

# ANNUAL REPORT 2019/20



## Finance



## MESSAGE FROM THE MINISTER

In accordance with my responsibilities under the Transparency and Accountability Act, I am pleased to submit the 2019-20 Annual Performance Report for the Department of Finance.

The Department of Finance is considered a Category 1 government entity. As such, the department is required to prepare an annual report that compares actual to planned performance results as provided in the corresponding fiscal year of its 2017-2020 Strategic Plan. As Minister of Finance, my signature below is indicative of my accountability for the actual results reported within this document.

During the 2019-20 fiscal year, the Department of Finance supported significant progress towards achieving priority commitments. The Department of Finance has assumed responsibility for the collection of outstanding student loans, building on the commitment to consolidate collections activities across the public service. The department also introduced the necessary tax changes to eliminate the remaining 13 per cent retail sales tax on automobile insurance.

The enclosed report provides further details on these and other accomplishments of the Department of Finance for the 2019-20 fiscal year.

At this time, I would like to take this opportunity to acknowledge the commitment of the employees in the Department of Finance. I am appreciative of their focused efforts in managing the fiscal and economic challenges of fiscal 2019-20 and I look forward to their continued support and dedication.

Sincerely,

A handwritten signature in black ink, appearing to read 'Siobhan Coady'. The signature is fluid and cursive, written over a light grey background.

Hon. Siobhan Coady  
Deputy Premier and Minister of Finance

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## Introduction

The **Transparency and Accountability Act** (the Act) provides the legislative framework for strengthened accountability, openness and transparency to the people of Newfoundland and Labrador. This is achieved by requiring all government entities to produce three-year performance-based plans and annual performance reports, both of which are presented to the House of Assembly and are made available to the general public.

The planning and reporting expectations of all government entities are determined by the Lieutenant-Governor in Council. The Department of Finance is a Category 1 government entity, and as such, is required to develop a three-year strategic plan that establishes goals and objectives at the outcome level. The department is also required to produce annual reports that compare planned results, as outlined in the department's Strategic Plan, to actual results. Where a variance exists, the report must also provide an explanation.

Enclosed is the 2019-20 Annual Report for the Department of Finance.

## Departmental Overview

The Department of Finance is responsible for supporting Government in the development of fiscal, financial, statistical and economic policy. These responsibilities are primarily achieved by providing timely analysis and advice to government departments and agencies, Cabinet and the Committees of Cabinet, particularly Treasury Board. The department is also responsible for debt servicing, mitigating financial risk and delivering the Province's annual budget.

Additional information is available on the department's website at [www.gov.nl.ca/fin](http://www.gov.nl.ca/fin)

## Staff and Budget

The Department of Finance is primarily located in the Confederation Building with one other office location at 5 Mews Place in St. John's. Contact information is available online at [www.gov.nl.ca/fin](http://www.gov.nl.ca/fin)

As of March 31, 2020, the department had 248 employees. Approximately 65 per cent of employees are female and 35 per cent are male.

The department's actual expenditures the 2019-20 fiscal year were \$99,726,520 (original budget of \$120,597,200). Please refer to the last page of this report for detailed information on the Program Expenditure and Revenues of the Consolidated Revenue Fund for the year ended March 31, 2020 (unaudited).

# Partnerships and Highlights

## Partnerships

As a central agency of government responsible for advising on fiscal, financial, statistical and economic policy, the Department of Finance often works in conjunction with other core government departments, agencies, boards and commissions to address issues that impact multiple areas across government. The following are examples of how the department worked with its internal and external partners during the 2019-20 fiscal year to address common priorities to achieve provincial outcomes.

### **Plans to Expand Provincial Aerospace Industry**

The Provincial Government contracted McKinsey and Company (McKinsey) to provide global insights on areas of longer-term economic potential for Newfoundland and Labrador. As part of this work, one of the areas highlighted by McKinsey was an opportunity to attract additional maintenance, repair and overhaul (MRO) capacity to the province in order to help create a climate for growth on the domestic and world stage.

