

**SPEAKING NOTES
HONOURABLE JIM PRENTICE
PREMIER OF ALBERTA**

ROTARY CLUB OF EDMONTON

PRE-BUDGET ADDRESS

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**SUTTON PLACE HOTEL
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INTRODUCTION

Thank you very much, John (Chomiak), for that kind introduction.

Ladies and gentlemen, I appreciate the chance to address so many dedicated Rotarians.

There are very few non-profits in Alberta enjoy both the sterling reputation and the longevity of the Rotary Club of Edmonton.

This club was the wellspring of 19 other clubs

Next year marks a century of service to this city you love.

Almost 100 years' worth of initiatives in every corner of our capital city bear the stamp of your selflessness.

Your legacy projects and fundraising make a difference where it counts most.

So I start by saluting the rotary club.

In making these efforts, you uphold some of Albertans' oldest values — care and compassion certainly, but also an unshakeable refusal to be daunted by challenges that we face from time to time.

You refuse to settle for what is easy. And you dedicate yourselves to doing what is right, what is beneficial, through service to others.

I admire Rotarians for choosing to walk this path and for staying on it.

Good intentions are no more than first steps down a road. You know intentions alone are not enough to take you very far.

Perseverance requires a willingness to make sacrifices. It insists on discipline in all weather—good and bad.

These are the qualities which enable the Rotary Club to remain a force for good here in Edmonton.

Fortunately these qualities are widespread in Alberta, where they have driven a history of accomplishment.

Alberta is Canada's economic engine, we are a world leader in sustainable resource development and home to an enviable quality of life, one that increasing numbers of new arrivals are anxious to experience for themselves.

All of these factors are the result of Albertans' hard work.

Like Rotarians, the people of this province are tough, resilient and unafraid of the sheer effort success requires.

Those attitudes are entrenched in our culture. That is who we are, and I don't think there are many people in this room who would disagree with that

And with Alberta caught up in its greatest fiscal challenge in a generation, those attitudes and the values on which they are based are more important than ever.

LOW-PRICE ENVIRONMENT

By now, everyone is aware that the province is struggling with a sharp decline in public revenues.

However, I find that a comprehension of the true scope of the problem is sometimes hard for people to grasp.

So I would like to set the record straight about what we are dealing with.

The most immediate difficulty is that oil prices have collapsed — not just for Alberta but worldwide.

Overproduction on the part of the OPEC cartel, notably Saudi Arabia, has slashed prices by more than 50 percent, compared to what they were last summer. In the span of a few months, nearly one-fifth of Alberta's revenues have evaporated.

Government is looking at a shortfall of up to \$7 billion for the fiscal year that begins on April 1.

**A \$7 billion shortfall is the equivalent of the entire education budget, or health expenses from now to July 15.
And our discussions about what to do are ongoing.**

I have heard many people ask if we need to do anything at all.

Alberta has been through commodity price cycles before.

So why not wait for prices to rebound, as they inevitably always do?

That is a fair question.

And the answer is that prices are not on the cusp of recovery. This has been steeper and this will be longer than anything we've seen in this province for a long time.

We simply cannot afford to do nothing.

There is not a single energy expert in the world, not a single financial analyst that we've talked to, who thinks oil prices are going to bounce back any time soon.

In the new fiscal year, oil is forecast to average less than \$65 per barrel — leading to that \$7 billion hole in the budget.

Things should improve marginally in the following fiscal year. Oil is expected to hover below \$70, yielding a \$6 billion deficit in Alberta's finances

Prices might stabilize the year after that, although the consensus is that \$80 a barrel is the best we can hope for. Even at that rate, Alberta will confront a \$5 billion annual deficit if we shrink from corrective fiscal actions.

So we anticipate a low-price environment continuing for at least three budget cycles.

Add up those deficits and for Alberta, the cost of doing nothing amounts to almost \$20 billion.

Falling back on the province's reserves is not an option either.

At today's oil prices, we would burn through the contingency fund in five months. The Heritage Fund would keep us going for another two years.

And once our savings are exhausted, we have no choice but to rack up debt.

That is not smart. That is not even remotely rational.

So Government must act. Albertans' futures, their jobs, communities and infrastructure, depend on a robust response.

