



Business Council of Manitoba

SUBMISSION TO MINISTER STRUTHERS

IN PREPARATION FOR THE 2013 – 2014 BUDGET

Presented January 21, 2013

INTRODUCTION

The Business Council of Manitoba is pleased to share some thoughts and recommendations with you and your government. We have been offering suggestions for fourteen consecutive years and we continue to believe that a constructive relationship with government is the best approach as we move down future paths together. This year's submission is different from the others because times and circumstances change, and so should we. We cannot shelter ourselves from external forces nor should we throw up our hands and claim that things are beyond our control. There is much the government of Manitoba can and should do to prepare our province for the years ahead. This document represents the perspective of Manitoba's business leaders who are keen to participate fully in public policy discussions. This is the place where our employees and families work and play. We all have a stake in its future prosperity.

THE GLOBAL ECONOMY

European Financial Crisis

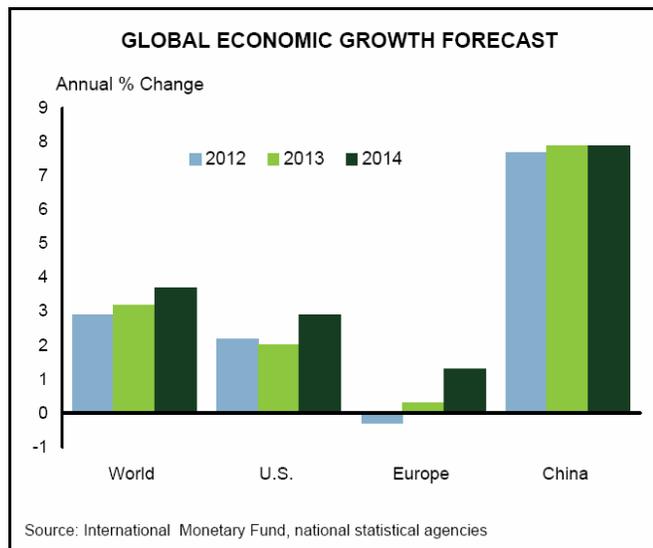
The European financial crisis has eased since Mario Draghi, president of the European Central Bank said in July 2012 that the Bank pledged to do "whatever it takes" to protect the euro zone from collapse, including fighting unreasonably high government borrowing costs. Despite this commitment government debt levels as a percentage of GDP are exceedingly high. Greece's debt which is the highest exceeds 175%, Ireland and Italy more than 100%, and it is projected that Spain will top 90% by 2013. A second commitment of financial support from the IMF to Greece on March 14, 2012 aims to put Greece's public debt ratio below 117% of GDP by 2020. According to the European Commission, GDP in the European Union is projected to contract by 0.3% in 2012 and grow by 0.4% in 2013.

Fiscal Cliff

The United States has bought some time by passing bills in the House and the Senate that raises taxes for those earning more than \$400,000 a year but there is no comprehensive plan to cut spending and raise revenues sufficiently to steer the country away from its debt crisis. Until there is a bi-partisan agreement on a long-term strategy, the American economic situation is a threat to Canada.

Global Economic Forecast

The World Economic Outlook released in October 2012 by the International Monetary Fund projects global growth at 3.3% and 3.6% in 2012 and 2013 respectively which is weaker than projected in July 2012 which was in turn lower than forecasted in April 2012. The IMF lowered its forecasts for economic growth in Canada – to 1.9% this year and 2% next, down in each case by 0.2% from earlier projections – and warned unemployment will remain at 7.3 %.



THE CANADIAN ECONOMY & MANITOBA'S FISCAL POSITION

The Conference Board of Canada projects that Manitoba's economy will grow by 2.5% in 2012 which makes Manitoba the third fastest growing economy in Canada. Growth is projected to slow to 2.1% in 2013. In the 2012/13 second quarter report, your government has forecasted a core operating deficit of \$546.0 million which is \$98.0 million higher than initially budgeted. Revenue projections are better than initially forecast due to higher tax revenues. Expenditures continue to be a problem; \$153.6 million higher than budgeted. We applaud your government for its commitment to keep healthcare expenditures down and note that the forecast is \$34.4 million lower than budgeted.

