



HALIFAX CHAMBER OF COMMERCE

stronger together

Provincial Pre-Budget Submission 2011-12

December 10th, 2010





WE ARE

A not-for-profit business organization that takes a business - like approach to its operations.

Objective and non-partisan; we do not lobby for specific interests.

Funded exclusively through membership fees and fees for services we provide.

Experts in running conferences, publishing and disseminating information, helping people network, developing leadership skills, and building community capacity.

Specialists in the development and advocacy of public policy.

Not a government department or agency.

Independent from, but affiliated with the Nova Scotia, Atlantic Provinces and Canadian Chamber of Commerce.

A diverse organization made up of businesses that mirror the Halifax, Nova Scotia and Canadian economics.

Executive Summary

The following submission outlines the Halifax Chamber of Commerce position on issues that are critical to the local business community. It aims to bring policies and strategies to the forefront to inform and assist the Province in developing the 2011-12 budget.

In recent months, we have seen a number of provincial announcements and initiatives laying out the future for Nova Scotia. The Province's new economic strategy, "jobsHere", focuses on several key economic sectors and is a forward-looking document. The Lower Churchill Hydroelectric Agreement, reached between Nova Scotia and Newfoundland will, if executed, help us meet our province's aggressive target of attaining 40% renewable energy resources by 2020.

Recognizing that Nova Scotia requires significant change to grow our economy and that we must keep up with other Canadian provinces, Dr. Donald Savoie, economist and political scientist, has advised the Province on how to improve our economic prospects.

Health care, with its unsustainable and steadily increasing expenditures, has been studied by Dr. John Ross, provincial advisor on emergency care. Dr. Ross has strongly recommended improvements to Nova Scotia's ailing emergency-care system. Additionally, the Province has recently announced a new plan on Emergency Health Care as part of its response to Dr. Ross' document entitled *Better Care Sooner*. This is a promising development, as this new plan addresses areas of Chamber interest such as redefining what emergency care should be and providing an emphasis on patient-centered care.

Finally, acknowledging the need to further strengthen Nova Scotia's university system, Dr. Tim O'Neil, Economist and former Bank of Montreal Executive Vice-President, has recommended policy options for Nova Scotia to ensure we have a sustainable and responsive university education system.

Given these expert – and primarily agreed upon – recommendations, the Province's goal of getting "back to balance" by 2012-13 will be a real challenge. This is the overall theme of this document.

We commend the Province on the steps they have taken. Excellent consultation. Excellent advice.

But, as folks often say, "We all know what needs to be done; the hard part is actually doing it".

On behalf of the business community of Halifax, we provide comment to you under the following topic areas:

- 1. Taxation**
- 2. Finances & Program Spending**
- 3. Economic Growth**

1. Taxation

Nova Scotia must do all that it can to make itself more appealing for business to come and to grow in our province. This will include lowering the corporate income tax rate. Nova Scotia has one of the highest corporate tax rates among all Canadian provinces.

Businesses in Nova Scotia have recently absorbed an HST hike from 13% to 15%. Businesses are now facing an energy rate increase and a potential water rate increase. This is occurring at a time of global uncertainty, where local businesses are still feeling the impact of the recent recession. The Province must look to mitigate additional pressures on business by tightening its budget to ensure further tax increases do not happen and minimizing, where possible, the regulatory burden.

The Chamber wants to emphasize, once again, that lower taxes are positively correlated with increased outside investment and the growth of local businesses. All of this translates into economic growth for Nova Scotia.

We recommend that the Province decrease the Small Business Tax Rate from 4.5% to 3%. We remind the Government that Manitoba's Small Business Tax Rate, for example, will be phased out entirely for 2011.

The Halifax Chamber of Commerce, and the many businesses that comprise it, firmly reject any further tax increases.

2. Finances & Program Spending

– Health, Education, and Public Sector Pensions

The Chamber's issues with Provincial Finances and Program Spending are threefold:

Firstly, it is no secret that Nova Scotia's health care expenditures continue to increase, spiraling out of control year after year.

Secondly, our education system – including both the regional school boards as well as our university system – is in dire need of a new and restructured approach; an approach that emphasizes efficiencies, and maximizes our already-stretched resources.

