# THE WINNIPEG CHAMBER OF COMMERCE

## 2018 BUDGET SUBMISSION

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## ABOUT THE WINNIPEG CHAMBER

Founded in 1873, The Chamber is Winnipeg's largest business organization, dedicated to fostering an environment in which business, and all Manitobans, can prosper. The Chamber's vision is for Winnipeg to be:

- A cost-competitive, technologically innovative city with a skilled labour force and modern infrastructure to support existing and emerging industries
- A city where citizens take personal responsibility for and pride in community development
- A city with a bright economic future

The Chamber firmly believes that a positive and competitive business climate brings with it wealth, prosperity and a high quality of life for its citizens. Through its membership, The Chamber can identify and provide valuable insight into currently held perceptions and concerns for Manitoba's future, as well as potential solutions. We are therefore pleased to present this submission on behalf of its 2,100 member companies that employ approximately 90,000 workers in the City of Winnipeg.

## RECOMMENDATIONS IN BRIEF

Manitoba needs to continually improve conditions for a competitive, diversified, and resilient economy which will provide a high quality of life to all Manitobans. We have focused our comments to five priority areas:

### 1) Establish a tax commission to improve the tax system

Manitoba's tax system has been without a comprehensive review for 18 years. A lot has changed in that time period, and our tax system doesn't account for things such as the sharing economy. We recommend the development of a commission to establish a fairer, simpler and more competitive tax system.

2) Outline your plan to reduce the deficit

Manitoba can improve its credit rating and economic outlook by outlining a plan to get the deficit under control. A summary loss of $764 million this past year is an improvement, but Manitoba remains one of only two provinces that doesn't have a firm timeline for getting back to balance. [1]

3) Enable better access to capital and labour

To improve economic performance, we need to improve investment conditions, including access to a skilled and highly qualified workforce. A made-in-Manitoba access to capital strategy will encourage new investment into the Province. As recently as 2014, Manitoba tied PEI as the worst provincial performer in this area, with zero venture capital investment.

4) Improve value for money in government services

Manitobans consistently expect better value-for-money from our government while balancing demands for improved social outcomes and service delivery. The Chamber appreciates the value-for-money audit that has been undertaken and the initial steps toward developing social impact bonds in Manitoba, we also hope the government explores unique opportunities to innovate service delivery models.

5) Civic Partnership

The City of Winnipeg is also facing significant fiscal challenges, and unlike the Province of Manitoba, they have to balance their budget each year. Without revenue increases, the estimated gap between total expenditures and revenue could be as high as $400 million by 2027 for the City of Winnipeg, and that doesn't account for the infrastructure deficit.[2] With both governments facing fiscal challenges, a strong partnership is needed.

6) Carbon Price Revenue

The Winnipeg Chamber of Commerce applauds the Province for their Made-in-Manitoba Climate and Green Plan, as opposed to the federal one size fits all system. Regardless of pricing levels, any revenues raised must not go to debt or deficit reduction, or into general revenue. Carbon pricing revenues must go to help offset the increased costs on low-income Manitobans and towards initiatives that will lower our greenhouse gas emissions.

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[1] RBC Economics Research, September 26, 2017. http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/prov_fiscal.pdf

[2] Community Trends and Performance Report, Volume 1. City of Winnipeg. http://www.winnipeg.ca/cao/pdfs/CommunityTrendsandPerformanceReportVolume1_2017.pdf

## ECONOMIC BACKGROUNDER

Manitoba's diverse economy has saved us from the boom and bust cycles of our prairie counterparts, but the growth outlook is mixed for the next several years.

The Royal Bank of Canada's most recent economic outlook predicts real GDP growth of 2.6% in 2017 in Manitoba, before slowing to 2.0% in 2018 and 1.7% in 2019.[3] Such growth in 2018 and 2019 would put Manitoba in the bottom half of all provinces across Canada.

Complicating matters is how the re-negotiation of NAFTA will affect Manitoba's economy. Over 70% of Manitoba's exports go to the United States and Mexico, and we also receive over 80% of our imports from those two countries. The importance of that trading relationship to the Manitoba economy can't be understated. In addition the recent Bank of Canada overnight rate increases have not only increased borrowing costs for governments, but for consumers and business as well. With further increases speculated to come sometime in 2018, further restrictions in the money supply could reduce borrowing and spending by consumers and businesses, which could further impact provincial GDP growth.

