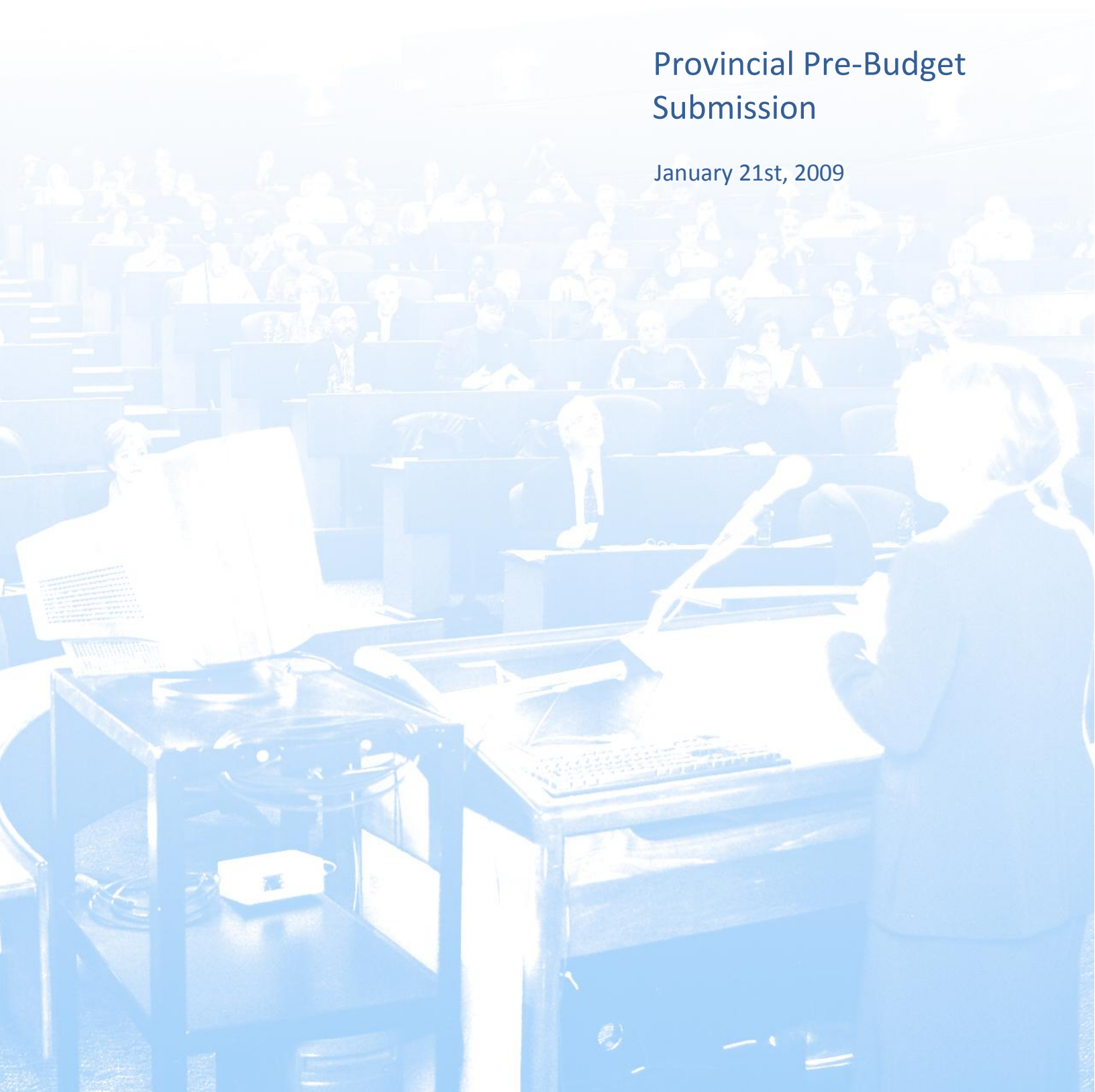




HALIFAX CHAMBER  
OF COMMERCE

## Provincial Pre-Budget Submission

January 21st, 2009



## EXECUTIVE SUMMARY

The following pre-budget submission outlines advocacy areas for the Halifax Chamber of Commerce that are Provincial in scope. Based on member surveys, the Board has identified three key priority areas for the Chamber this year, which are:

- Education, skills and training;
- Supercharging our labour force; and
- Transportation

This pre-budget submission outlines the Chamber's position on issues that support these priorities and are critical to business. In summary, this year's recommendations to the Provincial Government include:

### DEBT

- If necessary, given the unpredictable state of the economy, redirect Provincial debt reduction funds on a short-term basis.
- A phase out of the defined benefit pension system and its replacement with a defined contribution pension system for public sector employees, including teachers.

