HALIFAX CHAMBER
OF COMMERCE

Provincial Pre-Budget Submission

February 12, 2008

INTRODUCTION

The Halifax Chamber of Commerce is a best-practice business advocacy organization representing the interests of its 1,700 members and their over 90,000 employees across Halifax. The Chamber advocates 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 important to Chamber members determined through ongoing member surveys, which policies include the provincial budget. This submission attempts to bring policies and strategies to the forefront to inform and assist the province in developing the 2008/09 Budget. The Chamber hopes that this submission can be part of the ongoing dialogue with the province on policies of concern to Chamber members.

The province has made great fiscal strides in recent years. A stronger economy witnessed by multi-decade lows in unemployment rates, moderate but sustained growth in provincial GDP, increasing offshore royalty payments, increasing federal equalization payments, a substantial federal payment associated with the Atlantic Accord of 2005 and increased federal transfers for health have permitted six balanced budgets, maintained the downward trend of Nova Scotia’s debt-to-GDP ratio and permitted the first reductions in net direct debt in a decade.

Notwithstanding this strong economic record, Nova Scotia has hard issues and economic realities to face. Delays in the development of Deep Panuke will reduce offshore royalty payments in the forthcoming years, the province is facing a major infrastructure deficit and will be facing increasing health and education costs. At the same time, a decreasing population will reduce federal transfer payments for health and education, since both are calculated with respect to the size of the provincial population. This revenue reduction will occur in conjunction with anticipation of higher costs for health services, resultant from both the poor health of Nova Scotians relative to other Canadians and our aging population. Currently, seniors (65+) make up 15.1% of the population of Nova Scotia, the second highest percentage in of all the provinces. The median age in Nova Scotia is 41.8 years, which is the highest in Canada and is above the Canadian average by 2.3 years. In addition, of all the provinces Nova Scotia has the third lowest birth rate in Canada. These statistics point to a looming population crisis that must be addressed with aggressive government action on all fronts, not the least of which is immigration.

None of the challenges facing Nova Scotia has an easy answer. All will require hard choices, sacrifice and good communication to bring public expectations in line with fiscal and economic realities. Strong leadership is needed if Nova Scotia’s economic success is to continue. The Chamber is encouraged by the Speech From the Throne, which identified priorities to address these challenges including: educating our population to compete, protecting the environment, improving our infrastructure, safer healthier communities and shorter wait times.

The business performance of Chamber members is directly impacted by the current and future fiscal strength of our province and its budgetary decisions. To that end, we submit to the Province our key considerations for your 2008/09 budget in the following areas:

- Debt
- Program Spending
- Taxes

DEBT

Nova Scotia's debt burden ($12.429 billion net direct debt as of fiscal 2006-2007) continues to be one of the Chamber's main concerns. As in past years, we are supportive of the government's commitment to balance its budget and reduce the debt. While acknowledging recent progress, the Chamber urges the government to control spending and make debt retirement a higher priority.

The Debt Reduction Plan as updated in the Forecast Update of August 9, 2007 provides that an additional $10.8 million will be allocated to the debt this fiscal year, creating a $113.8 million payment towards the debt. It further indicates that Nova Scotia's net direct debt for 2007-2008 will be $7 million lower than estimated in the Debt Reduction Plan of April 2005. In addition to these efforts, we urge the government to put offshore royalties and crown share money towards the debt.

As in prior years, we believe it is important that the government clearly define "extraordinary" revenues and improve the transparency of the Debt Reduction Plan. In our view, there are insufficient checks and balances in the legislation. The Chamber recommends that the government legislate annual deposits into the Debt Management Fund and require that repayment of debt from the fund occur at least every five years.

We know from surveys that fiscal responsibility in government is an important issue for our members. We have been advocating for many years for the repatriation of foreign debt and so were very pleased to see the recent announcement that the foreign component of Nova Scotia's debt has been converted to Canadian currency. This repatriation of foreign debt gives the Province greater control and certainty over our financial affairs.

Standard and Poor's boost of its outlook for Nova Scotia to 'positive' from 'stable' during the past year is encouraging. Standard and Poor's cites improvements in fiscal performance, significant progress in reducing the debt, improved transparencies in financial reporting and dramatic reduction to foreign currency exchange exposure, as the main reasons for the improved rating.

