



# PROVINCIAL ISSUE NOTE

September 22, 2016

**Presented To:** Premier Stephen McNeil and the Government of Nova Scotia

## Who We Are

The Halifax Chamber of Commerce, representing 1,600 companies with over 65,000 employees, 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 9001:2008 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.

### **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.

#### Task Force Leads

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

## Recommendations

### Fiscal Management

- The Chamber fully supports the projected balanced budget for 2016/17.
- Fiscal restraint is needed to achieve provincial spending targets, especially in health care.
- Signing affordable collective agreements with public sector unions is still an outstanding issue.

**Recommendation:** Restrain program spending to achieve and maintain this year's balanced budget.

### Reduce the Tax Burden

- The Government has a variety of options to make Nova Scotia more tax competitive, including changes to corporate income tax rates and the small business rate threshold.
- While the surplus will provide fiscal room for tax reform, spending cuts may be needed.

**Recommendation:** Introduce a plan to make Nova Scotia a more tax competitive place for business.

### Champion Common Sense Regulations

- Red tape and poor service can have serious negative consequences for businesses.
- The Chamber is looking for the Office of Regulatory Affairs to set specific targets to eliminate regulations and take a more aggressive approach in its second year.

**Recommendation:** Take bold action to reduce red tape and improve government services.

### Match Post-Secondary Student Development to Employer Needs

- Providing opportunities for hands-on work experience is critical for helping youth succeed.
- Actions we support include implementing the Transition Task Force's final report, reforming the Graduate to Opportunity program, and increasing experiential learning opportunities.

**Recommendation:** Increase opportunities for youth and recent graduates to gain hands-on work experience.

### Promote Immigration

- The Chamber supports increasing immigration to grow our population and skilled workforce.
- Immigration has been one of Nova Scotia's success stories over the past few years.
- A provincial action plan is needed to take full advantage of the Atlantic Growth Strategy.

**Recommendation:** Release an action plan on how the Province will capitalize on the Atlantic Growth Strategy's immigration pilot project.

# The Issues

## INTRODUCTION

This October will mark three years since the Nova Scotia Liberal Party won the 2013 provincial election. While it is unlikely that the Government will dissolve the House of Assembly in the fall, an election will remain a distinct possibility as we move into 2017.

The Halifax Chamber of Commerce is completely non-partisan, and we believe that decisions around election timing are best left to our elected representatives. What matters to the Chamber and our members however, is that election preparations do not distract our leaders from the ongoing business of government. Unfortunately, there is evidence that short-term political priorities are beginning to take precedence over our province's long-term interests.

For example, in June the Auditor General released a report on the viability of a number of hospitals that did not seem to be given thorough consideration.<sup>1</sup> With health care consuming almost 41% of Provincial Government spending – opportunities for efficiencies in the healthcare system that do not jeopardize patient care cannot be ignored.<sup>2</sup> We understand the political difficulties around issues such as this, but avoiding difficult decisions is one of the reasons Nova Scotia finds itself in its current state.

When the legislature returns this fall we will expect our provincial leaders to keep working on improving Nova Scotia's long-term economic future and avoid putting off decisions on tough issues.

## CREATE A POSITIVE BUSINESS ENVIRONMENT

### Fiscal Management

Last April, we were very pleased to see the Government project a balanced budget for 2016/17. Our members have told us repeatedly over the past few years that Nova Scotia needed to eliminate its budget deficit. If achieved, this surplus will break a streak of five years of deficits. And it is an achievement, Nova Scotia and British Columbia are the only provinces projecting budget surpluses for 2016/17.<sup>3</sup>

To actually achieve a balanced budget in 2016/17 however, the provincial government will need to maintain its fiscal discipline. For example, the Budget projects that the Department of Health and Wellness' budget will only increase by 0.44%.<sup>4</sup> This is not an impossible goal by any means, but it will require the Government to live within its means and spend its money effectively.