### PROGRAM SPENDING

#### Infrastructure

- Given the state of the economy, this is one of the very few scenarios where the Chamber supports diverting funds from debt management to infrastructure spending on a short term basis.
- Invest strategically in new growth industries, which will have lasting effects not only on the economy, but on the environment as well.
- Invest in municipal transportation, utility infrastructure (including connection to Lower Churchill Falls) and in renewable power generation.
- Ensure that the federal government is a full partner in the Atlantic Gateway.
- Evaluate private public partnerships or strategic investment partnerships via cost-benefit analysis for all infrastructure projects.

#### Education

- Make affordable education at all levels a priority.
- Research and target educational opportunities that arise from changes in the global economy.
- Combine public-private partnerships for school infrastructure when cost effective.
- Market all of Nova Scotia's post-secondary institutions abroad.

#### Health

- Accelerate all 103 recommendations contained in the Corpus Sanchez Report.

- Act on emerging opportunities with new policy and strategic focus. For example, utilize web based booking systems, electronic records and related technology to gain efficiencies.
- Use best practices and aim for continuous process improvement.
- Reward decisions for smart investment decisions.
- Modernize job descriptions and possibly reassign talent to match new realities.
- Invest in preventative health care.
- Realize economic opportunities related to health care.

#### TAXATION

- The Chamber does not recommend any new personal tax cuts, since such cuts would likely not stimulate the economy but only increase savings.
- Reduce capital taxes on financial institutions which are currently taxed at 4 per cent.
- Faster phase-out of capital taxes on non-financial institutions. On the current schedule, Nova Scotia's phase-out is scheduled for two years later than other provinces, with total elimination in 2012.
- Take advantage of the offered federal incentive to eliminate the capital tax on non-financial institutions by 2010.
- Accelerate the phase out of the business occupancy tax so it is eliminated in 2010 or sooner.
- Reduce small business income tax from 5 per cent to 3 per cent.

#### INDEX

<b>INTRODUCTION</b> .....	<b>PAGE 4</b>
<b>DEBT</b> .....	<b>PAGE 4</b>
<b>PROGRAM SPENDING</b> .....	<b>PAGE 5</b>
<b>INFRASTRUCTURE</b> .....	<b>PAGE 5</b>
<b>EDUCATION</b> .....	<b>PAGE 6</b>
<b>HEALTH</b> .....	<b>PAGE 6</b>
<b>TAXATION</b> .....	<b>PAGE 8</b>
<b>CONCLUSION</b> .....	<b>PAGE 9</b>
<b>CONTACT INFORMATION</b> .....	<b>PAGE 9</b>

## **Introduction**

The Halifax Chamber of Commerce is a best-practice business advocacy organization representing the interests of 1,700 members and over 90,000 employees across Halifax. The Chamber advocates for provincial policies that will make Halifax a better place to live, work and play. With respect to provincial issues, the Chamber seeks to encourage the development, implementation and review of provincial policies that are important to Chamber members. This submission attempts to bring policies and strategies to the forefront that the Chamber hopes will inform and assist the Province in developing the 2009-2010 Budget.

Recent international business and economic events have been unprecedented in their speed, scope and potential detrimental effect over the long term. While the Province has made great fiscal strides in recent years, these events are obviously challenging.

Such challenges are in addition to demographic changes and comparably low levels of wellness and literacy in the Province. This leads us to anticipate that Nova Scotia's fiscal situation will likely deteriorate in the years ahead. Revenue levels will likely be reduced by lower income tax revenue, royalty fees and federal transfers. This reduced revenue will coincide with public demand for increased provincial spending to address the economic downturn and meet infrastructure, educational, health and other social needs.

