



The New Brunswick Reality Report

PART 3: POLICY DIRECTIONS



Transformative change does not just happen.

If New Brunswick is to achieve self-sufficiency by 2026, both government and industry will need to make significant investments – in people and in equipment, in technology and in communities.

The Self-Sufficiency Task Force was asked to offer our perspective on what we believe are the current realities confronting New Brunswick and to inform New Brunswickers of the deeper issues affecting the province's capacity for growth.

In our first paper, Part I: At the Crossroads, we outlined the major issues facing New Brunswick, such as labour force development, productivity, the pace of economic growth and the tension between urban and rural communities.

We also outlined what we call the seven realities; specific measures we believe must be followed if New Brunswick is to achieve self-sufficiency by 2026.

Those realities are:

Reality 1:

We need to increase our population and our labour force and reverse shrinking population trends.

Reality 2:

We need to be prepared for sweeping changes of unprecedented magnitude. Half-measures will not work. Acknowledging the need to focus on opportunities that will produce the scale of change required is imperative.

Reality 3:

We need to increase labour productivity by providing people with the right tools for the right jobs.

Reality 4:

We need to strengthen the connections between urban and rural New Brunswick through large-scale investments in infrastructure.

Reality 5:

Export growth must drive overall economic growth. This will create prosperity.

Reality 6:

We need to quickly and aggressively expand our existing corporate base.

Reality 7:

Leaders at all levels of New Brunswick society must step forward. In this, our second report, we divide the New Brunswick economy into 16 sectors. We examine each through the lens of the seven realities and consider the challenges and the possibilities each sector faces over the next few years.

In our second paper, Part II: An Export-Driven Economy, we outlined the specific challenges and opportunities facing 16 key economic sectors.

We believe growth will be led by the following sectors: energy, manufacturing and fabrication, aquaculture, information and communication technology, environmental technologies, customer contact centres, tourism and e-health.

We also recognize that our traditional resource industries, particularly forestry, fisheries and mining, will face major restructuring in the coming years, but each will remain an important part of the provincial economy once measures are taken to maintain productivity and competitiveness.

To achieve the level of growth required to attain self-sufficiency, we concluded that existing businesses must invest in training, technology and equipment to improve productivity; that business development strategies must build upon the existing strengths of each region; and, that the New Brunswick economy must become more integrated across regions.

In this, our third report, we detail the important role the Government of New Brunswick must play in spearheading the work of the self-sufficiency agenda.

We invite you to join this conversation, on our website at www.gnb.ca/2026.

Sincerely,



Gilles Lepage



Francis McGuire

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Creating a Positive Dynamic - Branding

The success of any strategy depends in large part on getting people to believe in it. By its very nature, a 20-year self-sufficiency agenda will be detailed and complex and will be difficult to communicate to those who must accept the overall vision for it to succeed. Leadership is about continually reinforcing that vision in ways that will inspire those that will follow, contribute or be recruited to the cause. Sustaining the vision of self-sufficiency in ways that will continue to motivate and inspire New Brunswickers, address negative preconceptions from outside the province and rebrand New Brunswick as the place to be in the 21st century is essential.

In a competitive world where one is competing for scarce resources, branding is an important marketing tool. In the 1990s, New Brunswick developed a remarkably successful brand. Everybody in the country knew that New Brunswick “was open for business.” The brand was deliberately built to promote the attraction of business to the province and to create “jobs, jobs, jobs.” This positioning took planning and a sustained campaign that first established the brand, then communicated it to New Brunswick’s citizens and to the rest of the world. A similar plan must be implemented around the goals of self-sufficiency and it must be managed by a dedicated team within the public service.

Today the goal is to attract people. In order to do that, New Brunswick must brand itself as the most exciting and dynamic place to be in Canada – a place where exciting careers and lifestyles await – for both newcomers and for New Brunswickers who have moved away. People want to live in a region of the country that is going places, that is innovative in the fields of education, health, tourism, technological development or the delivery of government services. Just as the province has established a strong brand with its claims that New Brunswick has the warmest beaches north of Virginia and as a place where you can walk the ocean floor, our communities need to develop their own, distinctive brands. Perhaps Saint John is becoming the Houston of the North, Fredericton is the Smartest City in North America, Moncton is the Centre of Entrepreneurship, Plaster Rock is the Pond Hockey Capital of the World, Caraquet is the Cultural Capital of Canada, or Campbellton is the Gateway to the Atlantic Provinces.

Within the brand must be the secondary message that New Brunswick has a competitive standard of living. That means wages on par with national averages. That means quality, affordable housing, education and health services that are on par with the rest of the country.

But before we can brand our province as an exciting place to live and work, we must first believe in it. New Brunswick residents need to see themselves as people who are prepared to embrace the future in a province where exciting things happen first.

New Brunswick is a small province that is culturally and geographically diverse. Although this has the disadvantage of lacking scale, it also means that we are capable of getting things done quicker and faster. By being on the leading edge in adapting to change of all kinds, New Brunswick can establish itself as the place where things happen first. This can be a powerful brand that will attract the kind of individuals, companies, entrepreneurs and academics that are anxious to be part of that change and to define the future for themselves.

Driving the Agenda – Governance

Plans don't implement themselves. While this is obviously true, it is useful to remind ourselves that the real work only begins when the plan is complete. This is particularly true in complex organizations such as the Government of New Brunswick. Accordingly, a significant element of the self-sufficiency agenda will be to ensure that effective organizational arrangements are in place to ensure success.