# RECOMMENDATIONS

## 1. ESTABLISH A TAX COMMISSION

In today's globally competitive business environment, government needs to create a climate that enables businesses to prosper. We recommend the development of a commission to establish a tax system that is fairer, simpler and more competitive. The commission should include representatives of government, the business community, the general population, as well as tax experts and practitioners.

While significant changes have occurred within the provincial, national and international economies, Manitoba's tax system has not been subject to a comprehensive review in 18 years. We recommend the establishment of a provincial commission charged with recommending a reinvented, modernized personal income system for Manitoba, with a specific focus on tax rates and brackets, including marginal rates on capital gains and dividends. This review should also consider Manitoba's income tax system and tax rates in light of the federal government's gradual overhaul of the federal income tax system, which have generally resulted in increased taxes to small business owners.

[3] RBC Economics Provincial Outlook December 2017. http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/man.pdf

This recommendation is particularly timely in light of a proposed price on carbon, in addition to the promised provincial sales tax cut.

It would also be advantageous for the tax commission to study the fiscal and economic impact of harmonizing provincial sales taxes with federal sales taxes, as many provinces have done, including Ontario. It may also be possible to have an unofficial form of harmonization, by having Manitoba Finance update their administrative policies as they relate to the provincial sales taxes, in order to align them with the Canada Revenue Agency's administrative policies as they relate to the administration of the federal sales tax. This would be done in an effort to avoid administrative headaches faced by business owners on this topic.

The speculation of a new health care tax was a surprise to the business community. Employers typically pay the full cost of health taxes as an employee benefit. Such a tax would put smaller employers at an even larger disadvantage when looking to recruit talent, as it is much harder for them to pay such premiums. The Winnipeg Chamber of Commerce was pleased to see the Province drop the idea of a new health tax.

Business leaders have clearly told us over the last number of years that they don't believe Manitoba's business climate is competitive with other provinces. BMO's recent report card, which gave Manitoba a "C+" in regards to taxes, reinforces that position. This was the lowest grade of all provinces west of Quebec.[4] The Winnipeg Chamber of Commerce believes that a competitive tax framework must exist in an effort to give businesses the opportunity to prosper, supported by the following three principles:

1) Prosperity – The tax system should contribute to economic prosperity.

2) Transparency – structured so that it can be clearly understood by the taxpayers and administered by authorities in an impartial and predictable manner.

3) Accountability – The government must be publicly accountable to taxpayers by money raised and expended by it.

These steps are imperative if Manitoba is to remain a competitive place to do business. For example, Manitoba is the only jurisdiction in Canada that has a small business exemption below $500,000. As of January 1st 2018, Manitoba's regional competitor, Saskatchewan, will be raising their small business exemption threshold to $600,000, the highest level in Canada. With that higher threshold, a small business could see up to $6,000 in tax savings in Saskatchewan as compared to Manitoba.

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[4] BMO Capital Markets Fall Provincial Monitor 2017.
https://economics.bmocapitalmarkets.com/economics/monitor/201710/monitor.pdf

Since 1999 the provincial government has experienced continued increases in revenue due to a combination of increased taxation revenue (including a rise in the PST) as well as increased revenues from the federal government though transfer payments and equalization. Repeated budgets have shown that the provincial government has not shown a focus on reducing expenditures.

We hope the government begins to focus on getting the deficit under control, partly by creating a culture in the public sector that inspires and rewards employees for finding efficiencies.

## 2. IMPROVE ACCESS TO CAPITAL AND LABOUR

To improve economic performance, we need to improve investment conditions, including access to a highly skilled workforce. A made-in-Manitoba *access to capital* strategy may be the best way to encourage new investment into the Province. As recently as 2014, Manitoba tied PEI as the worst provincial performer in this area, with zero venture capital investment.

1) Initiate a capital strategy

From a regulatory perspective, we recommend participation in a coordinated federal regulatory commission. From a budgetary perspective, we recommend that the government develop an “access to capital” strategy that identifies all stages of capital financing, current capital availability, and local gaps along the entire capital continuum (idea, incubator, angels, and venture capital). We also recommend increasing funding to incubators for prototyping and beta testing, and to make a clear delineation between commercialization and innovation or research.