To this end, we submit to the Province key considerations for the 2009-2010 Budget in the following areas:

- Debt
- Program Spending (Infrastructure, Education, Health)
- Taxes

## **Debt**

The Province's 2007-2008 net direct debt is estimated at \$12.4 billion. The Chamber fully supports measures taken in recent budgets to begin reducing the Province's net direct debt. However, we remain concerned, specifically about public sector pension liabilities.

The Dominion Bond Rating Service recently upgraded their outlook for the Province from "stable" to "positive". The DBRS specifically noted progress in lowering the provincial debt to GDP ratio and the province's responsible fiscal management as reasons for this improved rating. We congratulate the government on this achievement and point out that prudent management of finances does not go unnoticed both locally and internationally.

However, as mentioned, the Chamber is concerned about debt. Specifically pension plan obligations that may not be included in the \$12.4 billion dollar net direct debt figure. To better manage future pension liabilities, the Province should phase out defined benefit pension plans and replace them with a defined contribution plan model for civil servants, teachers, nurses and other public employees. This approach follows that of the vast majority of the private sector employers.

Continued focus on reducing Provincial debt and debt servicing costs has positive long term effects, both in the ability to manage through a slow economy and to free up more cash for program expenditures. We recognize that complying with the debt reduction plan this year will be challenging. A redirection of

debt reduction funds may be reasonable in the short term, given the state of the global economy. However, we urge the government to stay committed to the debt repayment plan and clearly identify in the budget how debt repayment commitments will be met, over the medium term.

### **Program Spending**

We are now exiting one of the best times of economic and revenue growth for the Province in recent years. The Chamber appreciates that revenue sources have grown quickly. However, we have been alarmed by the accompanying growth in spending, which has far outpaced that of revenue. The past ten years have seen relatively low amounts of inflation, almost no change in population and modest growth in GDP. Despite these indicators, which point to low need for increases in expenditures, provincial departmental spending has been increasing at a rate that is almost double that of GDP. Government must face the reality that expenses cannot continue to outpace revenues indefinitely. In the long term, spending levels must be sustainable and in line with growth in our province.

That being said, we are now in extraordinary times. Targeted, temporary spending may be required, in order to stimulate growth and minimize the negative impact on Nova Scotia's economy. To the extent that stimulus spending is required, the Chamber suggests focusing on addressing the infrastructure deficit. Below we examine infrastructure spending, education and the biggest area of spending for the Province, health care.

### **Spending: Infrastructure**

As stated previously, the Chamber recognizes that these unique times require special measures. Given the need to stimulate the economy, we support diverting of funds from debt management to infrastructure spending on a short term basis. Such investment must be spent in specific areas and with a strategic purpose. Public-private partnerships may assist such investments where the partnership is based on a transparent cost-benefit analysis and the investment makes economic sense.

Investment in new growth industries, such as energy and life sciences, makes economic sense. There may be opportunities to partner with the Federal Government for matching funds, or access to programs which normally would not be accessible. In addition to traditional transportation initiatives, Government should consider investing in: municipal transportation, utility infrastructure, (including connection to Lower Churchill Falls) and other renewable power generation projects.

The Chamber believes that Atlantic Gateway opportunities are significant and that the Province must exercise leadership on this initiative by sending a strong signal to the private sector that Nova Scotia is serious about the Gateway and the economic advantages to be obtained from it. The Province must also ensure that the federal government is a full partner in the Gateway, contributing to any infrastructure costs and implementing policies and regulations that do not create barriers to the economic success of our port.

## **Spending: Education**

The Chamber applauds the Government's continued focus on "Educating to Compete" and "Lifelong Learning" and the Province's commitment to bring tuition levels down to the National average. Marketing all our post-secondary institutions abroad is both a solution to resource constraints and an opportunity, since it helps to address long term immigration goals and university enrolment challenges brought on by changing demographics.

To succeed, Halifax students need strong effective leadership from the Halifax Regional School Board. In August 2008, the Chamber's Education and Training Committee released a paper titled "Revitalizing the Halifax Regional School Board: An Opportunity for Excellence in Student Achievement".<sup>1</sup> In October 2008, new members of the school board were elected. The Chamber has challenged the new board members to work together to find innovative ways to effectively direct resources, so that our education system becomes of model for all school boards throughout Canada.

Further, the Chamber encourages the Government to continue to evaluate ways to combine public-private partnerships for school infrastructure. The Chamber believes that with greater oversight, transparency and increased levels of disclosure, public-private partnerships could be an effective method to give our students the best schools and a better opportunities for success.

