2005 Halifax Chamber of Commerce Provincial Pre-Budget Submission

February 2005

HALIFAX CHAMBER
OF COMMERCE

Introduction

The Halifax Chamber of Commerce is a best-practice business advocacy organization representing the interests of almost 2,000 members with over 90,000 employees across HRM. The Chamber continuously strives to make metro Halifax an even better place in which to live, work and play. The health and prosperity of our capital region are very important to the health and prosperity of our Province.

After a difficult year in 2003, in which we experienced fiscal challenges created by flooding, Hurricane Juan, SARS, Mad Cow Disease and a rising Canadian Dollar, we experienced some better financial news in 2004.

The new Health Care Accord struck with the federal government in 2004, higher than budgeted tax revenues and higher payments under the equalization program have all led to a significantly stronger financial picture for Nova Scotia in 2004 than we have seen in years. In addition, negotiations between Nova Scotia, Newfoundland and the federal government regarding the claw-back of equalization payments on receipt of offshore revenues have drawn to a positive conclusion for Nova Scotia. This new offshore revenue agreement will result in significant long-term financial benefits to Nova Scotians.

The improved financial picture in 2005 represents a wonderful opportunity for Nova Scotia if prudent fiscal management is observed. We have an opportunity to address pressing financial needs such as our infrastructure deficit, our burgeoning debt and vital program areas such as health and education. The government must act wisely and transparently in making these financial decisions. It must also resist the temptation to make politically expedient spending decisions and loosen the fiscal discipline it has observed over the last few years in achieving balanced budgets.

Our pre-budget submission will focus on three key areas for consideration as the 2005-06 budget is developed, as follows:

- **New Revenues;**
- **Tax Cuts; and**
- **Debt Reduction.**

New Revenues

The December 2004 Forecast Update shows clearly the significantly improved Provincial revenues. Higher than budgeted revenues from personal income tax, corporate income tax and HST are expected for 2004-2005 will provide us with $72 million in increased revenues. The update also indicates $186 million in additional revenues are to be received from federal sources, including equalization payments and additional health care funds received under the revised Healthcare Accord. In addition to revenues detailed in the December update, further revenues are to be received from the federal government under the new offshore agreement. The agreement guarantees 100% protection from equalization reductions for eight years and an up front payment of $830 million.

These additional revenues are good news for Nova Scotians and place the Provincial Government in a better position to accelerate debt reduction and make investments through planned infrastructure and program spending. The Chamber commends the government on its commitment to apply to the provincial debt the full $830 million to be received under the offshore agreement. The Chamber calls upon the Province to be fiscally prudent with all additional monies. The Government must resist the pressure to make politically expedient financial decisions such as reinstating the cancelled 10% personal tax cut or engaging in unplanned and/or excessive infrastructure and program spending.

Some of these new revenues are already earmarked for specific spending programs, for example the funds received under the Health Care Accord. The Chamber, along with other Nova Scotians, hopes that health care investments will be used to improve wait times, make prudent capital investments and improve the overall services provided by the provincial healthcare authorities.

The December 2004 forecast update shows increased spending on programs to be $156 million above last year's budget. It contains some detail on where these expenses are being made, including $20.3 million to universities to assist them in reducing tuition increases, $44 million to health care and increases in spending on tourism, community services and other areas.

The Chamber recognizes the significant pressures the Government faces in program and infrastructure spending, particularly after years of fiscal restraint. However, the Chamber advocates proceeding cautiously with any new spending as a result of our improved financial situation. The new Health Care Accord and a possible new equalization deal represent sustainable revenue increases for the Province. However, higher than budgeted tax revenues may not be sustainable.

In the Chamber's opinion, it would be imprudent to open the spending floodgates with these additional revenues while the Province's debt is still unacceptably high, our roads and other infrastructure are in need of repair and other programs have increased spending demands.

The Chamber encourages the government to be transparent and clearly spell out its spending priorities for these new monies so the people of Nova Scotia can properly evaluate their decisions and have the opportunity to assess whether the government is a prudent steward of the Province's finances. Moreover, the Chamber continues to advocate fiscal prudence in spending by keeping in mind that our debt burden is high and our revenues may be unsustainable because they are dependent on many external factors beyond our control.

Tax Cuts

The Chamber maintains its position that tax cuts should only be delivered to Nova Scotians when the Provincial Government is able to establish that the Province's finances are on a stable, sustainable footing and the debt is under control.

The Chamber believes that the time is not yet right for the Provincial Government to look at reinstating the 10% personal tax cut in its 2005-06 budget. We must reiterate that we believe that the new revenues to be received by the Province this year and in the coming years are better spent on debt reduction and infrastructure and program spending.