Fortunately, the recently released fall fiscal update provided a positive sign that Nova Scotia's finances are moving in the right direction. For 2016/17, the Government is projecting a net surplus of \$18.9 million, which is an improvement of \$1.8 million over the original budget estimate. It is also encouraging that the Provincial Government has been able to take advantage of federal infrastructure programs without negatively affecting their bottom line.<sup>5</sup>

At the end of the day governments are in the business of making choices. Spending money on one project means that there is less money to spend on another. When making funding decisions, governments need to consider not just whether individual projects pass a cost-benefit analysis, but what they could do with the money instead. Nova Scotia's Fiscal Plan does not leave much room for error over the next four years and the Government needs to be sure that it is focusing on projects that will boost Nova Scotia economy over the long-term.<sup>6</sup>

Labour Negotiations: As 52% of provincial spending is on wages and benefits, finalizing affordable collective agreements with public sector unions remains an important issue.<sup>7</sup> Nova Scotia's long-term fiscal sustainability is a significant concern for the business community as the Provincial Government's tax rates and fiscal situation have a major impact on business competitiveness. Furthermore, many of our members feel that there is a disparity between public and private sector compensation that needs to be addressed. We hope to see the Province and its unions agree to contracts that adhere to the Public Service Sustainability Mandate in the months to come.<sup>8</sup>

### **Reduce the Tax Burden**

Nova Scotia's high taxes are a constant source of frustration for our members. High corporate tax rates make it difficult to compete for investment with other provinces and high personal income tax rates make Nova Scotia less attractive for skilled workers. There is a growing sense of irritation over the high cost of doing business in Nova Scotia, especially after the provincial government agreed to expand the Canada Pension Plan without any consultation with our members or the general public.

To be clear this does not mean that businesses are looking for tax rates to be drastically cut. Government provides many critical services and paying for tax cuts with deficits is unsustainable. Rather we are looking for Nova Scotia to be closer to the Canadian average and Nova Scotia's financial position does not mean we cannot look for ways to improve government spending. The provincial government is projecting a surplus in 2016/17 and it is projected to rise significantly after 2017/18. Laying out the government's plan for tax reform well in advance will help businesses plan for the future and make investment decisions in the province.

So what is the business community looking for? Here are the Chamber's top three options for improving Nova Scotia's tax competitiveness:

1. Reduce the corporate income tax rate to 14%, down from 16%.

- Nova Scotia is currently tied with PEI for the highest corporate income tax rates in Canada.<sup>9</sup>
2. Increase the small business rate threshold from \$350,000 to \$500,000
    - Nova Scotia has the lowest small business rate threshold in Canada. Every other province except for Manitoba and Nova Scotia has a rate threshold of \$500,000 and increasing the rate threshold will encourage small business to keep growing.<sup>10</sup>
  3. Index 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.<sup>11</sup>

Most of these changes are not without costs and while the provincial surplus will help cushion the fiscal impact, we acknowledge that it may not be enough. Fortunately, the government has a recent report on changes to the provincial tax system that it can draw on if needed. While the Chamber does not support all of the recommendations from the Charting a Path for Growth Report, it does provide options to consider. For example, the provincial HST rebate on home energy is expensive, poorly targeted, and works directly against Nova Scotia's climate change goals. Eliminating the rebate would allow the government to better target financial assistance to those in need and provide funds to improve Nova Scotia's tax competitiveness.<sup>12</sup>

Alternatively, the Government could reduce departmental spending by 1% annually over the coming years. While finding roughly \$91 million in savings would entail some difficult decisions, it would provide the Province with significantly more fiscal room. The Government should also consider further consolidating government departments and agencies to make government operations more efficient and achieve savings.

Finally, the Chamber continues to support Halifax Regional Council's request for more taxation options and hopes to see it approved.<sup>13</sup> Improving the commercial property tax system in Halifax is a major priority for our members and this is an excellent way for the Province to help the business community at no cost.

### **Champion Common Sense Regulations**

The Chamber has been a strong supporter of the work of the Office of Regulatory Affairs and Service Effectiveness since it was created in March 2015. Red tape and poor service can have serious negative consequences for businesses and there are too many barriers to doing business between Maritime provinces. Reducing red tape is an important part of the Chamber's 2013-2018 Strategic Plan and we had been calling on the provincial government to take action for years.

The Office has achieved a number of changes within the Maritimes, including standardizing some record-keeping requirements, mutually recognizing some occupational health and safety rules, and

standardizing the date for any changes to provincial minimum wages. These changes will not revolutionize the way companies do business in our region but they serve as a proof of concept.