## **Spending: Health Care**

The government is to be commended this year for staying within budgeted health care spending of \$3,205,939,000. Although this represents a 5% increase over last year, it is less than the national average. However, at 38.5% of total spending in 2008-09<sup>2</sup>, Nova Scotia spends an above average portion of its total budget on health care. In fact, when compared to the other provinces, we are the second highest health spenders as a portion of GDP, at 14.6%<sup>3</sup>.

Allowing health care to grow towards 50% of total provincial expenditures (which will be reached in less than twenty years, if trends continue,) is neither sustainable nor necessary<sup>4</sup>. To that end, the Chamber strongly supports an accelerated implementation of all 103 recommendations contained within the Provincial Health Services Operational Review, December 2007 (commonly referred to as the Corpus Sanchez Report). We concur with the Report's conclusion that radical and systemic change is required, in order to create a sustainable health care system for the people of our province.

The Chamber applauds the Government for establishing a Transformation Office to oversee the implementation of Corpus Sanchez. The Province must ensure that the Office is well equipped and supported with proper resources and a clear mandate, in order to get the job done.

Specifically, in order to support the strategic transformation that is required at the Department of Health, the Chamber suggests that the Province take the following actions:

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<sup>1</sup> [http://www.halifaxchamber.com/images/policy/Education\\_Revitalizing\\_HRSB\\_Aug262008.pdf](http://www.halifaxchamber.com/images/policy/Education_Revitalizing_HRSB_Aug262008.pdf)

<sup>2</sup> Statistic sent from Naomi Shelton, Communications Advisor, NS Department of Finance to the Chamber of Commerce.

<sup>3</sup> [http://secure.cihi.ca/cihiweb/dispPage.jsp?cw\\_page=media\\_13nov2008\\_c#3](http://secure.cihi.ca/cihiweb/dispPage.jsp?cw_page=media_13nov2008_c#3)

<sup>4</sup> <http://www.canhealth.com/News970.html>

- **Invest in innovation.** Our health care system must utilize web based booking systems, electronic records and related technology to gain efficiency, manage demand and wait times, while delivering savings and enhanced customer service.
- **Use best practices.** Look to international health systems, including the United States. For example, Health Management Organizations (HMO's) like Kaiser Permanente, which have highly efficient, integrated systems which are patient centered and rich in data.
- **Aim for continuous process improvement.** Allow for the best care and data driven continuous process improvement. Nova Scotia has made some progress with e-records, particularly in radiology, but we must accelerate the plan to fully implement an integrated electronic health system.
- **Reward decisions to spend in one division, in order to produce savings in another.** For example, strategic investments in new medicines out of the pharmacare budget that have the potential to achieve significant savings in the hospital budget are often stalled because the two budgets are completely independent.
- **Modernize bureaucracy.** Job descriptions have to be redefined to reflect a modernized health care delivery system. Individual talents must be assessed and possibly reassigned to best match these new realities.

In addition to system efficiencies recommended in Corpus Sanchez, the Province must also act strategically to manage significant threats which stem from chronic disease and our aging population. Currently, seniors make up 15.4% of our population<sup>5</sup>. Nova Scotia has the highest proportion of seniors in the country and, in fact, is the first province or territory to have more seniors than youth.<sup>6</sup>

The median age in Nova Scotia is 42.2 years and is the second highest in Canada and is higher than the Canadian average by 2.8 years.<sup>7</sup> We must prepare for the challenges this reality will bring. To this end, the Chamber recommends that the Province:

- **Invest in preventative measures:** Keep the healthy, healthy. Public health investments in wellness promotion and comprehensive immunization programs are supported and encouraged by the Chamber. Tax incentives rewarding those employers who make meaningful investments in their employees' health and wellness should also be given serious consideration. Managing those already with chronic diseases will be an ongoing challenge and will require investments in access to evidence based therapies and innovative disease management programs.
- **Act on emerging opportunities with new policy and strategic focus:** Such as expanding access to innovative medicines by looking to provinces like Ontario and its recent Bill 102. This legislation helps manage pharmacy distribution costs while maximizing savings from generic medicines, thus freeing up dollars in the drug budget to be invested in new medicines and better utilizing pharmacist expertise as health care professionals. As many high volume drugs are scheduled to go off patent in the next few years the government needs a formal strategy to ensure it gets the best value for all Nova Scotian tax payers.