Interdepartmental Coordination

The drive to self-sufficiency will require the development and implementation of initiatives across all provincial government departments. Leadership will be required within the public service to ensure effective coordination, development and implementation of action plans. Annual accountability frameworks that clearly identify the results to be achieved by each deputy minister in support of the self-sufficiency agenda must be established.

The achievement of results must similarly be evaluated annually and should provide the basis upon which a deputy minister's performance is assessed. It is recommended that future increases to the pay bands for deputy ministers, up to a maximum of 25 per cent, be designated pay-at-risk, which would be awarded annually based on the degree to which performance objectives have been met.

The task force also recommends that a new position be created, a deputy minister responsible for the self-sufficiency agenda. This person would be responsible for the overall coordination of the government's self-sufficiency agenda, including brand management, and would report directly to the premier.

Getting the Incentives Right

The strategy for self-sufficiency in New Brunswick calls for the ongoing transformation of the provincial economy, which in turn should lead to a more productive partnership between the public and private sectors.

Government must take the initiative in setting the framework for dynamic growth and structural change. This requires a more strategic approach to the way the government creates incentives for the private sector and a smarter approach to the way the government manages the public sector and frames policies and programs.

Business Attraction

In the task force's previous reports, *At the Crossroads* and *An Export-Driven Economy*, the attraction of large, stable national and international companies was highlighted as an important element of the self-sufficiency agenda. In the last 15 years, 20,000 call centre jobs have been created in New Brunswick. But the province faces competition from its neighbours. Over the last five years, Nova Scotia has proven to be quite successful at attracting high-end business service-oriented jobs. New Brunswick, which had been the regional leader in this area, now lags behind.





The potential for attracting high-end customer contact and back-office business services jobs to New Brunswick remains high. Creating 15,000 new higher back-office business services jobs over the next 15 years is a reasonable target. Other sectors such as engineering, information technology, health, environmental technologies, manufacturing and petrochemicals also hold promise.

For such a strategy to be successful, the provincial government must equip itself with a full range of tools that will enable it to compete effectively with other jurisdictions. Even with quick response times and a well-trained and dependable labour force, reasonable and customized incentives will be required from time to time, whether in the form of tax breaks, cash incentives, loan guarantees or labour force training.

This strategy should be flexible to allow for the negotiation of packages that are tailored on a case-by-case basis. Incentives should be calculated based on the projected payback in terms of incomes and taxes, the level of risk, the strategic importance of the investment and what is offered in competing jurisdictions. For example, firms that will help establish a strong base in one of the sectors earmarked for growth within the self-sufficiency agenda might warrant a higher level of support than firms that decide to invest in New Brunswick once the sector is well-established. Such an approach must be reserved for marquee firms that will anchor development and raise the province's reputation as a leader in one of the key growth sectors of the self-sufficiency agenda. Although the money involved may be big, the risks are low.

While all provincial government departments will have key roles to play in the self-sufficiency agenda, it is Business New Brunswick that will play the most critical role, particularly in driving the business attraction and the growth in productivity agendas. This will require strong leadership, a focussed mandate, a clear organizational structure and adequate resources to ensure success. Public servants overseeing the business attraction strategy must have the authority to aggressively interact with potential investors and to make deals as quickly as possible. This will require access to the highest levels of government to discuss policy options and to streamline operations.

Taxation

New Brunswick's corporate taxes are among the lowest in Canada; the large corporation tax is 12 per cent while the small business corporate tax is at 1.5 per cent and is scheduled to drop to one per cent on July 1, 2007.

While a competitive tax environment for business is an important element in the mix of policy options for self-sufficiency, other tax options should be examined which specifically target investments necessary for stronger productivity and income growth. In the view of the task force, business tax rates below the Canadian average should be earned through investment behaviour, not given away.

The Government of New Brunswick's tax policy needs to take stock of whether general rate reductions and other elements of business taxation are in fact geared to the challenges the province faces, whether these policies are achieving objectives and whether more targeted incentives, rather than reductions in the general rate, are now required.



The task force recommends the provincial government consider:

- Targeted investment tax credits for corporations in support of investments related to productivity, export growth, workforce training and energy efficiency
- Special tax measures to help businesses fund on-the-job literacy training;
- Encouraging the federal government to adopt recent recommendations by the House of Commons Standing Committee on Industry, Science and Technology regarding the reduction of capital taxes and improvements to the Science Research and Experimental Development (SR&ED) Tax Credit. The committee has recommended:
 - i. Changing the capital cost allowance for machinery and equipment used in manufacturing and processing and equipment associated with information, energy and environmental technologies to a two-year write; and
 - ii. Making the SR&ED tax credit fully refundable; excluding investment tax credits from the calculation of the tax base; providing an allowance for international collaborative research and development; and expanding the investment tax credits to cover the costs of patenting, prototyping, product testing and other pre-commercialization activities.

The task force strongly supports these recommendations.

Access to Capital and Tolerance for Risk

The concepts of access to capital and risk tolerance are often confused. Not since the 1950s has there been this much capital in the world at the disposal of investors looking for secure investment opportunities. However, the general tolerance for unsecured risk remains low. Small businesses and businesses located in remote areas are oftentimes considered less secure and a greater investment risk, which is why these types of businesses are difficult to finance.