Standard and Poor's also mentioned however, that these positive factors are currently offset by Nova Scotia's high debt burden and spending pressures for health care and infrastructure. The Chamber echoes this sentiment and as in years past calls on the Province to reduce its debt level to the national average. Currently, Nova Scotia has the third highest debt per capita in

Canada. While Nova Scotia is heading in the right direction, more work must be done on this front in order to better position ourselves to manage an economic downturn in the economy.

SPENDING

As stated in our five previous pre-budget submissions, the Chamber is deeply concerned about provincial spending levels. All indications are that the current economic boom is coming to an end. While revenues over recent years have been growing, the rate of growth in spending is alarming. The past ten years have seen relatively low amounts of inflation and almost no change in population, yet provincial departmental spending has increased more than 100%, while revenues over that same period have increased less than 70%.

We anticipate spending pressures to increase in the years to come, driven by factors such as the price of oil, the increasing labour shortage, an aging population and rising interest rates. Given that these issues are beyond the control of the government, spending must be controlled. Beyond balancing the overall budget, government must commit to restraining spending growth and keeping within the budgeted amounts over the course of the fiscal year.

Recognizing that departmental spending in Health and Education is currently forecast at 65% of total spending and that the government estimated in the Speech From the Throne, that Nova Scotia has an $8 billion dollar infrastructure deficit (including $3.4 billion for roads and highways), the Chamber has chosen to specifically examine spending in these areas.

Health

While the government is to be commended on holding net health care spending as a percentage of total net program expenses at 46%, very near last year's level, the achievement is minimized given the significant increase in overall provincial spending over last year. The Chamber encourages the government to actively pursue strategies to control the total size of the health budget. This will be an increasing challenge as our population ages and new technologies and drugs are developed. Tinkering with caps, or even flat budget cuts will not ensure sustainability of our public health care system. Public health care's current structure in Nova Scotia is not sustainable and only a major reworking of the system will ensure that we have a quality public health care system that is affordable for the long term.

We challenge the government to make the tough decisions needed for a sustainable system: to explore how private providers can contribute to the public system, to implement mutually beneficial partnerships with non-governmental bodies and to seriously examine improvements to health care administration. For example, we note that British Columbia has six health authorities for a population of 4.4 million, while Nova Scotia has nine health authorities for less than 1 million people. We therefore recommend that the government pursue sharing services between the health authorities. In this respect, we find the recent Provincial Health Services Operational Review prepared by Corpus Sanchez and accepted by the government in January to be a positive development. The Chamber will continue to monitor the government's efforts as these proposals are acted upon.

Chronic disease is the single greatest threat to managing health care spending in Nova Scotia and therefore, the Chamber recommends strategic investment in prevention and management of chronic diseases to offset the significant future costs. In the US it is estimated that the annual economic burden of chronic disease is US $1.3 trillion (2003 dollars), of which approximately 20% is treatment costs and 80% is lost productivity. While not specific to chronic disease, the annual cost of lost productivity in Nova Scotia due to illness and injury is in excess of $1.1 billion. The Chamber applauds the government's strategic resource realignments, such as investment in preventative medicine and immunization. We also recommend the development of tax incentives for workplace wellness initiatives and workers compensation rate incentives for companies with workplace wellness programs.

Finally, there are significant economic opportunities within the health care sector, from clinical and basic health research, to spin-off companies in the life sciences sector, which create innovative products for a global market. If Nova Scotia is to continue spending 40-50% of our total provincial budget on health care, we must ensure that not only are we getting efficient, high quality services, but that we are also leveraging every possible economic opportunity for entrepreneurs from this tremendous expenditure. As Dr. Henry Friesen, founder of the Canadian Institutes of Health Research said in 2005: "It is time to see our health system not simply as a provider of health for Canadians, but as a generator of wealth for Canada." He also described how we might approach health care differently, seeing "…Canada's publicly funded health system not as a cost to be endured, but as an opportunity to be explored."

