HALIFAX CHAMBER OF COMMERCE

stronger together

Provincial Pre-budget Submission

February 2010

WE ARE

A not-for-profit business organization that takes a business - like approach to its operations.

Objective and non-partisan; we do not lobby for specific interests.

Funded exclusively through membership fees and fees for services we provide.

Experts in running conferences, publishing and disseminating information, helping people network, developing leadership skills, and building community capacity.

Specialists in the development and advocacy of public policy.

Not a government department or agency.

Independent from, but affiliated with the Nova Scotia, Atlantic Provinces and Canadian Chamber of Commerce.

A diverse organization made up of businesses that mirror the Halifax, Nova Scotia and Canadian economies.

Introduction

The Halifax Chamber of Commerce is a best-practice business advocacy organization representing the interests of 1,700 members and over 90,000 employees across Halifax. This submission attempts to bring policies and strategies to the forefront that the Chamber hopes will inform and assist the Province when developing the 2010-2011 Budget.

The Chamber is pleased that the province is taking the current fiscal situation seriously, consulting with Nova Scotians through the "Back to Balance" dialogue. The Chamber is hosting its own dialogue session on February 25th. A separate, non-policy document will be forwarded to the government which will include what the Chamber heard from businesses in Halifax.

It is important to recognize that the current fiscal situation has not been caused by unsustainable tax cuts. Nova Scotia has not had any significant tax cuts in a decade. Therefore, tax increases are unlikely to remedy the situation. If provincial demographics and economic growth rates remain unchanged, spending will continue to outstrip revenue growth.

According to the 2009 Deloitte review of the Province's finances, expenses have grown from 6.2 per cent to 8.9 per cent annually since 2004-2005.[1] In particular, Nova Scotia has grown dependant on short-term revenue sources, like offshore royalties, to offset increased spending. These numbers added to grim population, productivity and health forecasts, lead us to logically expect that the situation will likely deteriorate unless immediate systemic changes are made to the way our province conducts its business.

To this end, we submit considerations for the 2010-2011 Budget in the following areas:

- **I. Debt**
- **II. Program Spending (Health Care, Infrastructure, Education)**
- **III. Taxes**
- **IV. Economic Growth**

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[1] http://www.gov.ns.ca/finance/backtobalance/final_report.pdf

I. Debt

According to the province's May 4th 2009 budget, net direct debt is estimated at $12.9 Billon. Deloitte estimates that net direct debt will increase to $16.6 Billion by 2012-2013 using status quo assumptions.[2]

The Chamber has been urging the province to take measures to reduce the province's net direct debt. In our 2009 pre-budget submission, we took a short term departure from this stance, suggesting that debt reduction could be delayed in order to leverage short term federal stimulus dollars. Now that the economy is showing signs of recovery, the province must present a deficit elimination and debt management plan as part of the 2010-11 Budget.

The Chamber is also concerned about provincial obligations not captured by the net direct debt figure, such as provincial government employee pension plan obligations. The provincial public service superannuation plan has an unfunded liability of $1.69 Billion and the Nova Scotia Teachers Union plan stands at the $1.52 Billion mark.[3] To better manage future pension liabilities, the province should phase out defined benefit pension plans and replace them with defined contribution plans for civil servants, teachers, nurses and other public employees.

In summary, the Chamber recommends that the province:

- Provide a deficit elimination program and debt management plan as an integral part of the 2010-2011 Budget, and
- Phase out defined benefit pension plans and replace them with defined contribution plans for civil servants, teachers, nurses and other public employees.

II. Program Spending

The Chamber is encouraged that one of the questions of the "Back to Balance" public consultations is simply "Where do we cut spending?"

[2] http://www.gov.ns.ca/finance/backtobalance/final_report.pdf
[3] http://newstartns.ca/

Recognizing that health and education spending is currently forecast at 65 per cent of total provincial spending, and that an $8 Billion infrastructure deficit exists (consisting of $3.4 Billion for roads and highways), the Chamber has specifically chosen to examine spending in three areas - health care, infrastructure and education.

a) Health Care

For several years, the Chamber has been raising the alarm about Nova Scotia health care statistics. Some of these statistics include:

- Health care comprises of nearly 40% of total provincial program expenses as of the May 2009 budget
- Our province has one of the highest per capita health spending rates
- Health care spending is predicted to reach 50% of total provincial spending within a decade due to our aging population and poor overall population health

The Chamber calls on our new government to utilize its majority mandate to take long term, significant action to fundamentally change the unsustainable course of our health care system. Since 1989, many government funded studies have called for systemic change. We know what needs to be done.

