
TOTAL: EXECUTIVE AND SUPPORT SERVICES	<u>56,206,298</u>	<u>85,640,800</u>	<u>223,945,100</u>
FINANCIAL ADMINISTRATION			
Financial Planning and Benefits Administration			
2.1.01 Pensions Administration	122,452	136,300	-
2.1.02 Debt Management	604,228	597,600	512,400
2.1.03 Budgeting and Insurance	1,712,315	1,741,000	1,402,700
2.1.04 Financial Assistance	2,337,464	(5,500,000)	(5,500,000)
2.1.05 Special Assistance	71,808	750,000	750,000
2.1.06 Financial Assistance	-	<u>500,000</u>	<u>500,000</u>
Total: Financial Planning and Benefits Administration	<u>4,848,267</u>	<u>(1,775,100)</u>	<u>(2,334,900)</u>

(Continued)

	Estimates		
	Actual \$	Amended \$	Original \$
Taxation and Fiscal Policy			
2.2.01 Tax Policy	962,954	1,051,900	1,073,800
2.2.02 Fiscal Policy	337,033	392,900	453,200
2.2.03 Project Analysis	479,949	506,900	501,700
2.2.04 Tax Administration	<u>3,319,692</u>	<u>3,391,600</u>	<u>3,007,000</u>
Total: Taxation and Fiscal Policy	<u>5,099,628</u>	<u>5,343,300</u>	<u>5,035,700</u>
Economics and Statistics Branch			
2.3.01 Economics and Statistics	<u>2,374,207</u>	<u>1,773,400</u>	<u>1,883,900</u>
Office of the Comptroller General			
2.4.01 Office of the Comptroller General	3,817,368	4,180,700	4,141,800
2.4.02 Corporate Services	<u>2,380,605</u>	<u>2,798,700</u>	<u>2,468,800</u>
Total: Office of the Comptroller General	<u>6,197,973</u>	<u>6,979,400</u>	<u>6,610,600</u>
TOTAL: FINANCIAL ADMINISTRATION	<u>18,520,075</u>	<u>12,321,000</u>	<u>11,195,300</u>
TOTAL: DEPARTMENT	<u>74,726,373</u>	<u>97,961,800</u>	<u>235,140,400</u>

Note: The audited financial statements will be made available to the public when the **Volume I – Consolidated Summary Financial Statements** and the **Volume II – Consolidated Revenue Fund Financial Statements** are tabled in the House of Assembly.

9.0 APPENDICES

Appendix A: Public Service Pension Plan Joint Trusteeship Transition Committee

Appendix B: Contact Information

Appendix C: Publications List

APPENDIX A: PUBLIC SERVICE PENSION PLAN JOINT TRUSTEESHIP TRANSITION COMMITTEE

Public Service Pension Plan Joint Trusteeship Transition Committee Annual Report 2008-09

The *Agreement on Pensions*, which forms part of the current Public Service Collective Agreement, mandated the establishment of a Joint Trusteeship Transition Committee (the Committee). The mandate of this Committee is to recommend to the relevant parties, a joint pension trust structure to govern the activities of the Public Service Pension Plan (PSPP). Under this arrangement, an independent board of trustees would be responsible for the administration of the PSPP, including the setting of benefits and investment of the Fund.

The Committee includes representatives of the five unions participating in the PSPP, Government and employers such as Newfoundland and Labrador Hydro and the Newfoundland and Labrador Health Board Association.

Originally, this process was targeted for completion in Spring 2003. A revised target was set for April 2008, based on the current collective agreements. During the initial discussions, the union representatives of the Committee indicated that until the issue of the unfunded pension liability was fully resolved, they were not prepared to move forward on the mandate of this Committee. As a result, the Committee has not met since 2003. If the Committee does become active again, the planning and reporting requirements of the *Transparency and Accountability Act* will be fulfilled in a timely manner.