Education

The Chamber applauds the identification of "Educating to Compete" as one of the government's immediate priorities in the upcoming year. The Chamber is supportive of investment in our education system and recognizes some of the challenges facing Nova Scotia. Over 40 % of Nova Scotians are functionally illiterate and this is unacceptable. While education spending is increasing in absolute terms, as a percentage of total spending it has declined from 22.8% to 20.2 % in the past ten years. While we support the government's attempt to increase federal support especially for post-secondary education, the province is primarily responsible for delivery of this service and must ensure that sufficient funds are allocated to maintain an educated workforce into the future.

Nova Scotia faces a labour shortage that will only increase in the years to come. While increased immigration will play a critical role in addressing the lack of workers, education investments will ensure that we provide Nova Scotians with the fundamental skills required to deal with a rapidly changing work place. We recognize the emphasis placed on education and the workforce in the Speech From the Throne and wish to stress the important role education will play in ensuring the productivity of our workforce.

To replace an aging educational infrastructure, the Chamber supports the use of private-public partnerships and private financing of public infrastructure. We encourage the Government to learn from the problems of the past P3 Schools and ensure that any proposed arrangements or Strategic Infrastructure Partnerships (SIPs) are fiscally responsible and transparent.

Infrastructure (Transportation)

The Chamber understands the important link between the health of the Halifax economy and the overall provincial economy. Our greatest potential lies with provincial policies that support the success of both. Efficient, competitive and safe transportation infrastructure for goods and people is at the very core of our potential to succeed. It is therefore reassuring to note that the government indicated that "Better Roads and Infrastructure" is a priority for the year in the Speech from the Throne. In order to meet the significant capital investments required for twinning the 100 series highways and upgrades and modernization of our air and water ways, the Chamber strongly supports the utilization of public-private partnerships or Strategic Infrastructure Partnerships (SIPs).

Like the government, the Chamber believes that the Atlantic Gateway opportunities for Nova Scotia, the Maritimes and Newfoundland to capture growth from the "factory economies" of Asia and India are significant. Congestion at Pacific ports, capacity and dredging issues at US ports and current size limitations in the Panama Canal, mean that Asian and Indian economies will be seeking a viable alternative to access Eastern North America via the Suez Canal. The Chamber believes the province must exercise leadership on this initiative to send a strong and clear signal to the private sector that Nova Scotia is serious about the Atlantic Gateway and the economic advantages to be obtained. We urge the government to:

- look to the capacity needs of the future and invest in strategic infrastructure improvements to kick start the Atlantic Gateway concept into reality;
- move quickly to create an efficient and supportive policy and regulatory environment to attract private investment;
- ensure that the federal government is a full partner in the Atlantic Gateway contributing to any infrastructure costs and ensuring that federal policies and regulations protect Nova Scotians without acting as barriers to the economic success of our ports; and
- partner with the other maritime provinces, Newfoundland and the federal government to launch an aggressive marketing strategy, to ensure the nations of Asia and India know what we offer now and how the Atlantic Gateway will evolve to meet their needs.

TAX

The Chamber commends the government on the tax measures introduced in the 2007-2008 budget. In past submissions, the Chamber has advocated for tax cuts that are sustainable. Relevant and strategic tax reform increases the incentive to work, save and invest, therefore increasing productivity, which is important to a strong economy. Now that Nova Scotia is running continuous balanced budgets and reducing its net direct debt, the Chamber believes it is time for a change in the province's fiscal policy and can consider further sustainable tax cuts.

In the 2007 Fiscal Overview, the current economic indicators demonstrate that Nova Scotia is falling behind the Canadian average in GDP, employment, unemployment, labour income, value of building permits, manufacturing shipments, and international merchandise export of goods. The province needs to change its approach and develop innovative ways to improve our economic performance.

