



PROVINCIAL PRE-BUDGET SUBMISSION 2016/2017

January 21, 2016

Presented To: The Hon. Randy Delorey, Nova Scotia Minister of Finance

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Who We Are

The Halifax Chamber of Commerce is a best-practice, business advocacy organization that continuously strives to make Halifax an even more attractive city in which to live, work, and play. Together, the approximately 1,500 member businesses and their over 90,000 employees, we act as a single powerful voice to promote local business interests. The volunteer board of directors, and Chamber staff, undertake initiatives on behalf of the Chamber's diverse membership.

With origins dating back to 1750, we are recognized as the first Chamber established in North America. The Halifax Chamber is certified to the ISO 9001:2008 international quality standard, the first and only Chamber in North America to receive this accreditation.

The Halifax Chamber of Commerce offers over 100 events annually, countless numbers of opportunities for exposure through member services, advertising, and sponsorship. It also issues Certificates of Origin for those businesses that export internationally.

2013-2018 STRATEGIC PLAN

The Halifax Chamber of Commerce is committed to enhancing the prosperity of its members and to realizing Halifax's potential to be among the top 3 highest growth city economies in Canada by 2018.

1. To create a positive business environment to be reflected by being among the top 3 highest growth city economies in Canada by 2018.
2. To increase the skilled workforce by 20% from 2012 to 2018.
3. To accelerate prosperity of Chamber members by providing first class networking events, benefit programs, advocacy to governments, education, information and by making connections.

As part of our 2013-2018 Strategic Plan, the Halifax Chamber of Commerce Board of Directors created two Task Forces to implement the plan. The members of these Task Forces are a diverse group of individuals with significant expertise on key policy issues.

Task Forces

- Create a Positive Business Environment – Darren Nantes (Chair), Nantes Group Ltd.
 - Tax Subcommittee – Paul Bent (Chair), retired
 - Downtown Core Subcommittee – Robert MacPherson (Chair), RMP Development Consulting Ltd.
- Grow and Nurture the Skilled Workforce – Mark Fraser (Chair), T4G

Introduction

One of the lasting impacts of the Ivany Report has been to place two very important facts at the centre of many of Nova Scotia's public discussions. One, Nova Scotia's economic performance has lagged the rest of Canada for decades. Two, continued economic underperformance and population ageing will have major impacts on our province's economy in the decades to come.

While many of these conversations have focused on where our economy will be in 25 years, recent economic data demonstrates that we also need to approach the current state of our provincial economy with a similar level of alarm. The fact is, even by our own low standards of economic growth, Nova Scotia's economy is underperforming.

Since 2010, Nova Scotia's real GDP has grown a lamentable total of 0.18%. This performance is second only to New Brunswick, whose economy actually shrunk by an alarming 0.72% in real terms over the same period. Nova Scotia's economic situation does not look better even when you use per-capita GDP growth, which ignores population growth and is economists' preferred measure of living standards. Per-capita GDP in Nova Scotia only grew by 0.15% since 2010. Again, second worst in Canada after New Brunswick, which saw output per-person shrink by 0.92%. Nova Scotia's economy has not performed this badly since the early 1990s.¹

With Nova Scotia and New Brunswick both showing signs of major economic weakness, it is tempting to think that this is just our economic and demographic destiny at work. It is certainly a depressing prospect.

Of course, that diagnosis only works if you ignore Prince Edward Island.

The long-term problems facing PEI are familiar to any Nova Scotian. The province is aging, its economy has traditionally lagged the rest of Canada, and its youth are departing for greener pastures. Like Nova Scotia, it faces tough questions in the decades to come and few easy answers.²

Yet over the past few years PEI has not succumbed to the economic stagnation and decline that have plagued Nova Scotia and New Brunswick. Since 2010, its economy has grown by 6.8% overall and 3.5% on a per-capita basis. Those numbers are certainly not in the same league as Canada's fastest growing provinces, but PEI grew faster than Quebec and was not that far behind Ontario.³

Given the numerous long-term challenges facing our province, Nova Scotia can hardly afford to continue at this rate of economic stagnation. We are underperforming our own recent standards of economic growth and the standards of our neighbours. This needs to change. The recommendations contained in this submission represent the concerns and ideas of the business community about how to improve Nova Scotia. Our members are committed to building the strong province we all know is possible and we look forward to working together to improve our economy today and in the future.