Simple legislative changes could also be made to improve the capital attraction climate. We encourage the provincial government to bring in legislation enabling the establishment of Unlimited Liability Corporations (ULCs). This form of corporation doesn’t limit the liabilities of shareholders to the corporation’s debts.

Alberta, B.C and Nova Scotia are the only jurisdictions in Canada with this legislation in place. A Manitoba can still incorporate as ULC, but they would have to incorporate in one of those three provinces, which leads to legal and accounting work leaving the province.

2) Improve labour force skills

To complement the below recommendation in social enterprise, engage education leaders in a comprehensive review of Manitoba’s education outcomes to ensure they are in line with the needs of industry.

This includes a need to improve outcomes in primary, secondary, and post-secondary education (reading, math, computer, and science skills), as well as college and trades-oriented schools.

We applaud the steps the government has made to reduce the backlog in the Manitoban Provincial Nominee Program. We encourage the provincial government to re-examine ways of re-opening the "employer direct" initiative of the Manitoba Provincial Nominee Program, which allowed employers to directly nominate individuals for permanent residency.

## 3. OUTLINE YOUR PLAN TO REDUCE THE DEFICIT

The time is now for Manitoba to make concrete improvements in the Province's fiscal position. Research from the Parliamentary Budget Officer (PBO) shows that our current fiscal policy is unsustainable.

The PBO estimates that tax increases or spending reductions equivalent of 3.8% of GDP or $2.6 billion, would be needed for the Province to achieve a sustainable fiscal path. To put that in perspective, that is equivalent to a 14% increase in the overall tax burden, (including federal transfers) or a 13% spending reduction.[5]

BMO Capital Markets recently gave Manitoba a "C-" when it comes to the deficit plan, the third worst ranking amongst all provinces, behind only oil dependent Alberta and Newfoundland.[6] Manitoba can improve its credit rating and economic outlook by outlining a plan to get the deficit under control. Successive budget deficits threaten to undermine the Province's capacity to deliver long-term programs.

The government must signal to the investment community that we are ready to improve our fiscal position, before we suffer further credit rating downgrades. Our debt servicing costs could well cross the $1 billion mark this fiscal year, which would undoubtedly mark a low point in our province's fiscal history. The further monetary policy tightening that is expected from the Bank of Canada in the next few years will increase our province's borrowing costs by millions of dollars.

In the last provincial budget The Winnipeg Chamber of Commerce was pleased to see money put back into the Fiscal Stabilization Fund, but the fund remains dangerously low. The balance of $125 million in the fund is likely not sufficient to get the Province through the next environmental or economic crisis.

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[5] Fiscal Sustainability Report 2017. Office of the Parliamentary Budget Office. October 5, 2017. http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/FSR%20Oct%202017/FSR_2017_FINAL_EN.pdf

[6] BMO Capital Markets Fall Provincial Monitor 2017. https://economics.bmocapitalmarkets.com/economics/monitor/201710/monitor.pdf

## 4. IMPROVE VALUE FOR MONEY IN GOVERNMENT SERVICES

Manitobans expect better value-for-money while balancing demands for improved social outcomes and service delivery. In addition to the identification of internal efficiencies, cost pressures present novel opportunities to innovate service delivery models, including social enterprise and social investment strategies.

1) Expenditure management

We recognize that the government has already undertaken a value-for-money review, and will be implementing some of the recommendations stemming from that review. In addition to said independent recommendations, we recommend that the government look at ways of bending the cost curve. For example, Saskatchewan managed to drop their per capita program expenses by $318 from 2015-2016 to 2017-2018, a decrease of around 2.5% per person.

Conversely, in that time period, Manitoba's per capita expenses increased by $410 per person, around 3.5% a person.[7] Just slowing that increase in Manitoba by half would result in an over $250 million worth of savings to the bottom line.

We also encourage the government to adopt modern technology and procedures as tools that will enhance both service and communication to citizens.

2) Social Enterprise and Quality Based Procurement

We recommend that the government implement the February 2015 Manitoba Social Enterprise Strategy, developed in partnership between the Province of Manitoba and the Canadian Community Economic Development Network (CCEDNET).
Social enterprises may multiply the impact of dollars spent in the private (or "third") sector, which would otherwise be spent directly on government services.