With a declining and aging population, it is incumbent upon Nova Scotia to generate an environment in which our economy and tax base will grow. The Chamber has identified three key taxation areas for reduction: small business tax, personal income tax and capital taxes. Tax reductions have the potential to stimulate the economy and increase real GDP by increasing demand. With strategic tax cuts, the actual revenue reduction is often smaller than projected, due to the fact that lower tax rates encourage taxpayers to work, save and invest more. As a result, the multiplier effect can even increase tax revenue through increases in the tax base.[1]

Small Business Tax

The Chamber commends the government for continuing its commitment to reduce small business taxation by increasing the threshold under which the small business tax rate (5%) applies to $400,000. This brings our threshold in line with the other provinces. Yet the performance of small business growth in the province can still be improved and an improved tax regime can support this. Even as the threshold has increased, the small business tax rate has become less competitive with other provinces, as they implement other tax reforms. We suggest the government now consider reducing the small business tax rate from 5% to 3% over a reasonable time frame, in order to encourage small business growth.

Personal Income Tax

The Chamber believes in order to keep our young people here in Nova Scotia, the government must do what it can to create adequate opportunities in the province by reducing taxes that hinder innovation and growth and by making sure that individuals that do stay are not hampered by excessive levels of taxation.

Nova Scotia and Newfoundland were the only provinces to endure a population decline from 2006 to 2007. The Chamber believes that it is difficult to maintain and recruit a skilled labour force in provinces with higher income taxes. Firms that wish to or must, recruit employees from outside the province face a significant challenge, if the tax burden is disproportionately high.[2] It is the right time for the government to consider instituting a more competitive personal tax regime; one that gives consideration to increasing income thresholds to counteract bracket

[1] Mitchell, Daniel J. (March 2003) Nine Simple Guidelines for Pro-Growth Tax Policy. Executive Memorandum: The Heritage Foundation, Washington, D.C.
[2] Lower Taxes: Keep the Momentum Going. Nova Scotia Department of Finance. www.gov.ns.ca/finance/lowertaxes/sntaxandtoni.asp.

creep, couples tax thresholds with comparable federal levels and considers tax rate reductions to improve our competitiveness and protect Nova Scotia's long-term labour supply.

Capital Taxes

The Speech From the Throne references the importance of making a hospitable environment for financial services companies looking to locate in Nova Scotia. Building a tax structure that is competitive will help attract businesses in the financial services sector. We urge the government to follow the example of the federal government and many other provinces by reducing capital taxes on financial institutions. Capital taxes are considered an inefficient form of taxation and reduction of capital taxes will make the province more attractive to investors.

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 the other provinces, with total elimination in 2013. We also urge the government to take advantage of the offered federal incentive and to eliminate the capital tax on non-financial institutions by 2010.[3]

Other Tax Measures

Another tax measure that would signal a welcoming environment for companies in the financial services sector is the accelerated phase out of the business occupancy tax. On the current schedule, businesses in this sector continue to pay business occupancy tax on 75% of the assessed value of their commercial property until 2012.

The Chamber also is concerned that lost municipal taxation revenue as a result of tying Cap Assessment Program (CAP) to the Consumer Price Index (CPI), may be passed on to business in the form of higher commercial taxes.

CONCLUSION

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

- Accelerate the pace of absolute debt reduction and amend the Debt Reduction Plan to ensure greater transparency and mandatory application of debt reduction funds;
- Limit departmental spending to budgeted amounts and focus spending for health care reform, basic educational needs, and economically essential infrastructure investment; and
- Recognise the need for tax reduction to address long term economic and social challenges, and tax reform to improve incentives to work, save and invest.

[3] Source: Capital Taxes In Canada, TD Economics Special Report June 27, 2007 www.td.com/economics

In summary, key considerations for the provincial 2008/09 budget:

- Debt
  - Put offshore revenues and crown share money on the debt
  - Make debt retirement a higher priority
  - Legislate annual deposits into the Debt Management Fund and put those funds on the debt every 5 years

- Program Spending:
  - Keep spending to budget
  - Look for strategies to control the total size of the health budget such as private providers within the public system and examination of health care administration
  - Ensure sufficient funds to maintain an educated work force
  - Look to public private partnerships or Strategic Infrastructure Partnerships (SIPs) for infrastructure improvements

- Taxes:
  - Incentives for workplace wellness programs (WCB)
  - Small business tax rate from 5% to 3%
  - More competitive personal tax regime
  - Reduction of capital taxes on financial institutions
  - Faster phase-out of capital taxes on non-financial institutions
  - Accelerated phase-out of the business occupancy tax

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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