In April 2019, the Department of Finance partnered with the departments then known as Advanced Education, Skills and Labour and Tourism, Culture, Industry and Innovation, along with PAL Aerospace, to announce initiatives aimed at growing opportunities in the global aerospace industry for Newfoundland and Labrador. In addition, the Provincial Apprenticeship and Certification Board approved a proposal from the aerospace industry to provincially designate the occupation of Aircraft Maintenance Engineer as an apprenticeship trade under the **Apprenticeship and Certification Act**. Workers with these skills are in high demand throughout the province and across the country. Newfoundland and Labrador is one of the first provinces to respond to aerospace industry demand to designate this trade.

### **Changes to Cannabis Retailers' Commission Structure:**

Partnering with the Newfoundland and Liquor Corporation, government held consultations with cannabis retailers about the challenges facing the industry and future growth opportunities. As a result of these discussions and to support local retailers, starting January 1, 2020, Tier One Licensed Cannabis Retailers awarded through the Newfoundland Labrador Liquor Corporation's RFP process saw changes to the commission structure. The new rates are as follows:

- 12 per cent commission on the first \$1 million of sales per calendar year;
- 10 per cent commission on sales between \$1 million and \$1.5 million per calendar year;
- Eight per cent commission on all sales above the \$1.5 million.

The new commission rates recognize the specific challenges to stand-alone Tier One Licensed Cannabis Retailers who generate revenue exclusively from cannabis and cannabis accessories. The consultations held with this retail group provided insight into the viability of these specialized stores as an important part of the local cannabis industry.

## Highlights

In addition to the above and to the information provided in the next section of this document (Report on Performance), the Department of Finance would also like to highlight the following accomplishments for the 2019-20 fiscal year:

### **Compensation to Workers in COVID-19 Self Isolation**

On March 14, 2020, the Government of Newfoundland and Labrador announced that in light of the ongoing and rapidly evolving situation regarding COVID-19, and in consultation with the Chief Medical Officer of Health, anyone returning after traveling outside the country was required to self-isolate for a period of 14 days upon their return to Canada. On March 20, 2020, the requirement to self-isolate for 14 days following travel was further expanded by the Chief Medical Officer of Health to include interprovincial travel.

In response, the Minister of Finance and the Premier announced that the Government of Newfoundland and Labrador would reimburse private sector employers, including those self-employed, for continuation of employee pay. This reimbursement is associated with the time period their employees were required to self-isolate following their return from out-of-province travel due to the COVID-19 travel restrictions. There were requirements that international travel must have originated on or before March 14 with arrival into Newfoundland and Labrador on or after March 14. Interprovincial travel must have originated on or before March 20 with arrival into Newfoundland and Labrador on or after March 20.

This action removed some of the potential financial hardships faced as a result of COVID-19.

### **Extension of Deadline for Fuel Tax Exemption Permits**

On March 30, 2020, the Department of Finance advised that in light of the unprecedented circumstances brought on by the COVID-19 global pandemic, it would be extending the expiry date for fuel tax exemption permits. With this extension, permit holders will be allowed to purchase tax-exempt marked gasoline and light fuel oil to June 30, 2020. Extension of the exemption will ensure permit holders (primarily fishers) are not negatively impacted by an inability to apply for a permit extension or processing delays resulting from COVID-19.

# Report on Performance

## Strategic Issue #1: Financial Accountability

The Government of Newfoundland and Labrador is committed to improving upon the efficiency in the public service as a means of realizing its vision of a strong, diversified provincial economy with a high standard of living that is supported by responsive, innovative and efficient programs and services.

To this end, Government must ensure spending targets are achieved annually and that core government departments and agencies, boards and commissions (ABCs) continue to be assessed regarding the efficiency and effectiveness of their operations and programs. A culture of financial accountability and prudence is of utmost importance to ensure expenditures are kept at a sustainable level, while supporting better outcomes for the people of this province.