For example, if a newly constructed building has to be sold as security, a creditor would be fairly confident to quickly recoup all or the better part of their investment if the building is located in a thriving urban centre. In a more rural area, the lender would probably have to wait a longer period of time to realize on his security and then probably at a significant discount.

The task force believes that the government will have to play a role in these higher risk financings, particularly, but not exclusively, in rural areas. The fundamental issue is to decide how much risk the government should take.

The tolerance for risk has been, and continues to be, a significant barrier to the growth and development of businesses in the province. Conventional lending institutions have, over the past two decades, moved away from the locally-based relationship banking model to one where credit worthiness decisions are increasingly made remotely and based on predetermined formulas and corporate decisions regarding the portfolio of economic sectors in which investments can be made. These changes have had particularly negative consequences for businesses in rural areas and in the resource sectors but have impacted most sectors and regions of the province.



The task force divides the tolerance for risk into three categories:

1. Projects requiring less than \$1million.
2. Projects requiring \$1 million to \$5 million.
3. Projects requiring \$5 million to \$20 million.

In general, government measures have been effective in addressing access to capital issues up to the \$1-million level involving support for expansion, innovation and marketing, especially in small firms. Both the federal and provincial governments have put in place a number of measures to address the problem, most notably, the Business Development Bank of Canada (BDC), the Atlantic Canada Opportunities Agency (ACOA) and the Community Business Development Corporations (CBDC) at the federal level and specific programs through Business New Brunswick at the provincial level.

However, additional measures to provide seed capital for new start-ups and measures to streamline the process of accessing what is available from the various agencies at both the federal and provincial levels needs to be addressed. The provincial government should pursue a partnership arrangement between Business New Brunswick and ACOA whereby the business officers in both organizations would be authorized to process applications from clients considering the full range of potential support available from both organizations. This would eliminate the need for clients to deal separately with both organizations and effectively provide single window service. The proposed provincial seed capital program will complement the existing suite of support programs.

Although these kinds of programs tend to bear a higher degree of risk, the total loss rates have tended to be in the five to 10 per cent range which, given the size of investments and the success rate, still results in a sound investment. In terms of the self-sufficiency agenda, these programs are critical to help create and expand small businesses but the overall impact is still limited. The provincial government's proposed seed capital program is likely to invest \$100,000 in 100 firms per year for a total investment of \$10 million while leveraging a similar investment from other sources.

The most difficult challenge in terms of access to capital, particularly as it relates to new technology-based start-ups, is in the \$1-million to \$5-million range. This is the so-called "valley of death" where a company has a proven technology and potential markets but lacks the often significant amounts of venture capital needed to mount the aggressive marketing campaign and production rollout required to grow fast enough to get ahead of existing competitors and establish market credibility.

The task force recommends the provincial government consider the following changes.

1. Review the Small Business Investment Tax Credit including:
 - A major increase in the maximum allowable investment to \$300,000 from the current \$50,000;
 - Simplify eligibility and application requirements; and,
 - Consider a more targeted approach to eligibility requirements, eligible business sectors and improved marketing of the program to increase awareness inside and outside the province.



The current 30 per cent tax credit is generous enough to make it effective. Such changes, while probably only applicable in a small number of cases, should reduce the effort required by entrepreneurs to raise larger amounts of capital when investors interested in putting up more substantial amounts can be found. The task force notes this will not be an expensive program as there are a limited number of people who can put \$300,000 at risk and those that do are likely to do it only a few times.

2. Support the expansion of export-driven firms through a more aggressive program of providing loan guarantees between \$1 million and \$5 million. Loan guarantees are preferable to direct loans because they maintain the involvement of private sector lenders and can leverage a greater degree of private sector risk-taking. It should be noted that with a portfolio of unsecured loan guarantees in the \$1million to \$5 million range, losses can be expected to be higher than for the proposed seed capital program, but nevertheless manageable.
3. Establish the capacity to take direct equity positions in export-oriented, technology-based start-ups that demonstrate high growth potential in sectors deemed to be strategically important.

Finally, there is growing evidence that even medium-to-large businesses in the province are having difficulty accessing the sometimes significant injections of new financing needed for working capital, to expand production, invest in productivity or grow through the acquisition of other companies. The amounts of financing required are often in the \$5-million to \$20-million range. These companies tend to be stable family-owned businesses in traditional sectors that, while profitable, do not offer the returns in the range of 30 per cent return on equity that would attract venture capital. Nevertheless, these companies are often important anchors for local economies and have much to contribute to the self-sufficiency agenda, particularly as it relates to the restructuring that will be required in the forestry and fisheries sectors and to increase productivity. Unfortunately, there is no easy solution to this problem and it is unlikely to be resolved without government assuming the ultimate risk.

Over the years, many proposals have come forward from business groups suggesting ways in which the government can address this issue. Most have involved either the establishment of new tax incentives to encourage individuals to invest in venture pools or the establishment of quasi-independent lenders financed in large part with government funds. Generally, the experience with these approaches has not been as encouraging as had been hoped. The size of the pools of capital that can be put together is small, administration costs are high on a unit basis and risks can not be spread over a large enough client base. This inevitably drives those charged with the management of these pools to be extremely conservative in order to maintain viability. For example, if two loans of \$20 million go bad in one year, the public outcry is such that the institution soon acts as a conventional lender.



