



HALIFAX CHAMBER OF COMMERCE

stronger together

Annual Provincial Pre-Budget Submission 2012-13

December 15th, 2011





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 that represents over 1,500 members and strives to make Halifax an even better place to live, work and play. It is the oldest Chamber in North America with roots dating to 1750 and was the first Chamber in North America to become ISO certified. The Chamber is an active voice for business at the federal, provincial and municipal level.

The Chamber has revised its existing strategic priorities this year and has set new ones for 2011-13 to better represent the needs and interests of our membership, including an even greater focus on enhancing the competitiveness of our Province. These new strategic priorities are based on member feedback and are as follows:

- 1) Helping businesses take advantage of our provincial and city economic strategies
- 2) Making Halifax more competitive

The following submission outlines the Halifax Chamber of Commerce's position on issues that are critical to the local business community and fall under our two main strategic priorities. It aims to bring policies and strategies to the forefront to inform and assist the Province in developing the 2012-13 provincial budget.

Executive Summary

The Province has made some commendable fiscal strides forward over the last year or so. Nova Scotia's net debt increased from \$12.4 billion in 2007 to \$13 billion in 2010, but from 2010 to 2011 we have seen a reversal of this trend from \$13 billion down to \$12.8 billion. Total annual expenses climbed from \$8.1 billion in 2007 to \$9.5 billion in 2010, but once again from 2010 to 2011 this figure has dropped to \$9.3 billion¹. Indeed, the fiscal trend from 2010 to 2011 is an improvement over previous years, and for that this government must be congratulated.

However, there are still many challenges facing this Province. The major federal transfers to the provinces are set to expire in 2014, the cost of Health Care is spiraling out of control with no end in sight, and we remain one of the highest taxed jurisdictions in all of Canada.

These challenges require strong leadership. Perhaps stronger than ever. Recognizing that tough decisions will need to be made by the Provincial Government in its attempt to

¹ Government of Nova Scotia. *Public Accounts: Volume 1, April 2011*. Retrieved from <http://www.gov.ns.ca/finance/site-finance/media/finance/PublicAccounts2011/2011Vol1.pdf>

get back to balance by 2013-14, the Chamber continues to support the Province in this goal. Continuing to increase our total annual expenditures and our net debt is a dangerous game we cannot afford to play.

On behalf of the business community of Halifax, we provide comment on the following topic areas:

1. Taxation

2. Financial Management

3. jobsHere – the Provincial Economic Strategy

1. Taxation

The Chamber continues to fight for a more competitive tax environment. Although we have heard many times from the Province that Quebec – not Nova Scotia – is the highest taxed jurisdiction in Canada, it must be noted that we are two very different regions, with very different tax bases, and with programs and services that vary in both quantity and quality. The Chamber maintains that we are in fact one of the highest taxed provinces in Canada.

The Chamber wants to emphasize, once again, that lower taxes are positively correlated with increased outside investment and the growth of local businesses. All of this translates into economic growth for Nova Scotia.

With the goal of creating a more competitive climate for businesses and for our provincial economy, the Chamber recommends:

- No further tax increases from any source – user fees, taxation, etc.
- A continued and accelerated reduction in the Small Business Tax Rate from 4% to 3%.
- A gradual shift towards a reduction in the Corporate Income Tax Rate from 16% to 12%. This represents the mean Corporate Income Tax Rate of other Canadian provinces, and should bring us closer to a more competitive business environment².
- Reduced regulatory burdens, wherever possible.

² Tax Rates Across Canada. *Comparative Tax Rates for 2011 Year*. Retrieved from <http://www.gov.ns.ca/finance/en/home/taxation/taxratesacross.aspx>

2. Financial Management

Government Finances

Looking at Net Debt, Net Debt Per Capita, and Total Annual Expenses, the trend from 2010 to 2011 does look to be improving on the whole. The Province has taken tangible steps to reduce our debt and our unsustainable spending habits –but do these actions represent a long-lasting trend that will continue in this year’s budget? The Chamber has concerns that this practice is a short-term fix to get us back to balance, only to later be thrown out the window again. The Chamber will be monitoring these figures closely to ensure they continue to move in the right direction, and will hold government accountable if they do not.