Thirdly, the sustainability of the public sector superannuation pension plan is in serious jeopardy. Taxpayers may well find themselves responsible for making up the deficit of this plan yet again. Last year, taxpayers footed a bill totaling \$540 million.

Expenditures in Health and Education alone make up about 56.4% of the 2010-11 budget.

Finances & Program Spending: Health

With respect to health spending, it is evident that we have serious fiscal challenges that threaten the future of our health care system. Meaningful reform is required. We are not suggesting the entire

system could, or should, be changed overnight. Taking baby steps wherever possible to enhance efficiencies could result in significant savings.

For example, consider the fact that New Brunswick, with a population of 729,997, has two District Health Authorities. Nova Scotia, with a population of 940,397, has nine district Health Authorities. Reducing the number of District Health Authorities in Nova Scotia has been on our radar in previous pre-budget submissions, and it remains so for this one, as an example of ways to look at things differently. Streamlining, cost cutting and greater efficiencies, wherever possible, must be identified and achieved. Options that could be considered would be accountability for the cost of the system by those providing the services, and more consideration of private sector delivery options under the publicly funded system.

Health care expenditures continue to grow well above the pace of nominal economic growth in our province. Clearly, this is not a sustainable business model. This year alone, Nova Scotia is expected to spend \$3.6 Billion on Health Care. That is nearly \$4,000 for every man, woman and child in Nova Scotia. It is also an increase of \$212 Million over last year, or an approximate 6% increase in spending.

Comparatively, the Government of Manitoba, with a considerably larger population than Nova Scotia at 1.23 Million, is increasing its health care expenditures by 4.8% from last year. Meanwhile, the Government of Saskatchewan, with a provincial population of 1.04 Million, is increasing its Health expenditures by 3.1%. While neither of these expenditure percentage increases can be considered “sustainable”, they demonstrate that Nova Scotia is on an even more unsustainable and insecure course than most.

Regarding medically acceptable wait times, Dr. John Ross in his report entitled *The Patient Journey Through Emergency Care in Nova Scotia* has made it quite clear that there is plenty of room for Nova Scotia to make improvements. During his extensive province-wide consultation, an all-too-common theme was that patients are waiting far too long to see their doctor – in some cases, up to seven weeks. This is unacceptable. Nova Scotia needs to adopt specific Emergency Room standards, as well as introduce consequences for failing to meet these standards.

While the new Emergency Care Health plan entitled Better Care Sooner is an encouraging document in that it acknowledges many actions and makes several promises that we support, the Chamber remains concerned about the vagueness surrounding the “cost” side of the Plan. Surely the government has examined the associated costs for the various scenarios and processes the Plan references – yet these are not made available to us. This leads to a lack of accountability and makes a reasonable assessment of the Plan difficult.

The Halifax Chamber of Commerce calls on the Provincial Government to leverage its majority mandate. Take immediate and long term, significant action to fundamentally arrest the unsustainable course of our health care system. We must strive to be a leader in the reform of our health care system. Since 1989, many different government-funded studies have called for systemic change. Now is the time to act upon the advice of these studies and reports. We know what needs to be done.

Finances & Program Spending: Education

Several glaring concerns arise in Nova Scotia's education system.

Firstly, post-secondary students from outside of Nova Scotia are receiving educations subsidized by the taxpayers of Nova Scotia, only to complete their degrees and move back to their respective provinces to live and find work. This trend, coupled with the looming demographic and labor workforce shortages headed our way in the next few years, surely spells trouble for Nova Scotia – a province already faced with many, many economic challenges.

Secondly, the Province is seeking cuts of up to 22% to Nova Scotia's school boards in an attempt to balance the books over the next three years. The Halifax Chamber proposes that all areas of school board expenditures be examined for increased efficiencies, including the school boards themselves. Currently, we fund nine school boards for a rapidly declining school population of 129,900 students.

Such examination should not invoke the knee-jerk response of reducing school buses, bus routes, textbooks, or any other vital aspect of our children's education system. Rather, a thoughtful examination requires that we acknowledge our limited resources and find savings from the most innovative and least detrimental sources, and put those resources where they are most needed or where the Return on Investment – in this case, better educational outcomes – is greatest.

