PROVINCIAL PRE-BUDGET SUBMISSION 2018/2019

January 5th, 2018

Presented To: The Hon. Karen Casey, Nova Scotia Minister of Finance

Table of Contents

WHO WE ARE

The Halifax Chamber of Commerce, speaks for over 1,600 companies with over 65,000 employees, and 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. Our 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 9001:2015 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, and countless numbers of opportunities for exposure through member services, advertising, and sponsorship.

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.

Goals

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 the 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.

<u>Task Force Leads</u>

- Create a Positive Business Environment – Paul Bent, retired, formerly Managing Partner Grant Thornton
- Grow and Nurture the Skilled Workforce – Don Bureaux, President, NSCC

HALIFAX CHAMBER OF COMMERCE

EXECUTIVE SUMMARY:

The 2017-2018 Provincial government budget documented many areas of concern and highlighted key projects that have supported several of the Halifax Chamber's current strategic goals. In the 2018-2019 budget, our members are seeking continued fiscal responsibility and improvements in the areas of taxation, regulation and economic growth. With the fiscal update in December projecting a further increase in our province's surplus the Chamber is taking an active stance that this be utilized to reduce our increasing debt and, while there were some positive changes to the small business tax rate threshold, our members would be pleased to see the full indexing of personal income taxes. The Chamber continues to support the reduction of red tape and an increase in our immigration retention rate past the one-year mark.

The following pre-budget submission highlights the top priorities of the Halifax Chamber of Commerce's members. Our recommendations are based on many conversations with our members over the past year and work on balancing the needs of the Halifax business community. We feel that these recommendations will help create a positive business environment, encourage growth, and promote investment.

Halifax plays a significant economic role in our province's success, generating greater than 54.9%[1] in GDP to the provincial economy and Nova Scotians across the province understand that economic growth in Halifax benefits the entire province. However, our capital city is not an island and our member businesses know that to flourish we need to support bold public policy and the tough decisions that are necessary to make all of Nova Scotia sustainable for years to come.

Recommendations:

- **Fiscal Responsibility:** Continue to implement a balanced budget while utilizing the surplus to improve Nova Scotia's current debt situation.

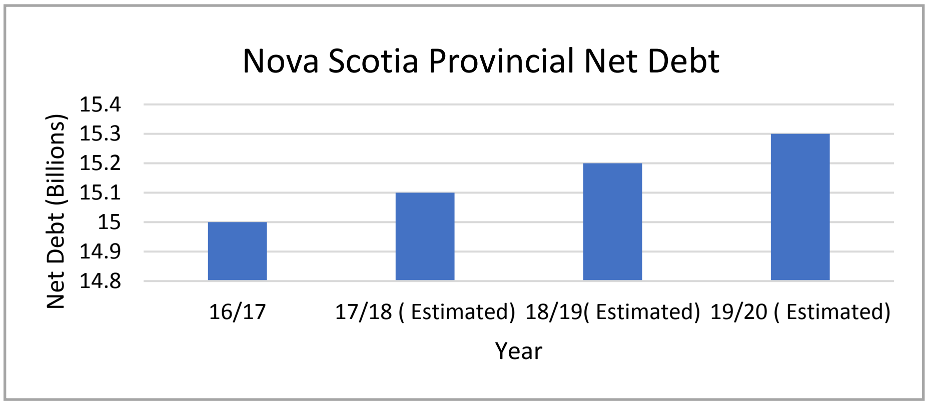
- **Taxation:** Continue to reduce the tax burden for Nova Scotians through the full indexing of personal income tax to inflation, reducing the Corporate Income Tax Rate to 14% or utilizing the surplus budget to reduce provincial taxes across the board.

- **Regulation:** Continue to set goals for red-tape reduction and push for aggressive reforms.

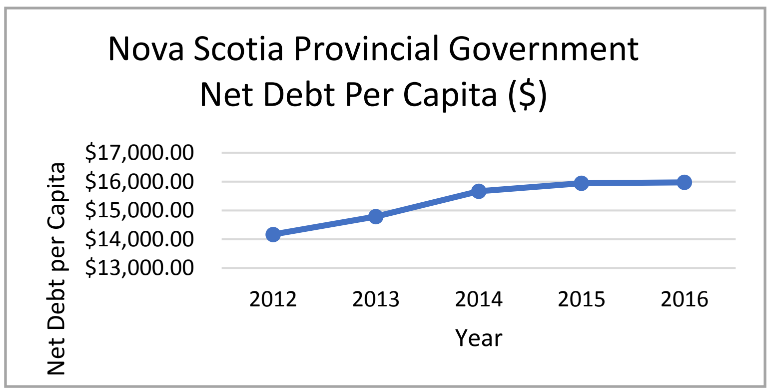
- **Economic Growth:** Push to increase the five and ten-year immigration retention rate and create more Work Integrated Learning opportunities for students and recent graduates in Nova Scotia.