The Chamber was as elated as anyone else in Nova Scotia when it was announced that our own Irving Shipyard was the recipient of the massive \$25 billion shipbuilding contract. We’ve all heard the numbers; this contract will provide a strong boost to our provincial GDP (by about \$900 million annually during peak years) and thus our provincial tax revenue – and create and sustain up to 4,000 direct jobs across Nova Scotia over the next 20 years, with peak employment reaching over 11,500 jobs.

However, it is imperative that this increase in provincial tax revenue be managed wisely and used to pay down our debt before other government expenditures are pursued or even considered. Deputy Premier Frank Corbett has already dismissed suggestions that this additional revenue would be used as an opportunity to increase spending and not pay down our debt, stating that his government will stay its course³. The Chamber of Commerce will be watching closely to ensure that the government holds true to these statements.

Recently, the Province has announced its Jobs and Building Plan, which will see \$610 million of public money invested into more than 150 projects across Nova Scotia. That’s \$150 million more than the government had originally anticipated spending – but the fact that we’re slightly ahead of schedule in balancing the budget shouldn’t necessarily result in an automatic increase in expenditures. This extra revenue could have been used to pay down our debt, which could have resulted in greater long-term benefits.

³ Business Voice Magazine, December 2011. *Now it’s time to get ready (cover story) – pg 19.*

Health Care

Health Care remains another obvious concern for the Chamber and the provincial economy. Expenditures continue to grow well above the pace of nominal economic growth in our Province. Clearly, this is not a sustainable business model. Meaningful reform is required. Streamlining, cost cutting and greater efficiencies, wherever possible, must be identified and achieved. We are not suggesting the entire system could, or should, be changed overnight, but taking baby steps wherever possible to enhance efficiencies could result in significant savings.

This year alone, Nova Scotia is expected to spend almost \$3.8 Billion on Health Care – an approximate \$200 million increase over last year. That’s more than \$4,000 for every man, woman and child in Nova Scotia. It is also an approximate 5% increase in spending.

In business, when a company expands or must continue to exist with less resources, that company adopts a series of effective, efficient, and proven best practices to improve their systems so that costs are controlled without compromising the value of the service. The Chamber calls on the Provincial Government to leverage its majority mandate by taking immediate and significant action to fundamentally arrest the unsustainable course of our health care system. The Province must strive to be a leader in the reform of our system.

Over the past decade, we’ve seen health care costs literally double in size, with funding now representing 40% of all provincial government spending⁴. Obviously, this unsustainable cost growth needs to be controlled. The Province recognizes this challenge, and has begun to implement some initiatives that will address this challenge: standardizing more health care supplies and requesting a 3% reduction in spending for all health authorities and the IWK are good starting points. However, more innovative change is required. The Chamber will be holding the government accountable to these targets and looking for more innovative measures wherever possible.

Since 1989, many different government-funded studies have called for systemic change. Now is the time to act upon the advice of these studies and reports. We know what needs to be done.

⁴ Business Planning Begins with District Health Authorities, October 2011. Retrieved from <http://www.gov.ns.ca/news/details.asp?id=20111014006>

Public Sector Pensions

The recent volatility in global equity and commodity markets provides a reminder of just how vulnerable the economic recovery remains. Given this fact, and given the Public Sector Pension Plan's optimistic projected rate of return of about 7%, the Chamber is concerned the Province will come back to taxpayers to help fund the Plan.