Finances & Program Spending: Public Sector Pension Plan

Simply put, the Halifax Chamber remains seriously concerned about the size of the deficit in the public sector pension plan. At December 31, 2009, the Plan's unfunded liability was \$1.5 billion, with a funded ratio of 69%¹. In 2010, provincial taxpayers contributed \$540,000,000 to the plan.

We understand the Province is aware of this plan's deficit, and is taking measures to alter its structure in order to pave a more sustainable path for the future of the plan. Previously, the Province had forecasted a Rate of Return of 7.1% for the plan. But, due to recent poor market conditions, the Rate of Return over the past few years has averaged only 4%. This means that additional uncertainties were handed over to the taxpayer to make up this gap. The fact that the Province continues to project the Rate of Return for this plan at 7.1% is worrisome. This projection is not realistic, and could result in taxpayers continuing to pay to make up this difference.

If the markets continue to perform poorly as they have in previous years, and the province still requires a 7% Rate of Return in order to ensure the stability of the fund, will we not be faced with another funding gap in the future? Will taxpayers be expected to step up again? This is a real risk for taxpayers.

¹ Government of Nova Scotia. *Budget Address: Back to Balance, the Four-Year Plan. April 6th, 2010.*
<http://www.gov.ns.ca/news/details.asp?id=20100406003>

3. Economic Growth

Through the course of numerous meetings with the Chamber, the concept of economic growth as part of a three-legged “stool of progress” has been discussed. The other two legs of the progress stool – increasing taxes and cutting spending – are but temporary fixes to our local economic woes. What we really need is growth.

To really grow and prosper, we require all three. However, greater economic growth has the utmost potential to improve Nova Scotia’s competitive positioning overall. This will be achieved by means of a “trickle down” effect and, as such, requires additional attention.

The Province’s new economic strategy, entitled “jobsHere”, sets the stage for growing Nova Scotia’s economy by focusing on three specific themes:

- Right skills for good jobs,
- Growing the economy through innovation and enhanced productivity, and
- Helping businesses become more competitive globally.

This is a very encouraging and strategic approach. Targeting specific stimulus areas with a majority of government funding, instead of spreading those funds thinly over a wide array of sectors, is a good way to quickly see real, measurable benefits. However, “jobsHere” is much too vague for our liking. It has some great ideas, but lacks specific examples of how the Strategy will achieve all of its objectives.

Presently, the Province of Nova Scotia has the highest corporate income taxes in Canada, a disproportionately large government, and excessive red tape. These factors make our province less than attractive to outside investors and businesses – and local ones, for that matter, as well.

According to a Fall 2010 report released by the Atlantic Provinces Economic Council, labor productivity in the three Maritime Provinces remains well below national levels. Nova Scotia *needs* to be an environment where business can *succeed*. If and when NS adopts a competitive environment, our economy will grow on its own. In addition, we will be able to attract outside investment (an area which we are currently lacking) along with more foreign companies that are looking to expand or relocate in the “right” place.

Of course, it goes without saying that this would also mean more jobs, more tax dollars, and thus more government resources for paying off debt and providing services to citizens.

Last year’s budget resulted in immediate tax increases, while reserving spending cuts for future years. This year, we want the Province to provide more detail on expenditure reduction initiatives without delay. We want the Province to take full accountability for its promising – yet thus far unfulfilled – plans, objectives, and goals.

We want an action plan that clearly demonstrates how the “jobsHere” strategy will be executed; how our health care expenditures will be controlled and managed moving forward, and a plan that clearly states what cuts will be made in order to make it all come together.

In summary, the Halifax Chamber of Commerce is looking for the province to clearly demonstrate and clarify:

- Specific plans for the revenues gained from the 2% HST increase. How will these revenues be used – in what specific areas?
- How annual expenditures will be managed, specifically in the high growth area of health care;
- The liabilities to the taxpayer of public sector pension plans. What pension plan reform will mean for taxpayers; and
- A comprehensive tax review process that will lay the groundwork for Nova Scotia to create to a more competitive business environment.

We look forward to working with you to achieve these objectives.

As always, the Chamber stands by ready to assist the Province in any way possible.

More information about the Chamber and its advocacy work can be accessed by contacting the office or visiting the Chamber web site at www.halifaxchamber.com.

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