FISCAL RESPONSIBILITY

While the Halifax Chamber of Commerce was pleased to see an operating budget surplus of $25 million for 2017-2018[2] we would like to see the provincial government utilize these revenues to focus on debt repayment. Nova Scotia's debt servicing costs, which represents 8.7% of total provincial expenses or $850 million[3], was estimated to rise for the 2017/2018 period[4]. The current interest rate on net debt is low but any increase would have a significant impact on the province's ability to sustain a balanced budget as interest charges on net debt would continue to rise. The Chamber has been a consistent advocate for balanced budgets for many years and we would be very disappointed to see the Government revert to a deficit position due to increasing net debt.



The province's net-debt-to-GDP ratio decreased this year indicating that broad economic activity in Nova Scotia is estimated to have increased at a rate faster than the increase in the Province's net debt[5]. This would suggest the ability of government to repay debt in larger sums. However, Net Debt per Capita continues to increase and without an increase in population this number will also only increase. Our members worry that Nova Scotia's aging population and the decrease in revenue from taxes as a large population group moves to a lower income tax bracket through aging and retirement would decrease the government's ability to repay debt. Where will the money to pay our increasing debt come from? Will government have to resort to increases in taxes on an already over-taxed population?



The Ivany Report recommended that "by 2024 the Province of Nova Scotia's net debt to GDP ratio, which was 36.7% for the year ending March 31st, 2013, will be 30% or less[6]. We are not yet near that goal, with the latest report from 2015-2016 showing an increase up to 37.5%, but we are closer than we were ten years ago. The Chamber will be monitoring this percentage as our population continues to age and our labour pool, that creates the necessary gross domestic product from which we gain our revenue to pay our province's debt, shrinks. How does the government plan to catch up to debt when our labour pool is not increasing fast enough?