The task force believes that the creation of new entities to address this issue should be avoided. Rather, it must be recognized that one way or the other, government will have to be part of the solution and it is better for it to act directly than to continue to search for new magical third-party solutions. A clear framework must be established to ensure that government participation is both targeted and strategic. For example, the government should be prepared to cover the risks where it is a barrier to beneficial restructuring or the development of value-added opportunities in the fisheries and forestry sector. Government can also play a role when the lack of access to capital is an impediment to the exploitation of a major new market opportunity for a New Brunswick-based company.

It must be clear that such assistance will not be used to bail out companies in financial difficulty. It is there to facilitate access to financing for companies with solid management and financial track records that cannot obtain adequate conventional financing for projects that have strategic significance within the self-sufficiency agenda. The preferred method of providing such financial support would be through the provision of loan insurance to conventional lenders or perhaps the provision of loan loss reserve protection for lenders prepared to provide loans to a certain category of projects deemed to be of strategic importance.

The Policy and Regulatory Framework

Although the private sector is clearly the lead player in moving the province forward in terms of productivity, competitiveness and jobs, government will have a significant impact on the pattern and pace of progress through its policies and regulation. Redesigning the provincial government's policy and regulatory framework is a key component of the self-sufficiency agenda and will span a wide range of business sectors and economic development activities.

The task force has been struck by the degree to which current federal and provincial policy and program frameworks reflect a paradigm in which the issue of unemployment has taken centre place. Whether it is the challenges of professional certification processes, the fact that training programs for the most part exclude the employed work force or that the wives of immigrant truck drivers in Carleton County are prevented from working while local employers have a hard time filling vacancies, the task force has been presented with example after example of policies and programs that hinder rather than help address labour shortages and the need to improve productivity.

Taking account of the challenges and opportunities ahead, reforming the policy and program framework is needed to address a comprehensive range of policy options. Nothing short of a paradigm shift is required in which all policies and programs of government are scrutinized to ensure that the proper incentives are in place to support the self-sufficiency agenda. The provincial government must work closely with the federal government to ensure a similar scrutiny takes place in areas of federal jurisdiction that are crucial to the self-sufficiency agenda.

Labour Market

There are three aspects of labour market policy and legislation that warrant review in the context of the self-sufficiency agenda.

1. The Labour Market Development Agreement between the provincial and federal government spends over \$90 million annually on training, however only unemployed workers are eligible. This agreement should be renegotiated to fund retraining and skills upgrading for employed as well as unemployed workers.
2. Given the evident shortages in workers, particularly those with higher skills and experience, the policy framework needs to put in place new rules concerning mandatory retirement. The principle should be one of choice, allowing flexibility for employees and employers. There is no case for preventing employees continuing to work if they wish to at places where their services are needed. Equally, there should be no barriers to those who wish to return to the work force after a period of retirement.
3. If maximum use is to be made of the potential labour supply, minimum wage rates have to be sufficiently attractive to draw unemployed workers into the labour force. The government has moved decisively on this issue and the economic impact of the recent changes should be carefully monitored. The objective should be to move the New Brunswick rate to the Canadian average over time.

As was discussed in the task force's second report, *An Export-Driven Economy*, Mi'kmaq and Maliseet adults are chronically underrepresented in the province's labour force and the incidence of low-incomes among Aboriginals is double the rate in the non-Aboriginal population. Aboriginal birthrates are three times the national average, which means that as the population of New Brunswick ages, the pool of young, working-age Aboriginals will become increasingly important. While Aboriginals continue to show lower high school and post-secondary graduation rates, educational levels of this group have increased significantly over the last decade. Young Aboriginal men and women are graduating from post-secondary institutions in ever-increasing numbers. However, addressing Aboriginal employment issues must do more than direct them to training programs and opportunities. Cultural and other systemic barriers to Aboriginal participation in the labour force must be addressed. This requires the collaboration of the provincial government and Aboriginal leaders.

The provincial government should establish an Aboriginal Employment Council with representatives from the Aboriginal community, the business and labour communities, the Department of Post-Secondary Training and Labour and the federal government. The council's mandate should centre on education and training, including issues of funding, accessibility and the elimination of cultural and systemic barriers. The council's initial tasks should be the development of an education and skill profile of New Brunswick's Aboriginal population, the identification of employment opportunities in the public and private sectors and any other issues deemed to be important to full Aboriginal participation in the labour force.





In the past, the provincial government has, for constitutional reasons, left the funding of training programs for Aboriginals to the federal government. The provincial government will have to consider providing funding to programs to train Aboriginals for high-demand occupations. Finally, the provincial government must show leadership by proactively recruiting Aboriginals to positions in all government departments and agencies within the next five years.

Education and Training

Higher education usually equates to higher incomes and increasingly, employers are looking for employees who have some form of post-secondary through post-graduate learning.

The Government of New Brunswick has established the Commission on Post-Secondary Education to examine the future of the university and community college systems. The Commission's work will be important from the standpoint of the self-sufficiency agenda because of the vital role post-secondary educational institutions play in meeting labour force needs.