The Department of Finance plays a leadership role to support Government in fulfilling its financial accountabilities. As such, the following goal was established for the Department of Finance in its 2017-20 Strategic Plan:

**By March 31, 2020, the Department of Finance will have led initiatives aimed to enhance financial accountability and oversight of government departments and ABCs.**

The following progress was achieved towards the performance indicators identified in the 2017-20 Strategic Plan:

- **Improved Upon the Effectiveness of Select Government Financial Policies**  
The Fraud Management Policy was approved in November 2017. This policy provides a consistent framework for the reporting and investigation of fraud; clarifies roles and responsibilities of employees and management with respect to fraud reporting, prevention and detection; and establishes a zero-tolerance approach for fraudulent activities. On-line training was provided to all public service employees to help identify types of fraud and their impact on the organization.

New accounting standards were implemented for the preparation of the Province's Financial Report - Public Accounts, in accordance with national standards. The new standard required the public disclosure (via the Public Accounts) of all transactions between Government (and its entities) and related parties where the value of the goods/services exchanged would have been different if the parties were unrelated; and the transaction(s) had a material effect on the Province's financial position.

A comprehensive asset listing was also developed and used across Government to support identification of potential opportunities to divest or repurpose Provincial assets.



- Undertook Expenditure Reviews With ABCs**  
 In collaboration with the accountable departments, guidelines for zero-based budgeting were developed and provided to ABCs. In addition to this, direction was given to provide monthly monitoring of spending activities, the purpose of which was to identify variances from planned expenditures.
- Initiated the Implementation of a Performance-Based Budgeting Approach Throughout Government Departments and ABCs**  
 Budget monitoring activities, including salary monitoring and detailed expenditure reporting, were completed monthly for each fiscal year. These monitoring activities identify any variances between planned and actual spending by departments and ABCs and are then used to identify future savings. A zero-based budgeting approach was also used which required departments and ABCs to build their budget from zero, and to justify any continued investment in all areas of operation. This, combined with monthly monitoring to identify budget variances, provided a performance-based budgeting approach for Government and its ABCs.
- Supported Financial Professionals Across Government and ABCs to Enhance Their Capacity**  
 During 2019-20, the Office of the Comptroller General reinstated regular meetings between finance professionals in the Office of the Comptroller General, Budget Division, Treasury Board Support, Public Procurement Agency and departmental controllers from all the core departments to discuss common financial issues. Secondment opportunities were also provided to financial professionals across Government and within the Department of Finance in order to improve financial experience.

To expand the department's own financial capacity, an annual Senior Leadership Day was established to foster teamwork across all Branches, to learn from collective experiences and provide an opportunity for communication. Guest speakers were invited from the Office of the Chief Information Officer and the Human Resource Secretariat. Finance Directors also provided updates on corporate and divisional topics.

- Achieved Significant Progress Toward the Implementation of a Government-wide Shared Services Model for Back Office Functions**  
 Government priorities are committed to consolidating collections activities across the public service because such consolidation would allow for efficient use of human resources and standardization of collection processes. The consolidation of collection activities within Government will reduce redundancy, increase the amount of money returned to the province and standardize collections processes. Consolidation will provide a unified view of all receivables owed to the province across multiple departments, which will enable cases to be prioritized based on total liabilities. The Department of Finance has assumed responsibility for the collection of outstanding student loans and is continuing to assess further opportunities to realize efficiencies.

- **Supported the Expanded Roles of the Government-wide Audit Committee**

To enhance the independence of the committee and to broaden its perspective, three external members were appointed. Additionally, the Committee reviewed key audit projects performed by the department and provided feedback on the development of the government-wide fraud policy. The Committee also provided a status update of actions taken by government departments on the Auditor General's recommendations and approved a process for conducting recommendation follow-ups on Government's own internal audit reports. The Audit Committee also has a mandated advocacy role, and as such, reviewed government-wide (including select ABCs) audit reports and management letters to identify potential systemic issues.

### **Summary of Progress towards the 2019-20 Objective:**

**Objective:** By March 31, 2020, the Department of Finance will have led initiatives aimed to enhance financial accountability and oversight of government departments and ABCs.

The following are details of the indicators showing success toward achieving this objective:

- **Supported the Government-wide audit committee**

During fiscal 2019-20, the Department of Finance supported the Government-wide audit committee by ensuring the committee composition and any appointments and/or re-appointments were as per the terms of reference of the Audit Committee.

