



**Business Council
of Manitoba**

**SUBMISSION TO FINANCE MINISTER DEWAR
IN PREPARATION FOR THE 2016-2017 BUDGET**

Presented: Thursday, November 26th, 2015

Honourable Greg Dewar
Minister of Finance
Legislative Building
Province of Manitoba
Winnipeg, Manitoba

Sir:

The Business Council of Manitoba is pleased to offer its views to the Minister of Finance during the province's pre-budget consultations. We represent the CEO's of more than seventy Manitoba based corporations. As part of our contribution to the future direction of government policy we offer some strategic thoughts on elements critical to our province. Our interest is in shaping policy which fundamentally impacts our businesses, and also the livelihoods of the tens of thousands of Manitobans employed in our member businesses, and the level of prosperity enjoyed by our citizens.

For several years we provided specific and prescriptive recommendations to government on a variety of topics where we believed action was necessary. We continue to advance many of those recommendations. This year we believe it is timely to advance some core strategic positions as we refocus on our future and agree on our agenda.

First and foremost we advance positions that in our opinion will lead to a more competitive economy allowing businesses and individuals to prosper and government to benefit from the wealth and employment opportunities created. While both challenges and opportunities lay ahead, government must be prepared to adopt policies that best serve the interests of all citizens. A rising level of prosperity is our overall aspiration for the province.

The government's objectives should be to increase jobs and employment opportunities, and the ability to attract investment. Achieving all other policy objectives whether in health or education is contingent on having an economically thriving province.

Our commitment is to build Manitoba as a better place to live, work and invest. That commitment drives our efforts and motivates us to offer what we believe is a sound comprehensive approach to ensuring we have a prosperous future.

As a non-partisan organization the Business Council refrains from endorsing candidates or parties but advocates policies we feel are in the best interests of Manitoba and Canada. There are many critical issues, nationally and provincially that will be at the forefront of discussions over the coming months. As Manitobans we should position ourselves to engage and advance a Manitoba agenda on the national stage, and do so from a position of strength.

If we are to succeed in the next several years it is imperative that the federal, provincial and territorial governments cooperate on key elements of policy. How they collectively engage with our cities will also shape our future.

The Business Council of Manitoba is prepared to advance balanced innovative ideas to promote discussion and lead to positive change.

A. Stable Fiscal Framework

A sound, stable fiscal framework is the starting point for a prosperous growing economy. We believe it is important to aggressively pursue a balanced budget over the next several years through efficient and prudent government operations. Continual deficits will place us in an increasingly precarious position when interest rates begin any upward movement. Even with the current extremely low historic interest rates annual debt servicing costs remain over \$800 million per year. Net debt has been rising since 2007/2008.

Although low for a lengthy period of time, interest rates will eventually rise, and that in combination with the higher debt level will place fiscal pressures on the province. Forecasters are warning rates may begin to rise in the next two quarters.

A very simplistic analysis demonstrates the significance of higher interest rates. If rates increase by only 1 per cent with the current total gross government borrowings of \$36.2 billion, the result would eventually be an additional expenditure of \$362 million (1% x \$36.246 billion). To put this in another perspective the increase in interest costs would account for an additional 2.4 per cent of the total summary expenditures for the provincial government in 2014/15. A larger interest rate hike would have a bigger impact.

The actual net increase in expenditures would be lower as interest rates for existing debt issues are locked in, and in fact some investments held by the provincial government would benefit from the higher interest rates partially offsetting higher debt servicing costs. Nevertheless, it is readily apparent that any increase to interest rates will over time place a significant added burden on the fiscal position of the province and either reduce the government's ability to fund programs, require the government to increase revenues (e.g. increase taxes), or result in a higher deficit.

Moody's Investors Service dropped the Government of Manitoba's long-term credit rating in July 2015 to Aa2 from Aa1 citing a fast growing debt load and a failure to meet balanced budget targets. The first Moody's downgrade for Manitoba in more than two decades is seen as a significant signal that Manitoba's finances are deteriorating.

When compared to the three other western provinces, Manitoba's credit rating is lower than all of them. When compared to eastern and maritime provinces Manitoba's rating is similar or in some cases higher.

In our view Manitoba cannot afford to risk further rating reductions. The impact on budgets for health, education, government services and critical infrastructure would be severe.