As the Office moves into its second year however, it will need to make more specific progress. In particular, improving the quality of services provided by the Provincial Government will require a lot of dedicated effort and most likely, more resources than the Office has currently available. Fortunately, service effectiveness is not a matter of regional cooperation and the Government has the freedom to be bold. Going forward we will be looking to the Office to set targets for the number of regulations to be eliminated and to focus on areas that will have the largest impact on the business community. Our members are willing to assist the Office in achieving its mission and we would welcome a formal partnership to reduce red tape together.

Finally, we are glad to see that the Office is looking at working with the Halifax Regional Municipality on red tape reduction through the secondment of a municipal staff member.<sup>14</sup>

Capped Assessment Program: We continue to urge the Provincial Government to reconsider the Capped Assessment Program (CAP). While we understand that removing the CAP would be politically challenging, its negative impact is real and will only get worse. The CAP increases the property tax burden on recent arrivals, youth, and the poor. It is illogical that, in the face of demographic crisis, the Provincial Government maintains a program that raises the cost of living for the people we desperately need to retain.<sup>15</sup>

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.<sup>16</sup> This would still protect Nova Scotians from extreme increases in their property assessments while allowing the inequities in the system to ease.<sup>17</sup>

## **GROW AND NURTURE THE SKILLED WORKFORCE**

### **Match Post-Secondary Student Development to Employer Needs**

Providing post-secondary students and recent graduates with hands-on work experience is one of the most effective ways of preparing them for the modern workplace.<sup>18</sup> This can range from full-time, paid co-ops and internships, to school projects that match students with organizations in need of assistance. Nova Scotia has long-standing problems with youth retention, and providing students and youth with more hands-on work experience can help them thrive here at home.<sup>19</sup>

Actions that we will be looking for from the provincial government include:

- Implementing the recommendations from the Transition Task Force's final report.<sup>20</sup>
- Reviewing the Graduate to Opportunity program to make it easier for employers to access.
- Increasing supports for work-integrated learning opportunities.

Of course the provincial government cannot do this alone. Providing more work opportunities for youth will require major support from employers and we are committed to working with our members to increase the number of businesses participating in work experience programs.

### **Promote Immigration**

Immigration is an important part of the Chamber's 2013-2018 Strategic Plan and is an essential element in growing our provincial population. Fortunately, immigration has been one of Nova Scotia's strongest success stories over the past few years. For example:

1. Retention has increased from 37% in 2001 to 74% in 2013.<sup>21</sup>
2. Provincial nominee certificates have increased from 367 in 2009 to 1,350 in 2016.<sup>22</sup>
3. 3,402 immigrants arrived in Nova Scotia in 2015 and 1,849 arrived in Q1 2016, which is respectively the 3<sup>rd</sup> best year and the best quarter for immigration going back to 1946.<sup>23</sup>
4. Halifax has welcomed almost 900 Syrian refugees since Nov. 4, 2015.<sup>24</sup>

Even better, the federal government is committed to helping Atlantic Canada grow its population through increased immigration. As a part of the Atlantic Growth Strategy, our region will receive an additional pool of 2,000 provincial nominees in 2017. Nova Scotia is the only Atlantic province currently using its maximum allotment of provincial nominee certificates and we are well placed to secure more than our share of the new pool.<sup>25</sup> Capitalizing on this opportunity will require major efforts from the provincial government and employers. To help spur action, the Province should release an action plan for how it will take advantage of this excellent opportunity to grow our province's population.

## **CONCLUSION**

Over the past year, the Chamber has seen progress on a number of issues important to our members. The number of immigrants arriving in Nova Scotia is at record highs, the budget is projected to be balanced, and the Province is working on reducing red tape. Our political leaders should be proud of many of these accomplishments but they cannot afford to be complacent. There is still much more work to do, for example:

- Nova Scotia's tax burden remains one of the highest in Canada.
- A balanced budget will not be realized this year if the Government does not achieve its spending targets.
- Red tape and poor customer service are still a problem for many businesses.
- There is much more to be done to improve connections between post-secondary students and businesses.

- Major efforts will be needed to capitalize on the opportunities provided by the Atlantic Growth Strategy's immigration pilot project.

We look forward to working with our provincial leaders to address these issues and will work with our 1,600 members and their over 65,000 employees to champion positive change in our province.

*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.*

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