Manitoba's most recent forecast indicates that the budget will not be balanced until 2016-17. Other than Ontario, Manitoba will take longer than any other province to balance its books. The province's net debt has steadily increased from 21.75% of GDP in 2007/08 to a projected 27.1% in 2012/13. Your government has committed to reduce the size of Manitoba's public service by 600 over the next three years. Given the size of Manitoba's deficit we do not believe that this is enough. Manitoba's civil service grew by 2.85% last year and data suggests that public sector employment rates are higher in Manitoba than in most other provinces.

	Balanced Budget Target	Current deficit/surplus forecast	Debt to GDP (%)
BC	2013-14	\$1.14 Billion	26.2
AB	2013-14	\$3 Billion	4.1
SK	currently balanced	\$95 Million Surplus	26.2
MB	2016-17	\$546 Million	27.1
ON	2017-18	\$14.4 Billion	26.2
QC	2013-14	\$1.6 Billion	35.2
NL	2014-15	\$700 Million	25
NS	2013-14	\$249 Million	34.8
PE	2014-15	\$74.9 Million	35.6
NB	2014-15	\$356 Million	34

Summary Net Debt

	Net Debt (Millions of Dollars)	Net Debt as a % of GDP
2003/04 Actual	11,595	31.07
2004/05 Actual	11,101	28.11
2005/06 Actual	11,008	26.52
2006/07 Actual	10,857	24.15
2007/08 Actual	10,599	21.75
2008/09 Actual	11,498	22.85
2009/10 Actual	11,794	23.10
2011/12 Actual	14,511	25.5
2012/13 Forecast	16,134	27.1

RECOMMENDATION #1

We recommend:

- a. **That the government set a goal to further reduce the size of the Civil Service. The goal announced in last fall's Throne Speech of 600 is too modest. Attrition and appropriate reallocations should offer much more room for efficiencies.**
- b. **That expenditure growth must be more in line with growth in revenues and GDP. All government expenditures need review and targets set to which the government should be held accountable.**

TAXES

A competitive tax structure that encourages investment is fundamental to Manitoba's economy. Last year's budget speech stated there were no increases to personal, corporate or provincial sales tax rates. Although the rates stayed the same there were significant increases. Your government broadened the base of the PST which now includes items such as insurance premiums and personal services. This change was estimated to generate \$106.5 million in revenue. The failure to automatically index personal income taxes for inflation also increases the tax burden. The basic exemption for 2013 of \$8,884 was the seventh lowest in Canada; Saskatchewan's rate for 2013 will be \$15,241.

The payroll tax continues to be an irritant. Manitoba is the only western province to have a payroll tax; the second highest rate in Canada. We recognize that the province faces fiscal challenges, but announcing a plan to phase out the payroll tax over time would send a signal to businesses that this government is committed to a tax structure that encourages investment. This tax should have been phased out when times were better; your government chose not to, thereby missing an important opportunity.

Manitoba's retail sales tax of 7% is lower than most other provinces with only Saskatchewan and Alberta having lower tax rates. The cost of the flood in 2011 is estimated to be approximately \$1 billion of which Manitoba's portion will be roughly one-half. A significant portion relates to infrastructure, such as the Manitoba emergency flood channel estimated to cost \$100 million, not to mention rebuilding bridges and roads. A one-percent increase to the PST would generate approximately \$262 million. This money could be applied to help pay for the costs of the flood. It is the responsibility of all Manitobans to help defray these costs.

RECOMMENDATION #2

We recommend that the threshold for the basic exemption and tax brackets should gradually be increased until Manitoba's tax structure reaches the median of other provinces, with full indexation to follow.