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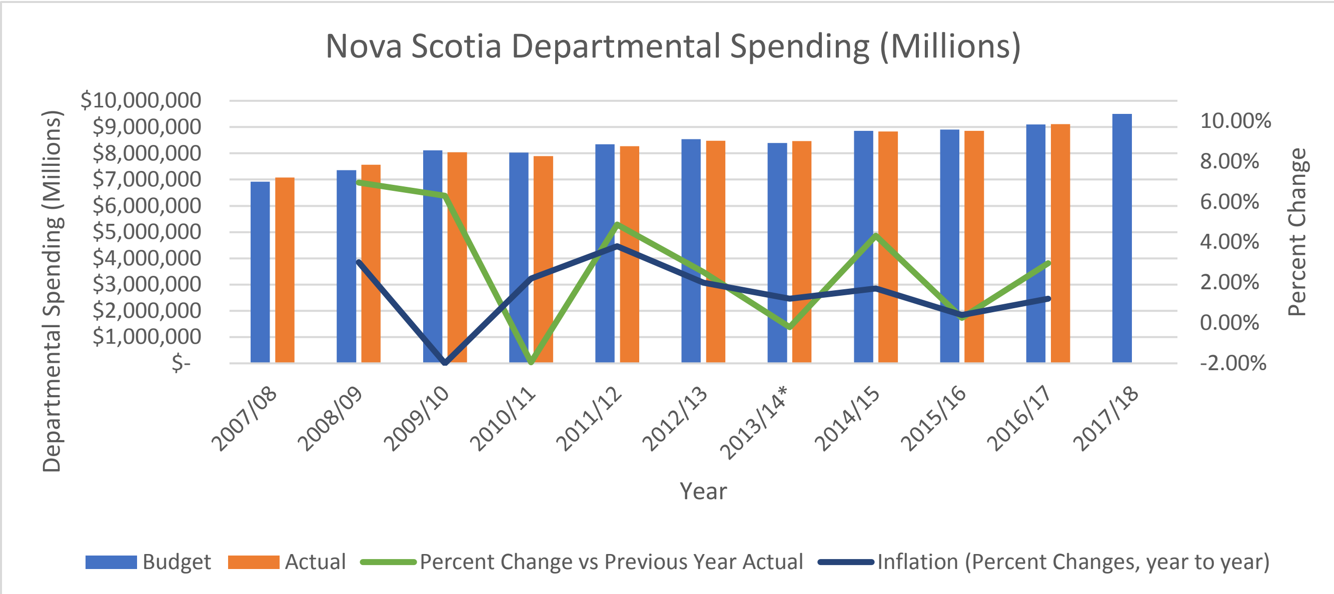
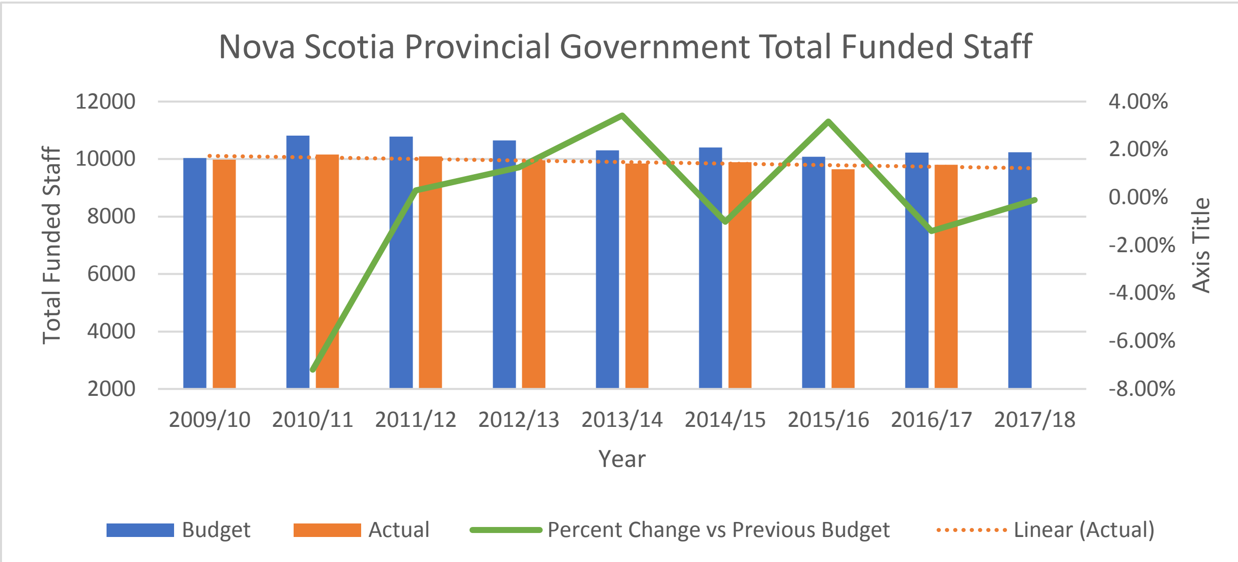


Departmental expenses are increasing and are expected to grow by grow by 4.3% from 2016-2017 to 2017-2018[8] at a much faster rate than inflation. Inflation in Nova Scotia is slightly increasing, and our population has remained flat with little to no increase over the past ten years. What then, is Nova Scotia's rational to continue to increase departmental spending? As a Chamber, we support taking more aggressive action to bring down our Province's debt burden, such as reducing departmental spending by 5% to bring spending back to where it was for the 2016-2017 budget year. While this would entail some tough decisions, it would provide the Province with significantly more fiscal room for debt repayment. The Chamber recommends a full department expenditure and program review to reduce departmental spending and ensure fiscal sustainability for debt repayment.

From 2010 to 2013, Nova Scotia saw a decline of total funded government staff while from 2015 to 2017 that total increased. Consistently, the government is under achieving the public service staff goals by approximately 4% each year, so we would ask then, why do they continue to return to budgeted staff numbers? Our population, as mentioned earlier, is staying relatively stagnant, yet the number of budgeted staff in the Provincial government slightly increases each year. The cost of government is therefore increasing unnecessarily and not benefiting from productivity improvements the private sector seeks each year. The Halifax Chamber of Commerce supports the provincial government setting a goal to reduce the number of Provincial governmental employees by 4% by the end of fiscal March 2019 which would hold the numbers at the 2016-2017 levels[9] and at what is utilized rather than what is budgeted for.