From the perspective of the self-sufficiency agenda, the policy framework for education and training should:

- Emphasize an outcomes-oriented system in K-12 education, incorporating transparency, accountability, accreditation and the resourcing of special needs;
- Ensure high school students are knowledgeable about job opportunities so as to make informed career choices;
- Ensure students who want to enter the trades have access to high quality vocational training in high school;
- Increase the number of joint programs between universities and community colleges.
- Encourage a new partnership between the provincial government, the federal government and the private sector to double the adult literacy rate in the next decade; and,
- Ensure that credential recognition processes for doctors, nurses, engineers and other accredited professions are timely, responsive to labour force requirements, transparent and accountable. The present system to recognize credentials from other jurisdictions is unnecessarily long. Our goal should be to ensure that no accreditation process takes more than a year. The provincial government should work with accreditation bodies to quickly achieve this goal.

Environment

Sustainable development and climate change are driving the green technology challenge. Public awareness and concern will compel governments to focus on alternatives and innovations that yield long-term solutions. A long-term market shift is underway which will create expanding economic opportunities in the area. There are productivity and competitiveness gains that can enhance sustainable development and vice versa.

Government will need to be responsive and innovative in shaping the policy framework to achieve these gains. There are a number of areas where the role of government will need to be more proactive:



- Develop environmental frameworks for sustainable development within the provincial government's land use planning process to provide greater transparency and predictability for overall development. This can be done through the implementation of a comprehensive regional planning process as provided for in the Community Planning Act;
- Require international standards of certification for sustainable development practices in all the resource sectors;
- Act as a model user for alternative energy applications including wind, biofuels and low level energy production;
- Establish a federal-provincial framework agreement to share the cost of innovative projects involving the design, development and application of green technologies by private sector businesses in New Brunswick;
- Establish a research consortium for carbon sequestration led by the Research and Productivity Council to partner with other research institutions and private sector interests;
- Encourage the federal government to move forward with a policy framework for Canadian participation in international carbon emissions trading; and,
- Establish aggressive targets for the reduction of energy consumption in both the residential and industrial sectors.

Energy

There can be no doubt that energy-related industry is a strategic asset for a more prosperous future for New Brunswick. But a number of conditions for success must be met and the government policy framework has to be attuned and prioritized to this opportunity. Simply put, energy-related investments will provide a strong foundation for export-led growth.

The task force recommends the provincial government address the following conditions for success:

- Provide a single-window office of coordination to enable the Government of New Brunswick to deal efficiently and expeditiously with the range of government issues at all levels relating to energy investments in the Saint John region. This should include the establishment of a regional planning process to ensure that issues such as the environment, land use, housing, infrastructure and social development are dealt with in an open and transparent way that provides the framework for longer-term development in the region;
- Enhance New Brunswick's role in the nuclear industry through negotiation with Atomic Energy of Canada Limited concerning the feasibility study for the Advanced Candu reactor program, a new nuclear fuel fabrication facility and a centre of excellence for the retubing of the AECL Candu reactors;
- Develop a 20-year strategic plan, in consultation with NB Power and US users, concerning the expansion of electrical generation and transmission facilities between New Brunswick and the United States; and,
- Reexamine the investment opportunity for a second generating plant at Belledune focusing on market access and the use of zero-emission clean coal technology.



Smart Government

Providing public services is a major component of New Brunswick's financial and economic resources. The self-sufficiency agenda requires that government be more efficient and cost-effective. It must also play a transformative role in overall productivity improvement. To that end, the provincial government should create a centre of excellence for service delivery, for both the delivery of services to New Brunswick residents and in support of government departments. This internal centre of excellence should be mandated to identify best practices and innovations, conduct program efficiency audits, and partner with the private sector on service delivery innovations and applications.

In addition, the mandate of Service New Brunswick should be expanded to allow the agency to take a proactive role in identifying and engineering improvements and efficiencies in service delivery across the public service. Service New Brunswick should deliver all regulatory transactions (fines, fees, permits and licenses), public information and awareness, and information technologies to promote public and employee participation and input in government.

The provincial government should also consider decentralizing government services by setting up work units outside Fredericton. Discussion about decentralizing whole government departments is always difficult and the opportunities for moving whole departments are few. However, there is an opportunity to decentralize certain back-office functions. Service New Brunswick has been very good at distributing its departmental workload around the province. Cheque processing and payroll functions could easily be added to the billing functions which the Federation des Caisse Populaire does in Caraquet for NB Power. Back-office operations offer the best opportunity for decentralization.

Smart Regulation

Public interest considerations necessitate a continuing role for government in regulating a range of economic, environmental and professional activities. Globalization in the movement of goods, services and people requires that our regulatory regimes are competitive and supportive of New Brunswick's self-sufficiency goals.

The regulators and the regulated understandably have different interests and government may need to look to third party models to achieve smarter outcomes. For example, the provincial government could establish a regulatory body charged with the following mission:

- To identify ways to harmonize provincial regulations with neighbouring jurisdictions to facilitate the movement of goods and services. The recently concluded Trade, Investment and Labour Mobility Agreement (TILMA) between Alberta and British Columbia should be considered as a model for what needs to be accomplished. While priority must be given to reaching agreements with the other Atlantic provinces and Quebec, consideration should also be given to arrangements with Maine, particularly as it relates to transportation;
- To identify opportunities to modernize certification and transferability of credentials to support labour market needs; and,
- To solicit and review private sector proposals to streamline and reduce the cost impact of regulatory compliance.