RECOMMENDATION #3

We recommend that the government:

- a) Immediately announce a policy to phase-out the payroll tax.**
- b) Create different payroll tax categories as part of the phase-out strategy with the federal government class being phased-out last.**

RECOMMENDATION #4

We recommend that:

- a) The government of Manitoba collect a one-per-cent increase in the Provincial Sales Tax for a ten-year period and that the proceeds from this tax (about \$262 million annually) be used only for infrastructure expenditures, including those related to flood damage, to be defined by the provincial government and the municipalities. Allocation decisions must be clearly and transparently reported. This recommendation should not impact funding allocated to the City of Winnipeg or other municipalities through the Building Manitoba Fund or any other type of grant assistance.**

- b) We are aware that provisions within the provincial balanced budget legislation require a province-wide referendum if rates of major taxes are increased. The PST is specifically named in the statute. If the government is unwilling to amend the Act, then the referendum should be welcomed and the Business Council commits to speaking in favour of a special infrastructure levy for a defined period of ten years.**

INNOVATION COUNCIL

In April 2009, the government formally announced the creation of the Manitoba Innovation Council (MIC). MIC exists to provide key advice and leadership in the development of an innovation strategy for Manitoba. Its objectives include, among other things, the acceleration and simplification of the commercialization of innovation in our province, improved access to capital for Manitoba's emerging and expanding high-growth companies, and the creation of a culture of innovation and entrepreneurship.

The MIC has now been operating for nearly four years, and it is time that its activities and results be reviewed. The Business Council – some of whose members sit on the MIC – wants to ensure that the MIC is fulfilling its mandate and is focusing on ALL elements of the innovation “cycle”. Specifically, we want to be assured that sufficient attention is given to outcomes. These outcomes include the creation and expansion of companies in our province that generate revenue and employ our citizens, both of which lead to tax generation. There are currently other organizations within Manitoba, including business incubators and accelerators, and it is our view that these entities are, in one form or another, of value and are worthy of support, and should form part of the overall innovation strategy for our province.

RECOMMENDATION #5

We recommend that the Manitoba government review the role and progress of the Manitoba Innovation Council, and take steps to ensure that appropriate focus is placed on outcomes, and the development of a comprehensive innovation strategy that incorporates those elements required to build revenue generating, employing, and taxpaying companies in our Province.

EDUCATION

Every child in Manitoba is entitled to the same quality of public education wherever they live and whatever background they come from. That is not the case today; it is a provincial and national disgrace and there is an urgent call for things to change and to change now. First Nations' young people on reserve get a substandard education. It is the federal government's responsibility to educate these young people but the per-pupil grant is less than two-thirds of what other Manitoba children receive; there is no governance model that guides educators, parents and children, the net result of which is an unfair start in life for children who are already disadvantaged because of deep-rooted problems of generational poverty, chronic unemployment and nutrition and hygienic issues associated with inadequate infrastructure.

RECOMMENDATION #6

That the government of Manitoba, along with the government of Canada and the Assembly of Manitoba Chiefs overcome jurisdictional paralysis and immediately work together to establish First Nations school divisions sharing services with the provincial school divisions located in the same region. The work of the Frontier School division in rural and northern Manitoba is an example to build upon. Funding formulas should be negotiated that maintain federal responsibility while accessing provincial capacity. First Nations' leadership must be involved every step of the way.

The Council on Post-Secondary Education (COPSE)

COPSE commenced operations in 1997 with a mandate to facilitate the coordination and integration of post-secondary services and facilities, to review and approve university and college programming, develop policy, and promote fiscal responsibility and accountability in the post-secondary system. The reality is that there is no centre of accountability blurred as it is between COPSE and the Minister. Universities and colleges do not effectively coordinate their strategic plans. COPSE is not well positioned as an arm's length buffer from government to get the job done.

RECOMMENDATION #7

That the responsibility for strategic planning for Manitoba's post-secondary system should rest with the institutions in collaboration with the government which funds them. The work of the COPSE should be integrated with the Ministry of Advanced Education and Literacy and COPSE should become a branch of the department. We understand that recent changes in personnel at COPSE have strengthened its leadership which will help the Minister fulfill her responsibilities.

We also recommend that the government order a comprehensive review of Manitoba's post-secondary sector. This has not been done since Duff Roblin led a commission in 1993.