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<sup>5</sup> Census 2006 <http://www.gov.ns.ca/news/details.asp?id=20070718005>

<sup>6</sup> <http://www.statcan.gc.ca/daily-quotidien/090115/dq090115c-eng.htm>

<sup>7</sup> <http://www.statcan.gc.ca/daily-quotidien/090115/t090115c1-eng.htm>

- **Realize economic opportunities:** If we are to continue to spend 38.5% of the total budget on health care, the Minister of Health must work with her colleagues in Finance and Economic Development to ensure that this spending realizes maximum benefits for the Provincial economy, as well as the individual health care user. Nova Scotia is uniquely positioned to succeed within the economic sector of health care; from clinical and basic health research, to spin-off companies in the life sciences sector, there are opportunities to create innovative products. The government should resist the temptation to invest limited dollars in propping up fading industries and instead, support and foster sectors poised for expansion in the future, such as the life science sector.

## **Taxation**

The Chamber has identified a number of risks to Provincial revenue. Since the extent of the current downturn is not yet known, caution is required. The Chamber advocates that the Province not institute any new personal tax cuts that could have a negative effect on the treasury at this time. However, corporate tax cuts should be considered to the extent that they stimulate the economy and build upon the competitiveness of Nova Scotia businesses.

### **Taxation: Corporate Tax and Competitiveness**

The Fraser Institute published a study in December 2008 titled, "Canadian Provincial Investment Climate".<sup>8</sup> Their research supports the Chamber's position that Nova Scotia's success and ability to attract investment is hindered by uncompetitive tax rates. Nova Scotia scored second last in the corporate income tax assessment and last in the corporate capital tax assessment among Canadian provinces.

Accelerating the reduction of business taxes could assist the Province with attracting investment, which is particularly important when that investment will be a critical component for recovery from the economic downturn. This is especially true in the financial services sector. Below, we specifically address capital taxes, business occupancy taxes, and the small business tax rate.

### **Taxation: Capital Taxes**

We urge the Province to follow the example of the federal government and many other provinces by reducing capital taxes on financial institutions which are currently taxed at 4 per cent in Nova Scotia. We also encourage faster phase-out of capital taxes on non-financial institutions. On the current schedule, Nova Scotia's phase-out is scheduled for two years later than other provinces, with total elimination in 2012. Once again, we urge the government to take advantage of the offered federal incentive to eliminate the capital tax on non-financial institutions by 2010.

### **Taxation: Business Occupancy Tax**

Another business tax that is scheduled for phase out is the business occupancy tax. On the current schedule, many businesses continue to pay business occupancy tax on 75 per cent of the assessed value until 2012. The Chamber recommends that the Province accelerate the phase out of this tax so it is eliminated in 2010 or sooner.

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<sup>8</sup> [http://www.fraserinstitute.org/commerce.web/product\\_files/ProvincialInvestmentClimate2008.pdf](http://www.fraserinstitute.org/commerce.web/product_files/ProvincialInvestmentClimate2008.pdf)



### **Taxation: Small Business Tax Rate**

The Chamber would once again encourage the government to reduce small business income tax. Previously, the government increased the small business tax (5 per cent) threshold to \$400,000. In our 2008 Pre-budget Submission, the Chamber advocated that the Province reduce the tax rate from 5 per cent to 3 per cent. Once again, we encourage the government to consider this proposal to provide relief for small business.

The Chamber commends the Province for the current tax reform initiative and looks forward to providing input into the process and to the recommendations that will be presented in the coming months.

### **Conclusion**

Nova Scotia has experienced several years of solid fiscal improvements and strong economic performance, which the Chamber believes can be built on. We urge the Government in the coming budget to:

- Maintain debt reduction goals over the medium term and redirect debt reduction monies, if needed, from the current budget for strategic investments in health reform/ transformation, education and infrastructure.
- Align departmental spending (outside the investments noted above) with long term revenue growth to avoid the creation of expectations from the public that the treasury cannot meet.
- Accelerate business tax reductions already announced to improve our competitiveness and so their elimination coincides with other provinces.

We thank you very much for the opportunity to make this submission and look forward to working with you on an on-going basis.

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