[10]

The Chamber is pleased to see the creation of the Public Services Sustainability Act[11] as it is a positive step towards fiscal sustainability. A critical aspect of the Government's fiscal plan is concluding affordable collective agreements with the Province's major public-sector unions. As 52% of provincial spending is on wages and benefits, finalizing reasonable collective agreements is a critical issue for the business community[12]. We are concerned about the arbitration panel that awarded a seven per cent wage increase over six years[13]. This may set a new precedent for other collective bargaining processes that do not maintain or increase the government's fiscal sustainability. Many of our members feel that the public sector receives higher pay, benefits and pension than the private sector. We will continue to push for sustainable collective agreements and a smaller number of provincial government employees to reduce the percentage of spending on wages and benefits which will increase the amount able to be used for net debt repayment.

Finally, we are still interested in seeing the government explore whether it would be worthwhile for major government entities to be able to engage in a multi-year budgeting process. While the impact on the Province's finances would have to be carefully considered, this process might allow public entities to more easily engage in transformative measures that could save funds over the long term.

Recommendation: Continue to implement a balanced budget while utilizing the surplus to improve Nova Scotia's current debt situation.

- Reduce governmental spending by 5%
- Utilize surplus to reduce net debt while interest rates are currently low
- Set a goal to reduce the number of provincial employees by 4% by fiscal March 2019.
- Maintain affordable collective agreements

TAXATION

Nova Scotia continues to have one of Canada's highest tax rates. Whether you measure it by personal income taxes, corporate income taxes, or the HST, our Province fares poorly in comparison to other Canadian provinces. One would have to ask whether some of the issues currently faced by the province including, family doctor shortages or lower job creation, could be tied to being one of the most highly taxed provinces in Canada. While the provincial government has taken steps to reduce the tax burden for Nova Scotian businesses, such as reducing the small business tax rate threshold, there are other tools the government can utilize to reduce the burden and increase economic growth for businesses within our province.

The Chamber has identified the following three options as its top three tax priorities:

- *Indexing Personal Income Tax Brackets to Inflation:*

Nova Scotia is one of only three provinces that do not index their personal income tax brackets to inflation. The result is that some Nova Scotians pay more taxes without an actual increase in their income. The Chamber asks that the Provincial government index tax brackets by building in a cost-of-living adjustment[14], thus allowing Nova Scotians to save more of their hard-earned money for retirement and boost economic activity through the improvement of spending power of Nova Scotians.

- *Corporate Income Tax Rate:*

The Chamber still supports the reduction of the corporate income tax rate from 16% to 14%. Nova Scotia is currently tied with PEI for the highest corporate income tax rate in Canada. Most Canadian provinces have a tax rate that falls around 10-12%[15]. A harsh example of what could happen if Nova Scotia continues with such high tax rates is the loss of investment, jobs and profit to the United States as they lower Federal Income tax rates from 31% to 26%. Nova Scotia cannot afford to layer on more taxes if we want to remain globally competitive. A reduction in corporate taxes allows business owners to invest more in their business and become more competitive in the global trade market.

- *Tax-Free basic Personal Amount:*

The Halifax Chamber of Commerce was happy to see the increase to the tax-free basic personal amount by up to $3000 for those with incomes less than $75,000. We would like to see this increase be broadened to the entire Nova Scotia population regardless of income level to decrease tax rates in general thus generating more income for retirement savings or boosting the economy through spending.

Finally, we were very pleased with the Provincial government's decision to increase the small business tax rate threshold from $350,000 to $500,000 benefitting over 1000 small businesses. This was a common discussion topic amongst members as our membership which is comprised of 83% small businesses. Our members recognize that Nova Scotia was previously one of the only provinces that did not have a $500,000 threshold[16] for taxation.

Recommendation: Reduce the tax burden for Nova Scotians through the indexing of personal income tax to inflation, reducing the Corporate Income Tax Rate to 14% or utilizing the surplus budget to reduce provincial taxes across the board.