APPENDIX B: CONTACT INFORMATION

ECONOMICS AND STATISTICS

Economic Research and Analysis Division

Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-3255
Facsimile: (709) 729-0393
E-mail: infoera@gov.nl.ca

Newfoundland and Labrador Statistics

Agency

Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-2913
Facsimile: (709) 729-6944
E-mail: infostats@gov.nl.ca

FINANCIAL PLANNING & BENEFITS ADMINISTRATION

Budgeting Division

Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-2467
Facsimile: (709) 729-2156

Insurance Division

Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-2310
Facsimile: (709) 729-2156

Pensions Administration Division

Main Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-3932
Facsimile: (709) 729-6790

Treasury Board Support Division

Main Floor, East Block
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P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-4407
Facsimile: (709) 729-2156

OFFICE OF THE COMPTROLLER GENERAL

Comptroller General of Finance

3rd Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-5926
Facsimile: (709) 729-7627

Government Accounting Division

3rd Floor, East Block
Confederation Building
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St. John's, NL A1B 4J6
Telephone: (709) 729-2341
Facsimile: (709) 729-7627

Expenditure Control and Compliance Section

3rd Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-6008
Facsimile: (709) 729-2254

Public Accounts and Banking Services Section

3rd Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-7346
Facsimile: (709) 729-7144

OFFICE OF THE COMPTROLLER GENERAL CONT'D

Revenue and Payroll Section

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Telephone: (709) 729-6517
Facsimile: (709) 729-4117

Pre-Audit Section

3rd Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-3050
Facsimile: (709) 729-2098

Financial Systems Control (FSC) Division

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Telephone: (709) 729-6530
Facsimile: (709) 729-2098

Professional Services and Internal Audit Division

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Confederation Building
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Telephone: (709) 729-0702
Facsimile: (709) 729-2098

Corporate Services (Financial) Division

Petten Building
30 Strawberry Marsh Road
St. John's, NL A1B 4R4
Telephone: (709) 729-7181
Facsimile: (709) 729-0670

Compensation and Benefits Division

Main Floor, West Block
Confederation Building
P.O. Box 8700
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Telephone: (709) 729-6368
Facsimile: (709) 729-3500

TAXATION AND FISCAL POLICY

Fiscal Policy Division

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Confederation Building
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Telephone: (709) 729-3166
Facsimile: (709) 729-2070

Project Analysis Division

3rd Floor, East Block
Confederation Building
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Telephone: (709) 729-2776
Facsimile: (709) 729-3038

Tax Administration Division

3rd Floor, East Block
Confederation Building
P.O. Box 8700
St. John's, NL A1B 4J6
Telephone: (709) 729-6297
Facsimile: (709) 729-2856

Tax Policy Division

Main Floor, East Block
Confederation Building
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St. John's, NL A1B 4J6
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Facsimile: (709) 729-2070
E-mail: taxpolicy@gov.nl.ca

Debt Management Division

Main Floor, East Block
Confederation Building
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Facsimile: (709) 729-2095

EXECUTIVE SUPPORT

Deputy Minister's Office

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Communications Division

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St. John's, NL A1B 4J6
Telephone: (709) 729-6830
Facsimile: (709) 729-2232

Policy, Planning, Accountability and Information Management Division

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Facsimile: (709) 729-2070

WEBSITES:

Department of Finance: www.gov.nl.ca/fin

Economics: www.economics.gov.nl.ca

Statistics: www.stats.gov.nl.ca

Pensions: www.gov.nl.ca/fin/pensions

Community Accounts: www.communityaccounts.ca

Tax Administration: www.gov.nl.ca/fin/etax

Taxation and Fiscal Policy: www.fin.gov.nl.ca/fin/fisctax/fisctax.htm

Financial Planning and Benefits Administration: www.fin.gov.nl.ca/fin/finplanning

Office of the Comptroller General: www.fin.gov.nl.ca/comptrollergeneral

Association Boards, Commissions and Agencies: www.fin.gov.nl.ca/fin/boards.htm

APPENDIX C: PUBLICATIONS LIST

The following is a listing of publications commonly produced by the Department of Finance. Access to these documents is available on-line at www.fin.gov.nl.ca/fin or by contacting a member of the Department (see appendix B for contact information).