Local Governance

There are 102 municipalities in NB - eight cities, 26 towns and 68 villages - with a population ranging between 189 people to 69,661 people. About two-thirds of New Brunswick's population lives in a municipality. Of these 102 municipalities, 87 of them have less than 5,000 residents; 70 of which have less than 2,000 people, as the following table illustrates.

Number of municipalities by population (2001 Census)

Population	Number of municipalities	Total Number of inhabitants
Less than 500	12	4,052
500 to 999	25	19,427
1,000 to 1,999	33	47,214
2,000 to 4,999	17	64,475
5,000 to 9,999	5	33,058
10,000 to 19,999	7	106,028
20,000 and more	3	178,267
Total	102	452,521

Just over 268,000 or 37 per cent of NBers live in areas outside the territorial limits of municipalities and have no form of local government. Those areas are divided into 268 local service districts.

Most local service districts have a small population – 65 per cent have a population of less than 1,000 people, while another 23 per cent have a population between 1,000 and 2,000 people.

Number of local service districts by population (2001 Census)

Population	Number of local service districts	Number of inhabitants
Less than 500	93	24,661
500 to 999	83	64,645
1,000 to 1,999	60	83,008
2,000 to 4,999	30	82,346
5,000 to 9,999	2	13,638
Total	268	268,298

While just over 52 per cent of New Brunswickers live in urban areas, rural areas that are close to urban areas are home to about 27 per cent of New Brunswick residents, as illustrated below.



Census Metropolitan Areas (CMA) and Census Agglomerations (CA) influenced zones

2001 Census	2001 Population	2001 Private Dwellings
New Brunswick	729,498	313,609
Within CMA	122,678	51,775
Within CA	258,491	109,273
Total CMA/CA Influenced Zones	348,329	152,561
Strongly Influenced	50,527	22,853
Moderately Influenced	145,567	65,990
Weakly Influenced	135,618	56,763
Not Influenced	16,617	6,955

There is some form of local governance for every 1,938 New Brunswickers. The fragmentation of local bodies presents a number of drawbacks, such as the problem of dealing with issues that go beyond a limited territory, duplication and suboptimum economies of scale in the provision of services and the additional cost to taxpayers of maintaining all of these municipal structures.

Fragmentation also limits the ability to offer quality services and to apportion the costs fairly. It also leads to a lack of common perspective and purpose that can lead to unhelpful competition between municipal bodies in a single urban region. Moreover, issues that affect the entire region such as land-use planning and transportation are often not dealt with in a comprehensive and coordinated way.

The operation of municipal governments is becoming increasingly complex and requires good advice and sound administrative practices to avoid costly failures. Several small municipalities are not able to attract administrative staff able to effectively advise council on their responsibilities and, in turn, capable of implementing and enforcing council's decisions. It is also more difficult in smaller municipalities to attract strong and highly qualified candidates to municipal council. Therefore, it is not surprising that these municipalities seek greater technical assistance from provincial departments.

Finally, fully 37 per cent of New Brunswick residents live in unincorporated areas where they have no form of elected local government. While the perception is that unincorporated areas are mostly rural, the reality is that they are concentrated in relatively close proximity to the eight cities. Almost 70 per cent of local service districts residents live within a 50-kilometre radius of the eight cities, and the population of some unincorporated areas has grown faster than the population of municipalities. For example, the unincorporated areas within a 20-kilometre radius of Fredericton grew by 6,873 people between 1986 and 1996; the City of Fredericton's population grew by just 2,155 people over the same period. A similar phenomenon can be observed in the unincorporated areas around rural municipalities such as Florenceville, Bath, Bristol and Centerville. This phenomenon is driven, in part, by the lower tax rates for local service districts.

Sprawling industrial, commercial and residential developments lead to a reduction of open space and arable land and increased air pollution and traffic congestion resulting from longer commutes. This sprawl also leads to significant costs engendered by the expansion of the road network, new infrastructure, and the underutilization of existing infrastructure. For cities, it impacts the quality of life in urban areas and the distribution of the local tax burden.



Fundamentally, the current size and number of local bodies does not provide the local governance capacity to face the challenges of the future while providing desirable, functional and sustainable communities with affordable and equitable costs to the taxpayers. If the province is to achieve self-sufficiency by 2026, New Brunswick communities, through local governments, must be positioned to be able to collectively contribute to this objective. A strong province requires strong communities.

It is hard to justify the continued existence and proliferation of local bodies. Given that close to 80 per cent of New Brunswickers either live in or near urban centres, it makes sense to reorganize municipal boundaries, without forgetting about the needs of rural areas.

The solution is rather straight forward: we need far fewer bodies to serve all New Brunswickers. These bodies need to cover larger geographic areas, serve substantially more citizens and contain a larger tax base, thereby increasing their governance, administrative and financial capacity to fulfill their responsibility.

To build on the foundation established by the Equal Opportunity reforms of the mid-1960s, it is essential that our local governments be equipped with the tools they need to meet their increasingly diverse and complex challenges.

Because the specifics of municipal reform go beyond the capacity of the task force, we recommend that as a follow-up to the government's Self-Sufficiency Task Force, a Commission on the Future of Local Governments be established to reform the territorial, structural, legislative and financial organization of the local governance system in New Brunswick.



Strategic Infrastructure

Progress has been made over the last two decades in modernizing the province's economic infrastructure but, in general, the improvements have proceeded in small increments, rarely outpacing the actual demand for such improvements based on increased economic activity. Accordingly, infrastructure improvements have followed economic growth as opposed to being a transformative force in economic development.