I have heard quite a few proposals. But here too, I want to emphasize that the issue is complex. I welcome everyone's point of views on this.

Deficits this size are not easily solved. We cannot just buy fewer paperclips.

We could, in fact, get rid of every civil servant without filling in the hole in the province's finances. And it would not come to \$7 billion dollars a year

And the reason is that low oil prices, dramatic though they are, do not describe the full extent of the province's dilemma.

I am immensely positive that we will get through this....

CRACKS IN THE FOUNDATIONS

The cracks in Alberta's fiscal foundations run deeper than is generally acknowledged.

Yes, we have a revenue problem.

But we also have a spending problem.

....It has been overlooked for too long.

....It has spread to every branch of the public sector.

Let me tell you, we had a pretty good thing going in Alberta.

We had the best of everything — the most generously funded public services, the lowest taxes and plenty of oil money to underwrite all our dreams.

Unfortunately, the system was flawed from the start.

We succeeded in creating some of the most expensive public services in Canada, but failed to establish stable methods of paying for them.

As a result, we are running up public debt and siphoning non-renewable resource revenues from future generations to subsidize our way of life.

Frankly, as Albertans we have made a habit of living beyond our means. You may have heard about a recent report from the Fraser Institute on this subject.

The report shows that over the past decade, program spending outpaced population growth plus inflation.

If we had kept spending in line with population plus inflation, the province would have saved tens of billions of dollars.

So as the Fraser Institute concludes, previous spending decisions are at least as responsible for our current budget gap as the oil price collapse.

I agree with them. The stats that are cited in this report are accurate.

I also agree that a large part of the problem is wages - in the ranks of government, health care, education and municipal services.

Albertans are rightfully proud of having the country's hardest-working teachers, doctors, nurses and civil servants.

But they are also among the highest paid public-sector professionals in Canada, taking home significantly more than the national average.

In fact, Alberta's public-sector professionals are at or near the top in terms of salaries across the board.

Successive governments have repeatedly approved costly wage agreements over the past 10 years, leaving taxpayers to cope with the consequences.

Salaries and benefits now take almost one dollar out of every two dollars the province spends.

And over the next three years, legacy commitments to workers totalling \$2.6 billion will come due.

Government cannot bank on the oil revenues these promises were based on.

So as we cut costs, as we confront population growth pressures and inflation, we will have to begin our calculations from a higher threshold —a new high water mark— to accommodate those obligations.

But I will be blunt: This trend is not sustainable and never was.

It is unrealistic to expect government expenditures to increase in such an environment.

Difficult decisions are unavoidable. Anything else is not living in the real world.

LABOUR STRATEGY

I have said repeatedly —and I will say it again today— that government will not ask Albertans to tighten their belts without tightening its own first.

We have already demonstrated leadership in this regard.

Together with Cabinet and all MLAs, I have taken a five percent pay cut. So have senior staff in my office.

Our province has a spending problem fuelled by wages and we intend to fix it, starting at the very top.

In that spirit, I will tell you today that government will take a more active role in ensuring that these concerns are represented.

This is about getting our own house in order and improving how we do business. Minister McIver's office and all of Cabinet have begun to turn our attention to this urgent need.

And it will begin with collective bargaining.

Previous government approaches to bargaining have not been consistent. They have been hampered by a lack of foresight and coherence.

We cannot afford one-off settlements based on immediate priorities.

Regardless of economic conditions, we must be prudent with tax dollars year after year.

Falling short of this goal only stores up more pain further down the road.

So in the months ahead, government intends to make its approach to collective bargaining more consistent and coordinated.

We will speak with a single voice, ever mindful of our duty to safeguard the province's long-term fiscal health.

This starts with the establishment of a working group led by a senior public servant, Deputy Minister Tim Grant, which will advise government on how to revitalize and modernize the province's approach to labour negotiations, based on the best practices of other jurisdictions.

Provinces such as British Columbia use unique processes to negotiate collective agreements, which is why the working group will review their approach carefully to develop recommendations for Alberta.

Tim Grant will report back to me in four months, but his input into our approach has already begun.

Our relationships with Alberta's public-sector trade unions will be respectful. We have been clear, we will honour existing agreements.

But going forward, I feel that it is government's responsibility to put ourselves in the best position to achieve outcomes that are sustainable and fair, both for public sector employees and for taxpayers.