THE NORTH

Economic development of Manitoba's North is a key element to this province's prosperity. The North will require significant investment to build infrastructure and a long-term commitment from both the public and private sectors if Canada's full potential is to be realized. The \$9.00 per tonne subsidy provided by the Government of Canada over the next 5 years for products moved through the Port of Churchill will help provide a transition period to adjust to the end of the Canadian Wheat Board's monopoly but it is not a sustainable strategy. Shipments through Churchill have decreased by 74,566 tonnes or 14.7% between 2011 and 2012. The Port of Churchill needs to diversify or its future looks bleak. The pipeline controversy in British Columbia which would ship crude oil from Alberta to the Pacific Coast may offer Churchill an opportunity. The feasibility of moving Alberta oil via pipeline or railroad to Churchill is an idea worth exploring.

Churchill's proximity to Nunavut and a direct connection to Winnipeg and the Mid-Continent Trade and Transportation Corridor can link goods to and from Canada's North and abroad. To realize the full potential of the Port a surface link is needed to connect Churchill to Rankin Inlet. There may be an opportunity to distribute Manitoba hydro electric power to help develop the vast mineral potential in the North. The province might be able to leverage money from the federal government for infrastructure given the recent \$6.3 billion federal loan guarantee for the Muskrat Falls hydroelectric project that generates power in Newfoundland and Labrador and moves it to Nova Scotia and perhaps beyond.

RECOMMENDATION #8

That the Governments of Canada and Manitoba declare the Port of Churchill and the Hudson Bay Railway critical national infrastructure.

RECOMMENDATION #9

That the government of Manitoba support a study to determine the feasibility of moving Alberta bitumen to the Port of Churchill for export.

CENTREPORT

The success of CentrePort hinges on the ability to extend water and sewer services to CentrePort lands. Jurisdictional disputes have held up development. The federal and provincial governments have committed more than \$220 million to infrastructure projects and there is a real threat to CentrePort's future viability if this impasse is not resolved in an expeditious manner. Delays are unacceptable.

RECOMMENDATION #10

That the government of Manitoba and the City of Winnipeg meet immediately and work together to expedite a speedy resolution to the current impasse. The option of annexing the rural municipality of Rosser should be on the table if other solutions cannot be found in a timely and affordable way.

MANITOBA HYDRO

Manitoba Hydro is among the most important drivers of the provincial economy. A sound balance sheet of the Crown Corporation is so important to our future prosperity that decisions taken to invest billions of dollars must be comprehensively examined by the province's best minds. At the moment, we are at a crucial stage. Natural gas prices are low, new technologies have opened up shale gas potential and electricity prices on the spot market have dropped significantly. Manitoba Hydro (the government) finds itself in the unenviable position of having to make generational decisions, those that impact the province for decades, at a given economic and political point in time. Nobody can predict the price of electricity, or natural gas, or oil or nuclear power next month, never mind next decade, but these decisions have to be made nonetheless.

The relationship between the Public Utilities Board and Manitoba Hydro has been strained for years. Though there will always be tension between the regulator and the regulated, disagreements should not end up in the courts, as they have recently. The triangle between the government, the utility and the regulator should be reviewed.

RECOMMENDATION #11

That the government, which has already referred the matter of assessing Hydro's capital plans to the Public Utilities Board, fill out the panel by asking at least three distinguished Manitobans with expert knowledge of the Crown Corporation, of public finance and of the energy business to participate in

the review. We also recommend that the review include an assessment of the transmission line's route necessary to take northern power to the south. We continue to believe that the government's decision to build bi-pole 3 on the west side of the province is a costly mistake. Your government has heard our arguments many times before. Our opinion has not changed.

RECOMMENDATION #12

That the government of Manitoba assess the relationship between the Public Utilities Board and Manitoba Hydro, including a review of the statutes that describe their mandates and establish their governance structures.

TOURISM

Manitobans can be proud of how attractive we have made our province as a destination for Canadian and international visitors. The list of impressive developments is a long one; the new Investor's Group Field, the Canadian Museum for Human Rights, the return of the NHL, the Metropolitan theatre restoration, several new hotels, the expansion of Winnipeg's Convention Centre, the growing importance of Brandon as western Manitoba's major centre, the Assiniboine Park/Zoo Project, the international appeal of Churchill's natural attractions; the list goes on. We are well-positioned to capitalize on these and other tourist attractions.