A key focus of the self-sufficiency agenda must be to accelerate investment in strategic infrastructure so that it can drive economic development, particularly as it relates to: ensuring competitive transportation to Canadian and US markets for goods, services and people; the integration of the provincial economy; the delivery of cost-effective public service; tourism development; and wireless communications. Fundamentally, we have to anticipate the infrastructure requirements in 2026 and set about to put them in place by 2015 so they can drive the changes we want and need.

Priorities include:

- Provincial highway system upgrades to connect New Brunswick to Central Canada and the northeastern United States;
- Direct highway access between northeastern New Brunswick and I-95 in Maine;
- Improvements to highways that connect rural areas with urban centres;
- Increased intermodal traffic at the ports of Belledune and Saint John and other investments in support of the Atlantic Gateway;
- Strategic tourism infrastructure particularly to support product development in northern New Brunswick;
- Access to broadband wireless throughout the province; and
- Investments to support the strengthening of world-class research and development clusters in a few key sectors.

An Infrastructure Investment Fund

Currently, economic development expenditures are squeezed by the financial demands of health and education in the provincial budget. Financing the priority infrastructure investments outlined above and other investments required for the self-sufficiency agenda will require unique approaches. The provincial government will, at a minimum, need to finance \$500 million of provincial funding for a new \$1-billion Self-Sufficiency Fund and negotiate matching funding of \$500 million from the Government of Canada. That is greater than the current level of infrastructure funding from existing federal and provincial programs.

While this is a significant financial commitment, it must be seen as investing now in the assets that are required to secure the economic future of the province. In this sense, such investments should be contrasted to the vast majority of government spending which goes to support current consumption. The federal government has expressed interest in supporting the province's move to self-sufficiency and it will be important to establish a new era of federal-provincial partnerships.



The Government of New Brunswick should consider external financing as the principal means of financing the \$500 million needed for the Self-Sufficiency Fund. Specifically, to obtain upfront investment capital, the provincial government should allow private investors to take a financial position in the New Brunswick Liquor Corporation through a long-term bond issue with the financial return financed by NB Liquor revenues. The task force recommends bonds rather than simply selling an equity position in NB Liquor, because it allows the province to retain control of the crown corporation. It is also preferable to traditional deficit financing because it forces the Government of New Brunswick to forego the current revenue stream it receives from NB Liquor in order to make a significant, up-front investment for the future. It establishes discipline, and properly structured, repayment can be self-contained thereby preventing it from being lost in the normal process of financing the government debt. Additional resources could also be sourced through a zero-based budget review by examining how well existing economic development programs meet the criteria set out in the self-sufficiency agenda. Zero-based budgeting requires that each government program, and in particular its expenditures, be justified each fiscal year, rather than basing budget decisions on the previous year's level of funding.

E-Health

Self-sufficiency for New Brunswick cannot be achieved in the absence of a sustainable, affordable health care system. Health services are the largest component of provincial government spending and continue to grow. More efficient and affordable delivery is essential to sustain high quality health care and to provide room for the province to make other priority investments for self-sufficiency.

The development of a single integrated electronic information system serving the Department of Health, health care facilities and practitioners will be an essential first step in creating the infrastructure to support a sustainable, affordable health care system. At the same time, it has the potential to stimulate the development of a world-class e-health industry in the province.

Building such a system requires an investment up front when funds are always limited, with the benefits flowing later. The model created by Nav Canada may be appropriate in the case of the electronic infrastructure. To finance the upgrading of the air traffic control system in Canada, the Government of Canada created a not-for-profit corporation, which then issued public bonds to replace traditional bank financing. The corporation is administered by a board of directors that includes representatives from the airlines, employee bargaining agents, business and general aviation, and the federal government. A similar approach should be taken to finance the modernization of the electronic infrastructure in our health and hospital system.

This model is important for a number of reasons. First, it would enable the establishment of an integrated electronic infrastructure needed to support clinical services. Second, it is a not-for-profit corporation rather than a for-profit health organization. Third, such a not-for-profit corporation can create a service model and a service niche which can be exported to other jurisdictions creating long-term, high quality export jobs. Fourth, with an upfront investment of \$300 million to \$400 million, savings of \$80 million can be found.



New Deal with the Federal Government

The federal government makes a significant contribution to the well-being of New Brunswickers and it is important to recognize the role it plays. The task force has noted and appreciates recent comments from representatives of the federal government expressing a desire to build a spirit of cooperation with the Government of New Brunswick. The self-sufficiency agenda cannot succeed without the active engagement and support of the federal government. It will be important that this engagement take place at the highest levels and across the full range of federal involvement in the province – everything should be on the table. While recognizing that there are limits to which national programs and policies can be modified to meet the needs of an individual province, there needs to be a review of what can be done to align federal spending and policy in support of the self-sufficiency agenda. Of particular interest should be federal initiatives in the resource sectors, economic development, labour force training, research and development, environment and energy.

In order to ensure the ongoing engagement of the federal government, a formal mechanism should be put in place which would establish an annual meeting between the premier and the prime minister to review progress and establish the priorities for a joint action plan for the upcoming year. The federal government should be asked to appoint a senior official to work with the self-sufficiency deputy minister to coordinate the implementation of the action plan and report on progress.