Recommendations

Taxation

- Recommit to reforming Nova Scotia's tax system to help address our province's demographic challenges and fulfill the commitments made in Finance Minister's 2015 mandate letter;
- Pledge to reduce the tax burden once the province is in a stable fiscal position, specifically eliminating 'bracket creep'.

Fiscal Responsibility

- Balance the budget in 2016 as committed;
- Finalize affordable collective agreements with the province's public sector unions.

Regulation

- Publicly report on the size of the regulatory burden in Nova Scotia and take tangible steps to reduce it;
- Eliminate or reform the Capped Assessment Program.
- Entrench an "open for business" attitude at all levels of government.

Immigration

- Continue to prioritize immigration initiatives to help address Nova Scotia's demographic problems;
- Advocate for strong federal-provincial collaboration on immigration.

Education and Youth Retention

- Where funds allow, keep investing in programs such as Graduate to Opportunity that make it easier for employers to hire youth and recent graduates;
- Continue releasing regular reports on the government's progress implementing 'Nova Scotia's Action Plan for Education'.

Taxation

In the months before the 2015-16 provincial budget was released, Nova Scotia's tax system was a subject of serious debate. The final report of the Tax and Regulatory Review (Brotten Report) was released in November 2014 and it offered a series of bold, yet difficult, recommendations to consider. After the Report's release, the government promised to study the recommendations and include any tax changes in the upcoming budget.

Aside from the film tax credit and the non-eligible dividend tax credit however, the 2015-16 budget left Nova Scotia's tax system completely in place. The only relevant promise for the coming year was "The establishment of a tax working group to act as a sounding board on implementation challenges and opportunities with regards to the tax recommendations."⁴ Almost one year later, that tax working group is nowhere to be found. While the Chamber still supports a tax working group, our major concern is that tax reform appears to have completely fallen off the government's agenda.

Despite this inaction, the problems with our tax system that prompted the Brotten Report still remain. Nova Scotia has one of the highest tax burdens in Canada and, in a country where people and capital can move almost effortlessly between provinces, that has consequences for our economic competitiveness.⁵ Even worse, our well known demographic problems will cause our existing tax structure to become less effective as our population ages and our working-age population shrinks.⁶

The 2015 Ministerial Mandate Letter for the Minister of Finance commits the government to "Review options to implement changes to the province's tax structure to support economic growth".⁷ We strongly urge the government to fulfill its commitments on tax reform in Nova Scotia.

Reducing the tax burden is a critical part of the Chamber's 2013-2018 Strategic Plan. We strongly believe that the provincial government needs to take action to reduce the tax burden in Nova Scotia and begin shifting to a tax system that is capable of meeting the challenges of our aging population. Specifically, we believe that the government needs to address the 'bracket creep' in our personal income tax system. When we talk to our members, Nova Scotia's high taxes are a constant source of frustration and we expect the government to begin taking serious action on this issue.

Recommendations:

- Recommit to reforming Nova Scotia's tax system to help address our province's demographic challenges and fulfill the commitments made in Finance Minister's 2015 mandate letter;
- Pledge to reduce the tax burden once the province is in a stable fiscal position, specifically eliminating 'bracket creep'.

Fiscal Responsibility

The Halifax Chamber has been a strong advocate for balancing Nova Scotia's budget. While we have been disappointed at the slow progress that successive governments have made tackling our province's structural deficit, progress finally looked like it was going to be made in this year's budget. With this in mind, the news from December's fiscal update that Nova Scotia's deficit has increased by \$143 million since budget day was profoundly disappointing.⁸ With a projected 2015-16 deficit of \$241 million, the unfortunate reality is that Nova Scotia's structural deficit has not meaningfully improved since 2011. While the province's debt-to-GDP ratio has mercifully stabilized, the fiscal shortfall has proven frustratingly resilient.⁹

In retrospect, that successive governments have struggled to balance the budget over a period where Nova Scotia's real GDP has essentially flatlined should come as no surprise. While some would argue that it is government cutbacks that are the cause of these difficulties, total government expenses have increased by over \$320 million in real terms over the past five years.¹⁰ While there have been difficult budgeting decisions made of late, the provincial government as a whole has not been shrinking.