RECOMMENDATION #13

We recommend that the government continue to promote tourism and provide sufficient funding to enable the development of a long-term strategy that positions Manitoba's tourist industry to remain competitive nationally and internationally. Tourism should be treated as an economic development investment.

IMMIGRATION

Last April the federal government announced its intention to take over the administration of settlement services. Since the government of Canada is the major funder of these programs it certainly has every right to do so. The Business Council is monitoring this development closely. It is important that Manitoba's program, the best in Canada and the envy of many around the world, is not diluted and brought down to a lowest common denominator. We are also concerned that as of July 1, 2012 most PNP applicants for semi and low-skilled professions will have to undergo mandatory language testing and meet a minimum standard which may reduce the number of eligible immigrants that enter Manitoba under the PNP.

We have communicated to the government of Canada our concern over capping Manitoba's provincial nominee quota to 5,000 applicants. A stronger focus on other categories of immigration may be necessary to achieve Manitoba's target of 20,000 immigrants by 2016. In 2011, only 618 federal skilled workers or 0.7% of the total immigrants from this category Canada-wide came to Manitoba. The impact of this cap is already being felt: immigration levels in Manitoba are flattening.

- 2011- 15,962
- 2010- 15,808
- 2009- 13,521

RECOMMENDATION #14

We recommend that the government of Manitoba work collaboratively with the government of Canada to ensure that changes to the system do not adversely affect Manitoba's very successful model which has been such an important component of our economic and community development for more than a decade.

HEALTH CARE REFORM

For years the Business Council has commented on the rising cost of healthcare and its impact on other government services, particularly education. Healthcare expenditures have moderated and as a percentage of the total core operating budget have remained in the 42-43% range since 2008/09. We are pleased that the 2012 budget limited healthcare expenditures to a 3.5% increase and the latest forecast for this fiscal year puts healthcare spending under budget by \$34.4 million.

Leadership within the Department of Health has embraced the critical need for reform. Premier Selinger's assertion that healthcare expenditures are unsustainable was a significant signal to the entire healthcare system that the gap between expenditure and revenue growth needed to be narrowed. Your government has responded to this challenge. Cost control is not being achieved by deferred maintenance but rather through productivity improvements such as:

- A strong focus on acute care including development of productivity improvement goals which are recorded and quantified and initiatives developed to address the goals.
- Expanding the scope of re-engineering processes beyond the St. Boniface Hospital into other acute care settings.
- Increasing the use of technology to drive down costs.
- Driving out waste and duplication.

- Diverting inappropriate visits to hospital emergency rooms to alternative primary care settings such as quick care clinics.
- Promoting the use of electronic medical records for general practitioners.

Federal funding for computerizing health systems through the Canada Health Infoway program is coming to an end. An action plan needs to be developed to replace it.

RECOMMENDATION #15

That the government continue to focus on productivity gains and service delivery improvement goals in healthcare.

FEDERAL/PROVINCIAL RELATIONS

The relationship between the Manitoba government and the Government of Canada is strained, to put it mildly. This is not only our observation but what politicians from both levels of government tell us. There is certainly no shortage of issues; flood compensation, the future of the National Research Council operations in Winnipeg, funding for the Assiniboine Park Conservancy, the future of the Port of Churchill, the administration of immigrant settlement services and the cap on the Provincial Nominee Program, the status of the Cereal Grains Institute, the fate of the Experimental Lakes Area..... What have we missed?

Part of the problem is the excessively partisan tone that has crept into our political discourse, not only here but in every jurisdiction across the country and beyond. Politicians look for credit and inclusion and when that is denied tensions mount.

RECOMMENDATION #16

We recommend that political leaders from the province and the federal government meet regularly and report to citizens on the progress of joint files. Disagreements are inevitable; arguments are not.

CONCLUSION

As always, the Business Council of Manitoba is pleased to offer constructive advice as the continuing conversation among business and government leaders takes us into the next phase of our province's development.

FISCAL ISSUES COMMITTEE 2013 – 14

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