Our ideal is a balanced solution that maintains labour stability and respects the reality of Alberta's finances.

Most of all, it must ensure Albertans continue to receive excellent public services.

The status quo is not sustainable.

And Albertans are best served by both sides adopting a pragmatic, long-term view of what is possible.

We also need to take a fresh look at how we deal with labour disputes in our province.

In light of the recent Supreme Court decision on the right to strike, and in line with our government's desire for fair and supportive public sector labour relations...

...I believe it is time to review the provincial framework for dispute resolution.

We must keep legislation relevant, efficient and effective.

This spring we will launch talks with public-sector employers and their respective unions about how a different approach...

... including an essential services model similar to that in place in other provinces, might be appropriate for Alberta.

Under this standard, unionized staff and employers may resort to strikes or lockouts, but essential services must continue operating while any work stoppage is underway.

Our legislation will be a made-in-Alberta model that draws from what we learn through consultation, including input from public sector workers and the unions representing them.

Change has to be informed by mutual understanding and we are prepared to listen to our partners in the public sector, and to take time to get this right.

I know that they are just as serious as we are about doing the right thing for Albertans.

CULTURE SHIFTS

I will not pretend that progress on the labour front —or on any one front— will be enough.

We cannot deal with circumstances like this in a single year.

And economists have been advising us not to move that fast anyway.

Filling the gap in our budget in one shot would mean such drastic cuts that the province would sink into recession. And it would leave us completely unable to maintain services, or to protect our most vulnerable citizens.

Getting Alberta back on track is a long-term endeavour; it is the work of years.

This is more than a matter of policymaking. It requires a culture shift, a fundamental rethink of public finances and the economy.

This much is clear. We need to get off the oil rollercoaster. Albertans tell me this every day, everywhere I go, and they are right.

They agree that waiting on OPEC to decide if we can build new schools is no solution for Alberta.

Resource revenues can help us remain competitive, but we have become addicted to them.

It is not smart nor is it fair, because those revenues don't belong entirely to us.

They belong to our children and grandchildren, and generations of Albertans to come.

We should be setting a portion of that money aside for them.

We must pay our own way, and get back to a point where we are spending within our means on what we need, and saving for the future.

Change on this scale can be wrenching. And everyone will bear a bit of the pain.

But this province has been through culture shifts before. And there is nothing tougher than an Albertan.

I think we often forget that Albertans are no strangers to re-invention. History has forced us to master this particular art.

Ninety years ago, our economy ran on wheat. It comprised 60 percent of prairie crops and the bulk of that was exported.

However, by 1930, wheat surpluses from other nations caused a glut in international grain markets.

The Great Depression and drought conditions made a bad situation worse. But it is worth noting that Alberta was dealing with a state of affairs very similar to the present.

We had become dangerously dependent on a single commodity and a global oversupply caused a price collapse.

And Albertans fell back —then as now— on our longstanding values of innovation, courage and resilience.

We were forced to develop new techniques to improve production and reduce costs...expand market access...and find new avenues of diversification.

That is how our modern economy was born. And how it will be sustained going forward, as once again our province moves to redefine itself.

CONCLUSION

Innovation, courage, and resilience — those qualities are the foundation of Albertans' identity.

Like Rotarians, we persevere in all weather and against all odds.

We are not a people prone to giving up. We handle the most severe tests of our character bravely and wisely.

This is what it will take to solve Alberta's difficulties.

And at the end of the month, my government will bring forward a 10-year plan designed to achieve exactly that.

Our plan will be measured and balanced. It will lay out in detail what the problems are and the decisive actions we will take to correct them.

Every Albertan will know where we are, where we are going and how we will get there.

We will bring forward a plan – and we will stick to it.

We are resolved – and we will all do our parts.

We will take action in a way that protects jobs, our vital services and our Alberta advantage.

We will act prudently and decisively but with compassion for those who we must protect.

We will be sensitive to the impacts of the decisions we make on an already vulnerable economy.

We will deal honestly and fairly with shared and fundamental challenges.

When Albertans face a challenge, we stand together and tackle it head-on.

And together, we will strengthen the foundation of this province and build an even brighter future – with the same determination, confidence, and vision that Albertans have always shown.

And we will emerge even stronger on the other side.

Thank you.

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