Activity Plans

Pursuant to the *Transparency and Accountability Act*, activity plans are provided every three years by the Department of Finance for the following entities:

- Newfoundland and Labrador Pension Investment Committee
- Government Money Purchase Pension Plan
- Newfoundland and Labrador Government Sinking Fund Ltd.
- Newfoundland and Labrador Municipal Financing Corporation
- Newfoundland and Labrador Industrial Development Corporation
- New Government Fund Limited
- Public Service Pension Plan Joint Trusteeship Transition Committee

Annual Reports

Each year the Department of Finance makes available annual reports for the following entities:

- Department of Finance
- Newfoundland and Labrador Pension Investment Committee
- Government Money Purchase Pension Plan
- Newfoundland and Labrador Government Sinking Fund Ltd.
- Newfoundland and Labrador Municipal Financing Corporation
- Newfoundland and Labrador Industrial Development Corporation
- New Government Fund Limited
- Public Service Pension Plan Joint Trusteeship Transition Committee
- Newfoundland and Labrador Government Sinking Fund

These reports provide information pertaining to the entity's mandate, board memberships and key priorities for a three-year time frame.

Budget Documents

These documents offer financial details of the annual provincial budget:

- **Budget Highlights**
 - Overview of program highlights for the upcoming year.
- **Budget Speech**
 - Ministerial speech outlining budget decisions.
- **Estimates**
 - The Estimates of the Program Expenditure and Revenue is a supplementary document prepared in accordance with the *Financial Administration Act* to present departmental spending appropriations of the Consolidated Revenue Fund to the House of Assembly for the fiscal year. It outlines the estimated expenditures and revenues for the year and reflects policies, programs and priorities of Government in the form prescribed by Treasury Board.
- **The Economy**
 - *The Economy* is an annual publication providing a review of economic performance in Newfoundland and Labrador and an outlook for the medium term. It is published under the authority of the Minister of Finance and President of Treasury Board.

Demographic Reports

Various demographic reports are prepared to provide population and household projections, regional demographic profiles, a summary of demographic change as well as long-term population projections for Newfoundland and Labrador.

Employment Insurance Reports

The Trends and Usage of Employment Insurance (EI) in Newfoundland and Labrador report gives a statistical overview of past and current trends in program usage. Since confederation, when the Unemployment Insurance (UI) program was introduced, UI/EI programs have played a role in the Province's labour markets and provide useful information regarding the situation and events in the economy. While the report is not an analytical document, it does provide information regarding labour market and economic performance and aspects of the dynamics of our economy that relate to EI usage in the Province. The report makes frequently requested data readily available to clients via the web.

Fall Update

This document provides an update on Newfoundland and Labrador's economic and fiscal situation.

Flashsheets

There are three monthly flashsheets which provide concise and timely data:

- The *Flashsheet* contains the Consumer Price Index, retail sales and various other monthly economic indicators.
- The *Labour Force Flashsheet* contains the latest release of labour market data.
- The *Employment Insurance (EI) Flashsheet* contains the latest monthly information on EI claims in the Province.

Plan Member Guide to the Public Service Pension Plan

The purpose of this booklet is to familiarize Plan Members with the key aspects of the Public Service Pension Plan.

St. John's Census Metropolitan Area (CMA) Economic Reports

These reports provide an economic review as well as outlook for the St. John's Metropolitan Area.

Strategic Plans

Pursuant to the *Transparency and Accountability Act*, a strategic plan is provided every three years by the Department of Finance. This plan identifies the Department's strategic priorities during a three-year cycle.

Tax Information Bulletins and Forms

These documents provide details with respect to the application of various tax programs such as the: Provincial Sales Tax, Gasoline Tax, Tobacco Tax, Health and Post Secondary Education Tax, Insurance Companies Tax, Utilities and Cable Television Companies Tax, and Mining and Mineral Rights Tax.

The Economic Review

The Economic Review provides an update and overview of economic conditions since the Budget and the publication of *The Economy*.

DEPARTMENT OF FINANCE

**ANNUAL REPORT
FOR FISCAL YEAR ENDING
MARCH 31, 2009**