Health care reform is achievable and the Chamber stands ready to support the government to take the bold, strategic steps needed to get the job done.

In summary, the Chamber recommends that the province:

- Eliminate duplicated efforts, so the health care system functions more efficiently.

  Some suggestions include:
- Central purchasing, diagnostics and bookings for procedures for all health authorities;
- Standard hospital admissions and patient records, so that once admitted into any hospital in Nova Scotia patients do not need to be readmitted when requiring a transfer;
- Standard hospital drug formularies and treatment protocols

- Consider ways to leverage health care investments with private sector health care delivery within the publicly funded health care model.

b) Infrastructure

The Chamber recommends that the province invest strategically in industries, which will have lasting effects on the economy. Some suggestions include: transportation infrastructure, municipal transportation, utility infrastructure and renewable energy projects.

The Chamber has developed its own decision filters to help guide government infrastructure spending decisions. Government should consider these criteria before spending stimulative dollars.

Decision filters work by posing the question - does the proposed spending:

- Contribute to long term economic development?
- Create an investment which will pay for itself?
- Contribute to a Nova Scotia that will attract and retain people?
- Build efficiencies that will control future government spending?

c) Education

Affordable and effective primary and secondary education for all Nova Scotians is key to our future as a province. Program funding needs to be focused on three areas: early learning, workplace preparedness, and adult literacy. Investing in literacy, in particular, has proven to increase employee productivity. As Elizabeth Beale, President and CEO of APEC, stated in the background paper produced by the province's 2009 Economic Advisory Panel, improving productivity will be key to creating a stronger economy, and one of the most effective ways to do that is to improve adult literacy.[4]

In addition, it is essential that upon graduation, students are able to find meaningful employment in Nova Scotia. Further investment in co-operative

[4] http://www.ns.literacy.ca/media.htm

programs at the high school level, and offering trades related education in high schools, such as the new "Construction Trades 11", will continue to strengthen the links for our students between the work world and school.

In summary, the Chamber recommends that the province:

- Continue early learning intervention programs (such as Reading Recovery) and proven "learn to read" programs such as Active Young Readers which produce measurable results
- Invest in workplace preparedness programs such as "Construction Trades 11", co-op programs and programs for guidance counsellors
- Invest in adult literacy programs

III. Taxation

Nova Scotia must reduce barriers to business, including the corporate tax rate. Accelerating the reduction of business taxes could assist the Province in attracting investment, which is particularly important when that investment is a critical component for recovery from the economic downturn.

The federal government has stated it remains committed to decreasing the corporate tax rate to 15 per cent by 2012[5]. Currently, Nova Scotia has the highest corporate tax rate in Canada, tied with Prince Edward Island, at a rate of 16%.

a) Tax Reform

Tax reform must be a focus for this government, if we are to ensure our competitiveness. Looking to other provinces, one finds:

- No capital tax – in Prince Edward Island, Newfoundland and Labrador, British Columbia and Alberta
- Small business tax holiday – in Newfoundland
- Lower corporate tax rates in all provinces except Prince Edward Island

The Canadian Federation for Independent Business's (CFIB) published a report in April 2009 titled, "*In Search of Tax Excellence - Where Provinces Rank in Creating a*

[5] http://www.cra-arc.gc.ca/tx/llrts/menu-eng.html

Tax Climate for Small and Medium Business Success". This report ranked Nova Scotia's taxation system as the third worst for business in the country; only Ontario and Quebec ranked lower. As a province we can and must do better.

In CFIB's *Tax Competitiveness Survey*, business owners were asked to identify the taxes that are most harmful to growth. Number one was premiums and payroll, number two was corporate and income, and third was property and capital taxes. Nova Scotia scored poorly in two of these three categories: corporate income tax and property and capital taxes.

b) Harmonized Sales Tax - HST

The HST rate in Nova Scotia is now 13 per cent, down from 14 per cent as of January 1, 2008. The HST is composed of the federal GST (general sales tax) and the 8 per cent provincial tax.

HST Rates across the country are 13% in Newfoundland, New Brunswick and Ontario (by July 2010) and soon to be 12% in British Columbia.

The province has been exploring the concept to eliminate the provincial deficit by raising the HST by 2 per cent. The Chamber might be willing to support a consumption tax increase, if we see a credible plan to cut spending. It is critical that the province consider the impact that any changes to the HST will have on competitiveness.