Aside from the growing deficit, the fiscal update also provided an updated economic forecast for Nova Scotia. Unfortunately, GDP growth estimates for 2015 and 2016 have been cut almost in half, meaning that the province will not be able to count on a strong economy to make its job easier.¹¹

This uncertain economic environment makes it all the more important for the government to hold the line on spending and get the budget balanced this year. Nova Scotia still spends well over \$800 million per year servicing the provincial debt, which is the fourth largest line item in the entire provincial budget.¹² As well, Nova Scotia still has one of the highest tax burdens in Canada and there is a pressing need to make government more affordable.¹³

It is also essential for the government to finalize affordable collective agreements with the province's public sector unions. With 52 per cent of provincial spending on wages and benefits, ensuring that public sector wages rise at an affordable level is a critical part of putting our province on a sustainable fiscal footing. It is clear that public sector compensation has grown well above the private sector average, as well as above the rate of inflation and the rate of GDP growth, for many years now.¹⁴ We support the government's current position of a 3% wage increase over five years and believe that it will help restore some balance to public sector compensation in the context of Nova Scotia's economic and financial realities.

Recommendations:

- Balance the budget in 2016;
- Finalize affordable collective agreements with the province's public sector unions.

Regulation

The regulatory burden has a major impact on the lives of our members and we were very glad to see concrete steps taken to reduce red tape in 2015. The major achievement last year was the *Regulatory Accountability and Reporting Act*, which formalized the activities of the Office of Regulatory Affairs and Service Effectiveness, the need to publicly track and reduce red tape, and the cooperation of the three Maritime Premiers on regulation.¹⁵ Beyond legislation, there were welcome announcements last year about processes that have been streamlined and regulations that have been harmonized.¹⁶

It is important to remember, however, that this is only the beginning. In particular, we will be looking for the Office to begin publicly reporting on the size of the regulatory burden in Nova Scotia to make it clear to the public whether progress is being made. We would also like to see all three Maritime Premiers continue to take concrete steps to harmonize regulations in our region. If Newfoundland and Labrador can be brought into this initiative, then all the better. Finally, while simplifying regulation is laudable, government also needs to work on improving its level of service. When we speak to our members about red tape, their feedback is just as often about the quality of the service they receive rather than the rules themselves. While 2015 was a welcome year of progress on regulatory reform, Nova Scotia has much more work to do to become a more business-friendly province. We expect this issue to remain an important priority for the provincial government the months ahead.

Capped Assessment Program: We continue to urge the provincial government to reconsider the Capped Assessment Program (CAP). While the CAP limits assessment increases for existing homeowners, it does so at the cost of discouraging intraprovincial labour mobility and increasing the property tax burden on rental properties and newly purchased homes. Rental properties are popular among young people (not to mention the poor) and new arrivals are often looking to buy homes.¹⁷ It is illogical that, in the face of demographic crisis, the provincial government maintains a program that raises the cost of living for those people we desperately need to retain.

While we understand that removing the CAP would be politically challenging, its negative impact is real and will only get worse. If removing the CAP is impractical, the situation could be substantially improved by raising the CAP back to its 2007-08 level of 10% per year.¹⁸ This would still protect Nova Scotians from extreme increases in their property assessments while allowing the inequities in the system to ease.¹⁹

Recommendations:

- Publicly report on the size of the regulatory burden in Nova Scotia and take tangible steps to reduce it;
- Eliminate or reform the Capped Assessment Program;
- Entrench an “open for business” attitude at all levels of government.

Immigration

Immigration has been one of this government's major success stories since taking office. Over the past couple of years, the number of provincial nominee certificates given to Nova Scotia has risen to 1,350, almost double our 2014 allotment.²⁰ Not only that, the province created four new immigration streams to make it easier for businesses to access and retain talent, and to allow foreign entrepreneurs and international students to invest in our province.²¹ The only negative has been their refusal to let permanent residents vote in Halifax's municipal elections, a position we strongly urge you to reconsider.²²

We believe that these initiatives will help Nova Scotia recruit more immigrants and improve our retention levels. Even better, recent immigration numbers suggest that we are beginning to see tangible progress. According to Statistics Canada, 1,071 immigrants came to Nova Scotia in the 3rd quarter of 2015. This is the best single quarter performance for the province since 1996.²³ Despite this welcome improvement, now is not the time for complacency. The Ivany Report set a goal roughly 7,000 new immigrants each year and our province's numbers will need to continue increasing substantially if we are going to achieve this target.²⁴

Fortunately, with the new federal government and our strong federal representation there is an excellent opportunity to make our immigration case to Ottawa. Helping Nova Scotia and the other Atlantic provinces attract and retain more immigrants is one of the most important ways the federal government can help address this region's pressing demographic problems.