A dollar spent on training, education, addictions treatment, and skills development for offenders, for instance, offsets the high cost associated with incarceration and the administration of justice. CCEDNET reports that Manitoba Justice spends approximately $500M annually, up from $200M in 2006.

The Auditor General of Manitoba reported $600M will be needed between 2014 and 2020 just to meet projected prison population growth, at an estimated capital cost of $220,000 per bed. Recidivism rates in Manitoba are 31% (2013) for new criminal convictions and 72% (2011) for new criminal charges.

[7] RBC Economics Research, September 26, 2017. http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/prov_fiscal.pdf

Investments in social enterprises that are employing people at high risk of re-offending can address unsustainable justice costs.

In addition, the hundreds of millions in provincial capital spending each year can be put towards better use. By moving to a quality based procurement system, design flaws are found early in the construction process.

3) Do a basic income study

There may be an opportunity to significantly reduce the bureaucratic costs associated with the delivery of cash benefits while simultaneously improving social outcomes. A basic income is a form of social security in which a universal cash benefit is paid as an alternative to other conditional cash benefits. If administered as a reverse income tax, the administrative savings may be substantial.

To that end, we recommend that the Province seriously create a pilot project in 2018 that would mirror the Dauphin project done in the 1970's. There is immense potential to improve social outcomes, workforce participation rates, and administrative efficiency.

## 5. CIVIC PARTNERSHIP

The provincial government is not the only one facing significant fiscal challenges. Unlike the provincial government, however, the City of Winnipeg has to balance its budget ever year. At the end of the day, businesses are impacted by decisions made at all three levels of government. Municipal governments most often fill the gaps that arise from expenditure reductions made by more senior levels of government.

Over the past few years the City of Winnipeg has made concrete steps towards improving the business climate by reducing the business tax. The Winnipeg Chamber of Commerce encourages both levels of government to look at additional ways of easing the taxation burden that the business community faces. By 2019 Calgary will eliminate their business tax, making Winnipeg the only city in Canada with such a tax in place.
In addition businesses also face education property taxes in Manitoba. The Winnipeg Chamber of Commerce encourages the Province and the City to work together on ways to reduce both the tax and regulatory burden that businesses face in the City.

There are also measures that will not cost the Province anything that could help the City. Such an example is the current $182 million request by the City of Winnipeg for road repairs as part of the Building Canada Fund, a request The Winnipeg Chamber strongly supports. Provincial support will not cost anything, but could lead to millions going to replace our aging roads.

## 6. CARBON PRICING REVENUE

The Province has come forward with their flat $25 per tonne carbon price; the federal government has said that the price must rise to $50 a tonne by 2022. The Winnipeg Chamber of Commerce favours the lower carbon price, but of extreme importance to it is how the revenues will be recycled into the economy. A $25 per tonne carbon price is expected to result in an additional $260 million for the provincial government on an annual basis.

Any revenues collected from the carbon price *must not go to debt or deficit reduction*. Revenues must be accounted for in a clear and transparent manner, and not go back into general government revenues. Our trade exposed sectors, such as transportation and manufacturing, need to be given transitional supports as they compete in jurisdictions without such a tax in place. Low income Manitoba families should also be provided with tax-relief, as they are the most affected citizens.

Revenues from carbon pricing should also go towards clean, green projects that will reduce carbon emissions. The purpose of carbon pricing is to reduce carbon emissions, and revenue recycling must reflect that. In addition, revenues generated from carbon pricing could be designated towards green infrastructure projects that will improve our province’s ability to adapt to the various effects of climate change that we are experiencing, such as flooding.

## CONCLUSION

By improving our tax system, outlining a plan to improve the bottom line, improving access to labour and capital, by seeking better value-for-money in government services, and strengthened partnerships with other levels of government, the Chamber believes that we can improve the wellbeing of all Manitobans for generations to come. While many of these recommendations focused on revenue and expenditure measures, there are also non-fiscal related ways that the Province can improve the business climate.

For example, businesses still have to use a different number to access close to 40 different government programs. Going to one business number would help ease the regulatory burden on businesses, and give them more time to focus on growing. Measures such as this, as well as other regulatory red tape reductions, are measures that can lead to increased optimism and investment in the Province, all without impacting government revenue or spending.

Together all these measures can create not just a more desirable investment climate, but it will position our city and our province as a more desirable and dynamic place to live and do business.