- **Assisted with the review of ABCs management structures**

During the budget process, the Department of Finance worked with ABCs to complete an attrition exercise and analyze related impacts to salary budgets.

### **Strategic Issue #2: Shared Services**

The Government of Newfoundland and Labrador has a vision of a stronger economic foundation; a more efficient public sector; better services and better outcomes. To realize this vision, government established targets and defined specific actions over the short, medium and long terms.

One such action is the implementation of a government-wide shared services model for back-office functions. The intent is to implement, over the course of several years, a public sector shared services organizational approach in the areas of financial administration, procurement, human resources and information technology. The outcome of a shared services approach is to standardize transactional functions, improve quality of service, and realize efficiencies through economies of scale for similar processes.

As the lead department for the Shared Services initiative, the Department of Finance established the following goal in its 2017-20 Strategic Plan:

**By March 31, 2020, the Department of Finance will have made significant progress towards the implementation of a shared services model across select ABCs.**

The following progress was achieved towards the performance indicators identified in the 2017-20 Strategic Plan:

- **Select ABCs have begun to avail of the shared services model**

Administration of payroll for teachers is now consolidated with the payroll administration services of core government. Previously teachers' payroll was administered separately by the department then known as Education and Early Childhood Development.

Various financial administrative services are now provided to the Oil and Gas Corporation where, prior to the Shared Services Initiative, these would have been delivered by Nalcor Energy. These services include such things as payroll, invoice processing, receipting of revenues, payment processing and the provision of financial reports to facilitate the development of the Oil and Gas Corporation financial statements.

- **The consolidation of the collection of government's outstanding accounts receivable was initiated**

Some of the collection activities of the Student Loan Corporation are now consolidated with the Department of Finance. Specifically, the department is now responsible for the collection of default loans. The resources have been transferred and the related work to bring student loan receivables into the Oracle Financial Management System in the Department of Finance is ongoing.

- **Work has progressed towards modification of priority systems and work processes (where necessary and on a priority basis) to accommodate a shared services model across select ABCs**

With the consolidation of the above referenced payroll services and collection activities, modifications were made to various financial and payroll systems.

- **Risk-management and internal controls are enhanced**

A significant benefit to consolidating the payroll services and collection activities referenced above, is enhanced risk-management and internal controls. Consolidation has provided for a more efficient use of resources and standardization of processes, thereby improving upon capability to implement appropriate internal controls and identify and mitigate risks. Additionally, consolidation of collection activities provides a more unified view of receivables owed to the province, which enables prioritization based on total liabilities outstanding.

## Summary of Progress towards the 2019-20 Objective:

**Objective:** By March 31, 2020, the Department of Finance will have further advanced the implementation of a shared services model for select back office functions.

The department's success towards achieving this objective can be measured by the following details of its indicators:

- **Furthered the consolidation of the collection of government's outstanding receivables**

During 2019, the Department of Finance continued to evaluate other opportunities to integrate collections activities, thereby providing greater oversight. However, further consolidation was put on hold due to the unprecedented events arising from the COVID-19 global pandemic.

- **Continued to identify specific shared-services opportunities for implementation**

Government directed the adoption of the principle of shared services by all public sector organizations, the intent of which is to apply a provincial approach to transactional functions in the four core areas (finance, procurement, human resources and information technology) where possible and practical. To support this direction, an Executive Steering Committee and an Advisory Committee were established, consisting of officials from core Government and Crown entities. Working together, these committees began the process of assessing the practicality of implementing a shared services approach to transactional activities.

Additionally, the Information Architecture Review Committee was created and mandated to review IT proposals from across the public sector to ensure service delivery is improved at minimal cost, duplication is reduced and common standards, systems and processes are leveraged, where practical and possible. This committee consists of the Chief Information Officer and similar leaders from across the public sector.

Joint purchasing opportunities were also pursued. Purchasing data from public sector organizations was consolidated to assist in the identification of 'quick win' sourcing opportunities and potential value to be achieved through joint procurement. Two priorities were identified; one in Fleet and the other in Maintenance, Repair and Overhaul, and work was completed on the required sourcing strategies and tenders.