As a first step, the province should push for Nova Scotia to receive its share of incoming Syrian refugees. Organizations and individuals around the province are willing to help those in need and should be given the opportunity. This will also help avoid overloading social services in major cities such as Montreal and Toronto.²⁵

The Chamber also understands that the business community has a critical role to play in helping newcomers succeed in Nova Scotia. We constantly champion the benefits of businesses being open to immigrants in our communications and events. We began our YES! campaign to change people's attitudes on issues like immigration and we have recently begun a 'Growth Champions Program' that publicly celebrates our members who have recently hired immigrants in their businesses.

Recommendations:

- Continue to prioritize immigration initiatives to help address Nova Scotia's demographic problems;
- Advocate for strong federal-provincial collaboration on immigration.

Education and Youth Retention

In 2015, the Department of Education and Early Childhood Development released 'Nova Scotia's Action Plan for Education', a multi-year plan to reform the public education system. This report was the culmination of an intensive effort to comprehensively review Nova Scotia's education system. While the government has made good progress implementing the plan, it will need to do more in 2016 to keep everything on track.²⁶

We will be following this issue closely and will be looking for the government to continue releasing progress reports on the Action Plan's implementation. In particular, we would like to hear more about the planned Business Education Council and the Department's progress toward further embedding entrepreneurship in the curriculum. As well, we support the government's effort to strengthen math and literacy in the primary-to-3 curriculum, promote entrepreneurship, and prioritize coding.²⁷ Improving Nova Scotia's education system is critical for creating a better future for our children and our province, and we cannot let the momentum of the past few years go to waste.

Youth retention is also a critical issue for Nova Scotia. Our province's inability to retain youth has dire consequences for Nova Scotia's future. Over the past two decades, Nova Scotia has seen an annual net loss of well over one thousand 20-29 year-olds to other provinces.²⁸ This outmigration has had a devastating impact on our province's communities and economy.

As youth will not stay in Nova Scotia without a job, we encourage the province to continue investing in programs that make it easier for employers to hire youth, such as Graduate to Opportunity. The final report of the One Nova Scotia Coalition also contained numerous ideas for how Nova Scotia can improve opportunities for youth. We will be looking for the government to keep moving that plan forward, along with the work of the One Nova Scotia Coalition in general.

We will also keep encouraging our members to take a chance and hire youth, a new graduate, or engage a co-op student. Young Nova Scotians bring a wealth of unique experiences and new ideas to businesses and are more than worth the investment. The Chamber has also recently launched a new Growth Champions program that recognizes Chamber members who hire youth. This program helps promote youth-friendly employers and reminds businesses that if other companies can invest in youth, maybe they can too.

Recommendations

- Where funds allow, keep investing in programs such as Graduate to Opportunity that make it easier for employers to hire youth and recent graduates;
- Continue releasing regular reports on the government's progress implementing 'Nova Scotia's Action Plan for Education'.

Conclusion

While the province has made progress on many important issues this past year, including red tape, P-12 education, and immigration, we must look at best practices that create a climate for business growth. These include:

- A competitive tax regime
- Regulations that make sense
- An open for business service environment

We do not have the tax base to do all things. Let us pick the most important issues that allow our province to flourish. We look forward to hearing your thoughts on these issues and on how we can move Nova Scotia forward together.

Going forward the Chamber will be looking for:

1. A balanced budget in 2016
2. Continued progress on immigration and regulatory reform
3. A concrete plan to reform and reduce the tax burden

This submission has been created in collaboration with the Chamber's Task Forces, and includes input from our many Chamber members. The mandate of the Chamber's Task Forces are to support the development of policies on issues of importance to our members that are within the purview of their mandates.

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⁵ <http://www.aims.ca/site/media/aims/AIMS03%20TaxProposals.pdf> (page 8)

⁶ [http://www.novascotia.ca/finance/docs/tr/Tax and Regulatory Review Nov 2014.pdf](http://www.novascotia.ca/finance/docs/tr/Tax_and_Regulatory_Review_Nov_2014.pdf) (page 21)

⁷ https://novascotia.ca/exec_council/pdf/letters/2015-FTB-ENV.pdf (page 4)

⁸http://www.novascotia.ca/finance/site-finance/media/finance/Forecast_Update_Dec_2015.pdf (page 2)

⁹http://www.novascotia.ca/finance/site-finance/media/finance/Forecast_Update_Dec_2015.pdf (page 2,12)

¹⁰http://www.novascotia.ca/finance/sitefinance/media/finance/budget2012/Budget_Assumptions_And_Schedules.pdf (page 1.5)

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