REGULATIONS

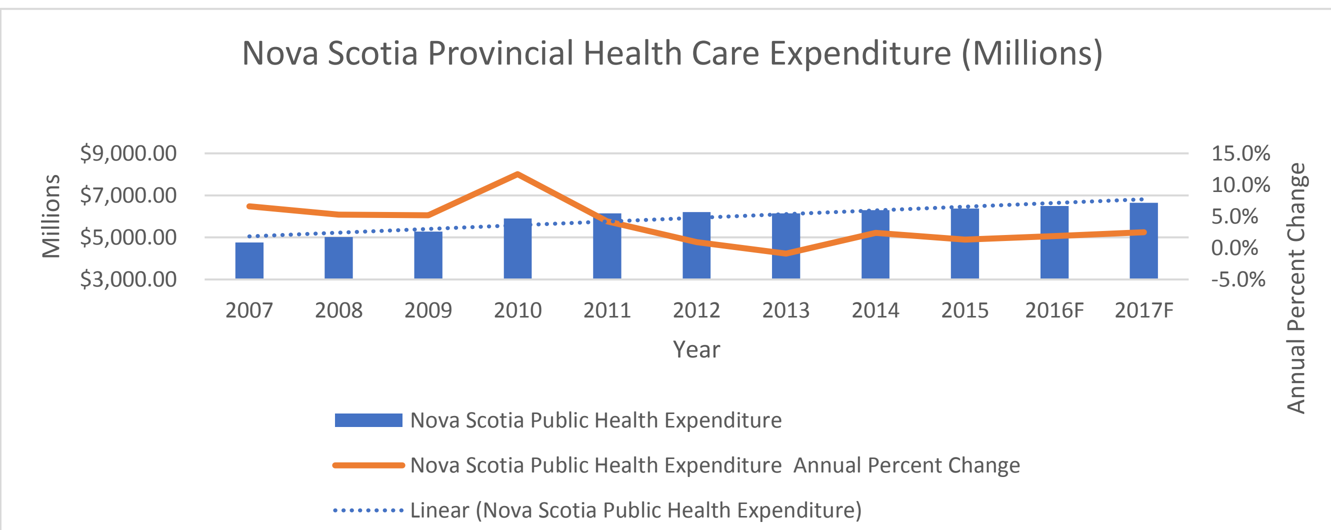
Red Tape:

We often hear, at the Chamber, the difficulty with red tape and customer service our members face daily. It is a constant conversation as businesses both big and small try to navigate their way through regulations, permits, licenses and other government requirements often finding that they have not been managed properly. Inefficient regulations and poor customer service can slow business growth and therefore do not contribute to the Province's core regulatory goal of protecting the public.

Therefore, the Chamber is very supportive of the one-year pilot project, the Business Navigator Service[17], providing our member businesses with the tools to navigate the rules and requirements that apply to them. We are hopeful that this project will continue after the year to support businesses and reduce their workload and spend more time running their business.

The Office of Regulatory Affairs and Service Excellence has very large goals for 2018, like reducing the regulatory burden by $25 million (equivalent of 1.1 million hours or business time saved) but the Chamber is optimistic that these can be achieved.

Health Care Spending:



Health Care is 41% of the provincial budget. Over the past years the Health Care Authority has worked hard to manage spending and balance their budgets. Even with this significant amount of spending, public expectations of health outcomes/objectives are not being met- Nova Scotians cannot afford more taxes and our population is flat. Therefore, there is a critical need for political will to do things differently within the current spending envelope. We cannot continue to do things the same way and expect a different outcome. The Chamber supports you as you make these difficult decisions.

Capped Assessment Program:

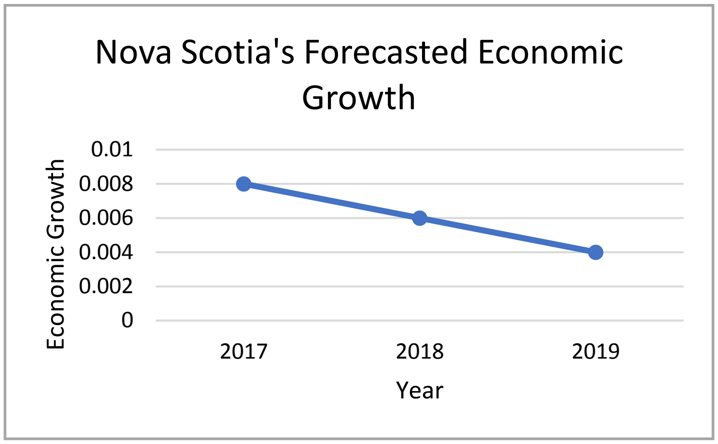
We continue to urge the provincial government to reconsider the Capped Assessment Program (CAP). While the CAP limits assessment increases for existing homeowners, it does so at the cost of discouraging interprovincial labour mobility and increasing the property tax burden on rental properties and newly purchased homes. Rental properties are popular among young people (not to mention the poor) and new arrivals are often looking to buy homes[18]. 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[19]. This would still protect Nova Scotians from extreme increases in their property assessments while allowing the inequities in the system to ease[20].