## Strategic Issue #3: Provincial Taxation System

The Government of Newfoundland and Labrador has committed to ensuring that the provincial tax system is competitive and fair to all residents, including seniors and people living on fixed incomes. A comprehensive independent review of the provincial tax system was completed to identify ways to simplify this system and reduce costs for both

government and taxpayers. The review included consulting with key stakeholders to identify areas of demand and exploring options to support businesses. The objective is to ensure the tax system is competitive and fair, and that it supports the vision to position this province as an attractive place to live and work. A more competitive and less cumbersome tax system will attract investment and provide an incentive for young families and businesses to settle in Newfoundland and Labrador.

As the department responsible for leading the development of provincial tax policies, the following goal was established in its 2017-20 Strategic Plan:

**By March 31, 2020, the Department of Finance will have supported the comprehensive review of the provincial tax system.**

The following progress was achieved towards the performance indicators identified in the 2017-20 Strategic Plan:

- **Provided Oversight and Operational Support**

In August 2017, an independent five-person committee was appointed to guide the review of the province's tax system. Committee members had varying backgrounds in economics, taxation and public policy, with representation from the business, social and labour sectors. The committee was mandated to review the provincial tax system and provide recommendations to the responsible minister for consideration prior to the 2019-20 Budget. The Independent Tax Review Committee (ITRC) held meetings throughout their mandate, and for those meetings, staff of the Department of Finance provided support by organizing logistical arrangements and, at the direction of the committee, provided information and analysis to support development of the committee's recommendations. This included information and analysis on tax expenditures, the tax system, and options for new revenue sources.

- **Consulted Key Stakeholders**

Stakeholder consultations occurred between May and August 2018. Representatives from eleven groups (business associations, labour, academic, and industry) presented their views to the ITRC for consideration. Department of Finance staff contacted all regional Boards of Trade on behalf of the ITRC to solicit input as part of the review. Department staff also prepared analysis of similar taxation reviews completed in other jurisdictions to support the committee in development of their recommendations. Based on direction provided by the ITRC, the Newfoundland and Labrador Statistics Agency (NLSA) also developed and administered a survey to over 400 residents in the province to determine the general public's knowledge on government finances and taxation. The NLSA presented a statistical report of the findings to the ITRC.

- **Implemented Select Recommendations, as Directed by Government**

It was the committee's opinion that the province is not in a position to reduce taxes significantly. Several recommendations were brought forward to alleviate some of the taxation burden. These included reducing the temporary deficit reduction levy and

continuing the efforts to broaden consumption tax bases and tax credit programs for the green economy, as fiscal resources allow.

Budget 2019 featured several tax changes including the elimination or expiration of the following: temporary gas tax, tax on automobile insurance and the temporary deficit reduction levy. However, government held the line on most taxes as per the ITRC recommendations.

- **Publicly Communicated the Results of the Provincial Tax System Review**  
The Independent Tax Review Committee concluded that Newfoundland and Labrador had a progressive and fair taxation system. Through the consideration of the total taxation burden in the province (provincial and local/municipal taxes and fees), the ITRC determined that the total tax burden in the province is generally in line with other jurisdictions. The committee further concluded that the province's fiscal challenges have not been the result of under-taxation, but of over spending; and that taxes are an essential portion of revenues needed to provide services and programs.

The ITRC presented its findings and recommendations to the Minister of Finance on December 12, 2018. (<https://www.gov.nl.ca/taxreview/files/Summary-Report-Final.pdf>)

### **Summary of Progress towards the 2019-20 Objective:**

**Objective:** By March 31, 2020, the Department of Finance will have supported the implementation of government-approved recommendations arising from the review of the provincial tax system.

The department's success towards achieving this objective can be measured by the following details of its indicators:

- **At the Minister's discretion, completed analysis and made recommendations for changes to the provincial tax system for consideration by Government in the development of the 2019-20 budget.**

In June 2019, the Department of Finance introduced the necessary changes to the **Revenue Administration Act** to eliminate the remaining 13 per cent retail sales tax (RST) on automobile insurance.