The Provincial Government has argued that personal tax cuts generate economic growth. The Chamber recognizes that lower personal taxes can be a positive economic driver. However, the Chamber is of the view that there are other changes to the tax and other economically driven structures that should be considered as an effective driver of economic growth and be less of a drain on the public purse than a personal tax cut, including:

- Small business taxes
- Corporate income tax
- Large corporations capital tax
- Business occupancy tax
- Changes to the tax credits programs
- Licensing and service fees paid to the government

If the Province is considering tax cuts in its upcoming budget, the Chamber calls for an open public consultation process to review all possible forms of tax cuts. The Chamber is concerned that the Provincial Government has in many ways increased the tax burden on Nova Scotia businesses by increasing a wide array of licensing and service fees during the same time it was delivering cuts to personal taxes. We believe that a reduction in the overall tax and service fee burden on businesses would help drive our economy and make Nova Scotia a more competitive place in which to do business.

Debt Reduction

In past pre-budget submissions, the Chamber has consistently called upon the Province to be aggressive in its debt reduction. The government's commitment to pay on the debt the $830 million negotiated under the offshore agreement is a decision the Chamber strongly commends. This payment, estimated to free between $42 and $48 million in interest payments, illustrates the benefits of debt repayment. The Province has taken other important preliminary steps towards debt reduction, including delivering balanced budgets and significantly reducing foreign exchange exposure by restructuring its debt. The Chamber takes this opportunity to applaud again the government's efforts in this regard.

Nova Scotia is starting to see the long-term benefit of these prudent fiscal measures. External bond-rating agencies such as Moody's and Standard & Poor's have upgraded the Province's credit rating. Moody's upgraded the credit rating from A3 to A2 and Standard & Poor's upgraded the credit rating from A-minus to A. An improved credit rating means it is cheaper for Nova Scotia to borrow funds and lower debt servicing costs.

However, in its press release concerning the increased credit rating, Standard & Poor's stated that Nova Scotia's positive economic performance is still hampered by "heavy net tax-supported debt and debt service burdens, which remain high compared with those of most other Canadian provinces." Clearly, our high debt load is still a significant concern not only to the Chamber but also to debt analysts and, therefore, lenders of funds.

The Chamber was pleased to see the government introduce amendments to the *Provincial Finance Act* in 2004 that created a Provincial Debt Retirement Fund. The Chamber applauds this as another step along the road toward managing the Province's significant debt. The Chamber was pleased to see a provision in the legislation that provides that all 'extraordinary' revenues be paid into the Debt Retirement Fund and that a minimum of $6 million per year (commencing in the upcoming 2004/05 fiscal year) will be paid into the Debt Retirement Fund.

The Chamber was also pleased to see that in the December Forecast Update, the Government is planning to allocate an additional $60 million to the Debt Retirement Fund (over and above a budgeted amount of $10 million).

Although on the surface the above points look promising, the Chamber believes that this legislation is deficient in that it gives the Government the discretion to decide whether or not to use the Debt Retirement Fund to pay down the debt. The Chamber is concerned that there is a lack of defined control processes and there are no checks and balances in the legislation to ensure monies allocated to the Debt Retirement Fund will in fact be applied against the debt rather than be reallocated for political gain. Also, the legislation does not include any targets or timeline for reducing the government's debt, a request the Chamber has called for in the past.

Communications released from the provincial finance department did not alleviate our concerns when it was stated that the additional $60 million placed in the Debt Retirement Fund would be used for infrastructure spending instead of debt reduction. Additionally, it was stated the province would not apply funds against the debt for another two years. The Debt Retirement Fund was designed to be used to retire debt and to use it for any other reason certainly gives the appearance of contravening the purpose of the Fund. This behaviour opens up the Government to the potential allegation that it is creating a fund that could be used for purposes other than debt retirement. The Chamber believes the government should deliver to Nova Scotians a clear message that it intends to use the debt retirement fund for its intended purpose – to retire debt.

The Chamber would like to draw your attention to the example set by Manitoba. In 1995, Manitoba passed legislation that mandated balanced budgets and created a debt retirement fund. However, the Manitoba legislation has some important benchmarks and safeguards built in which Nova Scotia's legislation lacks. These safeguards are as follows:

- Establishing a set amount to be paid into the fund each year, $96 million in 2000 plus fixed increases each year thereafter
- A requirement that at least once every five years, the monies in the debt retirement fund be applied against the debt
- A requirement that all earnings from investments of the fund be kept in the fund
- Establishing a Debt Retirement Fund Allocation Committee to oversee the fund. This committee provides expertise and accountability.

The Chamber calls upon the government to build in similar benchmarks and safeguards in its debt retirement legislation.

In conclusion, the Chamber continues to urge the province to make debt reduction a priority and welcomes the announcement by the Premier to use the offshore revenues to pay down the debt. We fully understand that this is often a difficult decision to do politically but believe it be the approach that will provide our province with the best long-term sustainability and investment for the future of all Nova Scotians.

Thank you for the opportunity to make these submissions.