Recommendation: Continue to set goals for red-tape reduction and push for aggressive reforms.

ECONOMIC GROWTH

Nova Scotia's economic growth for 2017 is the strongest it has been on average for the past five years. Jobs were created, a record number of immigrants chose our province as their new home and consumers drove a near-record increase in sales. However, looking forward though, Nova Scotia's economic growth is forecasted to decrease[21] ever so slightly due to factors such as:



The Labour Force:

In 2017 there was an increase of almost 3000 new jobs for our province keeping the unemployment rate mostly consistent. As Nova Scotia continues to age the unemployment rate will falsely decrease as the working-age population drops and thins the available labour pool. The Halifax Chamber is adamant that the Provincial Government continue to support our economy through the creation of new jobs through a culture of innovation. The 2017/2018 Provincial budget detailed a plan to focus on the development of innovation incubators and accelerators, support co-working spaces where entrepreneurs and researchers can combine forces to advance new products; create an innovation rebate program; strengthen the focus on business start-ups[22]. We are hopeful that these commitments can continue in the 2018/2019 budget.

Immigration:

Nova Scotia saw a record number of immigrants over the past couple of years, but our ability to retain these new Nova Scotians has not followed suit. Retention rates drop over the first year, fifth year and tenth year[23]. The Halifax Chamber of Commerce would like to see a higher rate of retention over the 5 and 10-year markers, thus less reliant on attracting new immigrants each year to boost Nova Scotia's economy.

Youth Employment:

The Chamber was very pleased to see the increase in funding for the Graduate to Opportunity program which will help more recent graduate find jobs. We continue to work with our members for increases to Work Integrated Learning (WIL) opportunities with businesses around Halifax for students. We would like to see the Province ensure that all government programs that support youth in the workplace are fast and flexible enough to match employer's needs. They also should not impose an unnecessary administrative burden on businesses if these programs are to be effective.

Recommendation: Push to increase the five and ten-year immigration retention rate and create more Work Integrated Learning opportunities for students and recent graduates in Nova Scotia.

CONCLUSION

The Halifax Chamber of Commerce was overall very supportive of the actions and ideals that Provincial government put forward in the 2017/2018 budget. Our members were encouraged by the balanced budget, increase in the small business tax rate threshold, creation of the Public Service Sustainability Act and the increase of funding for the Graduate to Opportunity program. While our province is in an acceptable position to continue creating a positive atmosphere for business development there are a few issues that might impede our growth. Our population is not growing at a rate fast enough to reduce our net debt per capita and provincial departmental spending is increasing year-to-year. Nova Scotia's corporate Income tax rate remains uncompetitive at 16% and we are not increasing our immigration retention rate for the five and ten-year periods.

This submission has outlined the top priorities of the Halifax business community. These discussions, questions and recommendations are reasonable given the fiscal capacity of our Province and will bring Nova Scotia in line with the business competitiveness of other Canadian provinces. We look forward to hearing your thoughts on these issues and on how we can move Nova Scotia forward together.

The Chamber is recommending:

1. Fiscal Responsibility: Continue to implement a balanced budget while utilizing the surplus to improve Nova Scotia's current debt situation.
    - Reduce governmental spending by 5%
    - Utilize surplus to reduce net debt while interest rates are currently low
    - Set a goal to reduce the number of provincial employees by 4% by fiscal March 2019
    - Maintain affordable collective agreements
2. Taxation: Continue to reduce the tax burden for Nova Scotians through the indexing of personal income tax to inflation, reducing the Corporate Income Tax Rate to 14% or utilizing the surplus budget to reduce provincial taxes across the board.
3. Regulation: Continue to set goals for red-tape reduction and push for aggressive reforms.
4. Economic Growth: Push to increase the five and ten-year immigration retention rate and create more Work Integrated Learning opportunities.

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 is to support the development of policies on issues of importance to our members.

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HALIFAX CHAMBER OF COMMERCE

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