

A submission to Council had been prepared to authorize Assiniboia Engineering Company to undertake the work for an amount not to exceed \$988,712.

(Minister's submission to Council, Nov.8, 1948 - P.C.3064).

16. The Cabinet, after discussion, agreed that the Minister be authorized to enter into a contract with Assiniboia Engineering Company for construction of the irrigation tunnel for the St.Mary River project on a cost plus fixed fee basis, the contract to contain specific arrangements for control and limitation of equipment costs; an Order in Council to be passed accordingly.

Newfoundland discussions; financial terms;
report of Cabinet Committee

17. The Minister of Justice, referring to discussion at the meeting of November 3rd, reported on the progress of discussions between the Cabinet Committee and the Newfoundland delegation.

The Newfoundland vote in favour of confederation had been on the basis of the arrangements proposed by the Canadian government in 1947. In communicating these arrangements, the Prime Minister had indicated that financial assistance which would impose further financial burdens on Canada would not be feasible.

Nevertheless, after full exploration of the position in the present discussions, it was apparent that, in the years immediately following union, a provincial government would not be able to function satisfactorily on the financial basis suggested. The Newfoundland delegation had indicated that a \$10 million annual deficit could be expected in the provincial budget. On further examination, it appeared that this figure could be reduced substantially. Some \$2½ million of the estimated deficit represented expenditure on capital development which need not be financed from current revenue. The amounts payable to the province under a tax rental agreement had been under-estimated by about \$1 million. Expenditures in the provincial estimate could be reduced up to \$1 million. Moreover, if the provincial government imposed a sales tax, some \$2½ to \$3 million in revenue could be obtained.

There would remain a deficit of some \$3 million in the annual provincial accounts on current account. Unless some method of bridging this gap could be found, it was unlikely that confederation would function successfully. Unless

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