If a tax increase cannot be avoided, a consumption tax would be preferred over a corporate tax increase.

c) Cap Assessment Program (CAP)

The province should review the Cap Assessment Program (CAP) on property taxes introduced in 2006**.** The Chamber remains concerned about the Cap Assessment Program and linking the CAP to the Consumer Price Index (CPI). By limiting the increase of residential assessments while commercial assessments continue to rise with the market, we are concerned that, even if the municipality leaves commercial tax rates stable, the relative tax burden on the commercial sector will continue to rise. We are also concerned about the potential effect on the real estate market. New homebuyers may see dramatically higher tax bills than those residents in the homes longer-term, which would dampen the real estate market and discourage new home buyers.

In summary, in the area of taxation, the Chamber recommends that the Province:

- Lower the corporate tax rate, which is currently 16 per cent. In New Brunswick, the corporate tax rate will be lowered to 12 per cent in July of 2010, making it the lowest in Atlantic Canada.
- Lower the small business rate from 5 to 3 per cent. The small business rate in Nova Scotia is 5 per cent – the Chamber would like to see it at 3 per cent. Manitoba's NDP government will phase out the small business tax rate by the end of 2010.
- Increase the small business threshold: from $400,000 to $500,000
- Taxes which have previously announced to be phased out should continue to be (business occupancy, capital taxes)
- Review the assessment cap on property taxes

IV. Economic Growth

According to the Conference Board of Canada's Provincial Outlook Summary 2009, the long-term economic forecast for Nova Scotia is weak. The province's economy is predicted to grow just one per cent annually from 2008 through to 2030, ranking it nine out of the ten provinces in terms of estimated growth.

Nova Scotia has all of the basic ingredients it needs to succeed in the global economy. With a highly educated workforce, seasoned and successful entrepreneurs, world-class research institutions and proximity to key markets, we have the foundation to excel.

There needs to be a fundamental shift, however, to the industries of the 21st century; those based more on knowledge than natural resources. Government will have to establish a business environment that supports transition to the knowledge-based economy.

The Conference Board of Canada released a report titled “City Magnets II – Benchmarking the Attractiveness of 50 Canadian Cities. When it comes to productivity, which is included in the “innovation” category, Halifax placed almost last - 48th out of the 50 cities.

Productivity is defined as output per worker. Innovation is defined as “the ability to turn knowledge into new and improved good and services.” Specifically, the reported measured “innovation” by examining:

- The proportion of the population employed in the natural and applied sciences, computer and information systems
- The number of graduates in engineering, math and science and
- Productivity, as measured by GDP (gross domestic product) divided by employment and measures output per worker

Government must do what it can to contribute to increasing productivity and innovation. While government can’t directly grow the economy – it can stand in the way.

In summary, the Chamber recommends that the Province:

- Reform the tax structure to attract business
- Improve the regulatory environment by continuing to decrease red tape
- Support innovation and productivity, research and commercialization of research

Conclusion

While the past ten years has seen improvements in many fiscal indicators and the first reduction in net direct debt in a generation, crucial opportunities have been missed.

Program spending, particularly in health, is key to the Province’s long term fiscal stability. Current spending growth tracks are unsustainable. Changing them will be difficult but the majority status of the current provincial government provides time for implementation and communication.

The province must develop its own “filters” to use when making the difficult decisions that lie ahead. Defining priorities, communicating them and, most importantly, committing to them will set Nova Scotia on the right path to a sustainable future.

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SUMMARY OF RECOMMENDATIONS

In brief, this year's recommendations to the provincial government for the 2010-2011 Budget are as follows:

Debt

- Include a deficit elimination program and debt management plan with the 2010-11 budget
- Phase out defined benefit pension plans and replace them with defined contribution plans for civil servants, teachers, nurses and other public employees

Spending

- Eliminate areas of duplication in our health care system, especially across the nine district health authorities
- Leverage health care investments into business opportunities for businesses
- Invest strategically in new growth industries, which will have lasting effects on the economy.
- Continue early learning intervention programs (such as Reading Recovery) and proven "learn to read" programs such as Active Young Readers which produce measurable results
- Invest in adult literacy programs
- Invest in workplace preparedness programs such as "Construction Trades 11", co-op programs and programs for guidance counsellors

Taxation

- A consumption tax increase is preferred over an increase in the corporate tax rate
- The Chamber might be willing to support a consumption tax increase, if we see a credible plan to cut spending
- Lower the corporate tax rate to a competitive level with other provinces
- Lower the small business rate from 5 to 3 per cent
- Increase the small business threshold: From $400,000 to $500,000
- Taxes which have previously announced to be phased out should continue to be (business occupancy, capital taxes)
- Review the Cap on Assessment Program (CAP) on property taxes

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