Also in the fall of 2019, several amendments to the **Income Tax Act, 2000** were recommended relating to the foreign tax credit, the volunteer firefighters' tax credit, the search and rescue tax credit, the childcare tax credit, the pension amount tax credit, and the age amount tax credit. The amendments were intended to clarify provincial legislation and eliminate inconsistencies, while ensuring the province's tax system is competitive, balanced, less cumbersome and aligned with provincial counterparts.

## Opportunities and Challenges

In December 2019, the province's annual fiscal and economic update was released reflecting how Government had maintained the course in those areas it could control. Expenses were reduced by \$24 million from original projection and borrowing requirements were unchanged at \$1.2 billion from Budget 2019. Revenue projections, however, had decreased by \$393 million, driven by several factors outside of government's control. Despite these issues, several economic indicators remained strong, with real gross domestic product expected to increase by 3.1 per cent, capital investment forecasted to increase and the unemployment rate expected to average at 11.8 percent in 2019, down from the 13.1 per cent forecast at budget time.

The first few months of 2020 have come with their own unique challenges. The global recession has resulted in a sharp decline in oil demand and oil prices, impacting the NL oil industry. Delays in construction and development projects related to the oil and gas industry have put pressure on Government and taxpayers to find inventive ways to restore our economy.

In mid-March 2020, GNL announced its intention to implement workforce adjustments to guard against further spread of a novel coronavirus (COVID-19). The Department of Finance implemented a plan to modify departmental operations to ensure coverage of all services. The timing of the workforce adjustments was particularly critical given the current fiscal and economic condition of the Province and requirements for fiscal year end processing, all of which required continued and undisrupted services.

Reimagining how programs and services look in the future has to be paramount as we balance fiscal pressures with growing expectations for a more modern, efficient government. To support this important work, Dame Moya Green is leading an Economic Recovery Team. She and her team will review expenditures across government; analyze our fiscal capacity; re-envision government service delivery; and explore growth sectors such as clean energy and investments in technology. In August 2020, prior to the tabling of this Annual Report, the Treasury Board and Finance functions were separated to provide two strong voices at the highest levels in government. This change was made to strengthen the province's capacity to address the serious financial and fiscal challenges ahead for Newfoundland and Labrador.

## 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 2020 (unaudited).

	<u>Actual</u>	<u>Estimates</u>	
	<u>Amended</u>	<u>Original</u>	
	\$	\$	\$
<b>EXECUTIVE AND SUPPORT SERVICES</b>			
1.1.01 Minister's Office	<u>271,969</u>	<u>281,700</u>	<u>250,700</u>
<b>General Administration</b>			
1.2.01 Executive Support	<b>1,026,774</b>	1,053,300	1,050,800
1.2.02 Departmental Operations	<b>17,069,692</b>	19,740,300	18,828,800
1.2.03 Administrative Support – Capital	-	100	100
<b>Total: General Administration</b>	<b><u>18,096,466</u></b>	<u>20,793,700</u>	<u>19,879,700</u>
<b>General Government</b>			
1.3.01 Government Personnel Costs	<b>70,437,727</b>	79,360,000	79,360,000
<b>TOTAL: EXECUTIVE AND SUPPORT SERVICES</b>	<b><u>88,806,162</u></b>	<u>100,435,400</u>	<u>99,490,400</u>
<b>FINANCIAL ADMINISTRATION</b>			
<b>Financial Planning and Benefits Administration</b>			
2.1.01 Pensions Administration	<b>(443,533)</b>	101,700	101,700
2.1.02 Financial Assistance – Current	<b>9,480,339</b>	12,540,600	24,310,000
2.1.03 Financial Assistance – Capital	<b>1,883,552</b>	(3,304,900)	(3,304,900)
<b>Total: Financial Planning and Benefits Administration</b>	<b><u>10,920,358</u></b>	<u>9,337,400</u>	<u>21,106,800</u>
<b>TOTAL: FINANCIAL ADMINISTRATION</b>	<b><u>10,920,358</u></b>	<u>9,337,400</u>	<u>21,106,800</u>
<b>TOTAL: DEPARTMENT</b>	<b><u>99,726,520</u></b>	<u>109,772,800</u>	<u>120,597,200</u>