Finally, the federal government should be asked to identify opportunities to relocate federal offices to New Brunswick. Past experience with the decentralization of federal offices to New Brunswick and Atlantic Canada in general, has been extremely positive. Examples include Service Canada's social insurance registration centre in Bathurst, Public Works and Government Services Canada's superannuation branch in Shediac, Revenue Canada's GST rebate centre in Summerside, PEI and Veteran Affairs' head office in Charlottetown, PEI. In all cases, the departments involved have found a dedicated, competent work force with low turnover rates and lower costs for space and other services compared to similar costs in Ottawa. New Brunswick has the added attraction of a supply of bilingual workers. Such relocations should, when possible, be targeted to rural centres.

Partnerships with Business and Labour

Given the magnitude of the self-sufficiency challenge, it will be essential to find ways to engage the active support of business and labour. This must entail an ongoing dialogue with business leaders about their priorities and what role they can play in the larger self-sufficiency agenda, such as tackling the issue of productivity through investment in workplace training and literacy. The premier should establish an annual summit with key business and labour leaders to review progress on the self-sufficiency agenda, discuss plans for the upcoming year and identify opportunities for their involvement.

Program Initiatives

In addition to streamlining the policy framework and investing in strategic infrastructure, there are a number of specific program initiatives that warrant immediate consideration to move the self-sufficiency agenda forward.

Technology Clusters

To maximize the economic benefits of public investments in research and development, the provincial government should adopt a technology clusters strategy focusing on innovation in strategic areas such as forestry, energy and medical research and related partnerships between universities, research institutes and business. The New Brunswick Innovation Foundation's mandate and program structure should be refocused to support this priority and to leverage other funding available through federal programs.

Lean Manufacturing

To stimulate productivity and competitiveness, the government should establish a lean manufacturing program service in the Research and Productivity Council, to be promoted and marketed throughout New Brunswick by the Enterprise Network.

Small Business

To accelerate job upgrading in the small business sector, the government should offer a streamlined program of assistance for productivity improvement and expansion to complement incentives in the tax system.

Immigration

To complement efforts to expand the workforce, the government should take steps to increase the flow of immigrants into the province by targeting recruitment to selected locations in Eastern Europe and South America, and provide support to settlement through community-based initiatives. It should be noted that while the province will have to target immigrants in areas of skill shortages there will also be a need for immigrants with basic literacy and numeracy skills to fill the need for unskilled workers in certain sectors.

The Cumulative Impact

To achieve self-sufficiency by 2026, the Government of New Brunswick will need to make some bold choices in the next few years. As the task force wrote in its first report, *At the Crossroads*, half-measures won't be enough.

The task force, in this, its third report, has mapped out the initial direction it believes the provincial government should take as it starts down the road to self-sufficiency.

Those policy directions include:

1. Rebranding New Brunswick as a dynamic province with a strong standard of living, as part of a larger plan to increase the population by attracting people to move here to work.
2. The appointment of a deputy minister responsible for the self-sufficiency agenda to oversee its implementation.





3. A flexible incentives program to attract businesses, particularly those from within sectors earmarked for growth by the self-sufficiency agenda.
4. A review of business tax policy, including targeted investment tax credits to support improvements to productivity, export growth, workforce training and energy efficiency.
5. A review of government programs, such as the Small Business Investment Tax Credit and loan guarantees to businesses, to ease small and medium-sized businesses' access to capital.
6. Major reforms to the policy and regulatory framework of a wide range of government programs to realign the focus on filling labour shortages rather than addressing chronic unemployment. This includes renegotiating the federal-provincial Labour Market Development Agreement, revisiting mandatory retirement and reviewing minimum wage legislation.
7. The establishment of an Aboriginal Employment Council to increase the participation of Aboriginal people in New Brunswick's economy.
8. The implementation of comprehensive regional planning for all areas of the province that places an emphasis on sustainable development, including land use, housing, infrastructure and social development.
9. The creation of a centre of excellence for service delivery.
10. The decentralization of government services by setting up offices outside Fredericton.
11. The creation of a regulatory body to harmonize regulations amongst neighbouring jurisdictions and New Brunswick.
12. The creation of a Commission on the Future of Local Governments to reform the territorial, structural, legislative and financial organization of New Brunswick's local governance system.
13. The creation of a \$1-billion Self-Sufficiency Fund to finance strategic infrastructure investments. It would be a 50/50 split between the federal and provincial governments.
14. Raising the \$500 million needed for the Self-Sufficiency Fund by issuing a long-term bond on the New Brunswick Liquor Corporation.
15. The creation of a not-for-profit corporation to raise funds necessary to develop an e-health system for New Brunswick.
16. The establishment of an annual summit between the premier and the prime minister to discuss New Brunswick-Canada relations and in particular, to establish and review the priorities of a multi-year, joint action plan.
17. The establishment of an annual summit between the premier and business and labour leaders to review progress on the self-sufficiency agenda, such as productivity, workplace training and literacy issues.
18. A review of the current mandate and structure of the New Brunswick Innovation Foundation to refocus it on the development of technology clusters in strategic areas such as forestry, energy and medical research.
19. The creation of a lean manufacturing program by the Research and Productivity Council that would be promoted through the province's Enterprise Network.
20. A targeted immigration strategy, with an emphasis on Eastern Europe and South America.