If the markets continue to perform poorly as they have over the past decade, and the Province still requires a 7% Rate of Return in order to ensure the stability of the fund, will we not be faced with another funding gap in the future? Will taxpayers be expected to step up again? This would be unacceptable and it is expected that alternative courses of action – such as replacing a defined benefit pension system with a defined contribution pension system for new hires, effective immediately – will be pursued before taxpayers are once again asked to make up this difference.

With the goal of creating a more competitive climate for businesses and for our economy by reducing provincial government expenditures and moving us closer to “back to balance”, the Chamber recommends:

- Continuing the trend of debt and expenditure reduction that was witnessed from fiscal year 2010-2011 to 2011-2012, and ensuring this continues until we are “back to balance” and beyond.
- Utilizing the additional tax revenues generated from the shipbuilding contract's GDP boost to further pay down our debt, rather than increasing spending.
- Implementing greater accountability measures for the cost of Health Care by those providing the services, and more consideration of private sector delivery options under our publicly funded system.
- Exploring alternative and better drug procurement practices that will result in greater cost savings.
- Adopting well-established project management principles and applying them to the Health Care sector, so that it is run more like a business than a complex government entity with duplication and overlapping administration.
- Directing any savings in Health Care towards better program delivery.
- Monitoring the health of the Public Sector Pension Plan with an eye on the projected 7% rate of return.

3. “jobsHere”

Greater economic growth has the utmost potential to improve Nova Scotia’s competitive positioning overall. That’s why the Chamber has been, and continues to be, such an aggressive and proud supporter of the \$25 billion Irving Shipbuilding contract. A contract that size is almost an economic strategy in and of itself.

But let’s not forget about the Province’s own strategy to create good jobs and grow our economy – “jobsHere”. The Strategy is promising in that it targets specific areas for government to focus on instead of spreading funds more thinly over many different sectors.

However, the Chamber believes “jobsHere” isn’t quite there. As we have stated many times before, “jobsHere” is much too vague for our liking, and we are still seeking a status report on its outcomes. The Government of Saskatchewan, for instance, has been diligently releasing Progress Reports on their economic strategy for many years. This report clearly demonstrates whether the Province is on track to meet or exceed its targets.

Real strategies involve picking winners and losers – who are the winners here? What are our growth centers moving forward? What is our vision for future centers of excellence, beyond shipbuilding?

The Chamber will also be looking for improved communication around “jobsHere”. If the benefits of this Strategy are to be maximized, the Province must ensure that businesses both know about and understand all of the details involved with these programs.

With the goal of growing our economy, improving competitiveness, and helping businesses take advantage of our provincial economic strategy, the Chamber recommends:

- Implementing a comprehensive communications plan that raises awareness of existing programs and explains them in easily understood language for the average entrepreneur.
- Creating a specific action plan that clearly demonstrates how the “jobsHere” strategy will be executed.
- Providing a status update and report on jobsHere so we can better assess its impact and performance thus far.

Conclusion

It is critical that government ensure there is a basket of competitive conditions to support business investment and growth now and in our future.

Over the next few years, the Chamber will be examining provincial actions and issues through a 'competitive lens' that will include the following key elements of a competitive economy:

- Good infrastructure.
- 'Open-for-business' attitude.
- Regulations that make sense.
- Reasonable taxes.
- Sustained growth.
- Fiscal prudence.

Now that Ships Start Here, Nova Scotia and Halifax can expect some good times ahead. It's time for us to leverage the opportunities before us so that we'll be even more prepared to take advantage of the ones coming our way in the future.

We look forward to working with you to achieve these objectives. As always, the Chamber stands by ready to assist the Province in any way possible.

More information about the Chamber and its advocacy work can be accessed by contacting the office or visiting the Chamber web site at www.halifaxchamber.com.

This submission has been created in collaboration with the Chamber's Provincial Affairs Committee, as well as input from our many Chamber members. The mandate of the Chamber's Provincial Affairs Committee is to support the development of policies on issues of importance to our members that are within the purview of the Provincial Government.

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