Complicating the challenge of debt management and protecting our current credit rating is the large and ongoing demand for capital from Manitoba Hydro. That demand will continue for several years, making it all the more imperative that sound commercially viable business decisions be made by Manitoba Hydro, consistent with Public Utility Board decisions and directives.

Our hydro resource has a role to play in overall energy security and dependability in Manitoba and more broadly in the west and nationally. Development of the resource however should be consistent with customer demand and our capacity to construct new generation facilities and transmission lines cost effectively.

We appreciate that other factors affect debt management and reducing annual deficits; in particular the value of the Canadian dollar and oil prices, revenue generation from the tax system, and interest rates. However it is imperative that progress be achieved sooner not later.

B. Competitive Economic Climate

We need to be competitive – as a province and as a country - where the business climate including taxes, regulations, access to skilled labour and capital are on a par with those jurisdictions we compete with elsewhere in North America, and indeed the world. If these conditions are not present, the ability of our homegrown businesses now generating tens of thousands of jobs to grow is compromised. We should constantly be seeking to grow our economy. If other jurisdictions are reforming regulations and tax regimes Manitoba must keep pace.

1. Labour Force

A key factor in our ability to compete is the availability of an educated and skilled labour force. Many businesses continue to confront shortages of skilled labour and professionals in key areas, particularly the sciences, engineering and business. There are three parts to the challenge of securing a workforce to carry us forward.

Our post secondary system is serving us well but we need to continue to focus on policy and program refinements that will enable our institutions to be more effective at graduating students that are equipped with the skills required in our economy. Linkages between businesses, educational institutions, research centres, and government are essential to implementing the changes that will be necessary.

In short, our institutions need to be leading edge and responsive to the needs of Manitoba industry.

Second, we have relied on the Provincial Nominee Program to address many of our skill shortages. That reliance will continue even more in the foreseeable future. The federal and provincial governments should be expanding the program as the demand for labour is not lessening. A related consideration is that with the large reduction in demand for labour in the major oil producing provinces skilled workers may be available. This could be an opportunity to improve our inter-provincial migration record by focusing on attracting those workers whose skills are in demand in Manitoba.

The third component of addressing our needs for an educated workforce is to more fully engage the youth in our aboriginal population and ensure they have the same education and training opportunities to participate in our future.

2. Aboriginal Engagement

Manitoba is not fully seizing the opportunity to engage with our aboriginal population. Businesses struggle to find skilled workers. Young aboriginals seek work and employment options. Our aboriginal population is undervalued. We have the opportunity to engage a large and growing segment of our population more fully if we work together and strengthen our efforts to ensure education outcomes for aboriginal students are at least on a par with the rest of the Manitoba student population.

With one of the highest proportions of aboriginal citizens Manitoba should strategically work with the federal government to implement an integrated strategy from education through to economic development with the goal of ensuring our aboriginal citizens are equipped with the skills to share in building our province, have the opportunity to invest in aboriginal enterprises, and have their treaty obligations fulfilled. The end result will increase Manitoba's prosperity for the betterment of all.

3. Manufacturing

Of particular concern is the competitiveness of our manufacturing sector. We have talent, committed capital, and recognized expertise within an established and diversified sector. However they experience unique challenges competing in the global economy. Jurisdictions with significantly lower wage costs challenge North American manufacturers. In addition the shortage of skilled workers just described aggravates the situation.

The public sector regularly recruits experienced engineering, technical and IT talent from the private sector offering above market rates and benefits. The success of private sector and public-private cooperative actions to attract and develop talent is affected by public sector recruitment actions.

The on and off cycle of major capital projects whether they be publicly funded infrastructure or private sector developments oftentimes lures talent to higher paying but less permanent positions. We support infrastructure investments but submit that we would benefit from more carefully planning those investments in keeping with the available pool of labour. Sudden large infusions of capital expenditures drive up salaries.

4. Trade

Manitoba is a province built on trade – interprovincial and international – in goods and in services. Employment levels and incomes are considerably higher than they would otherwise be if we relied only on our small Manitoba market. The ability to export contributes substantially to government revenues and our ability to invest in health, education and good roads.

Allowing access to our Canadian market, and in return gaining access to international markets, will support our future growth and investment. The direction and shape of our trade policy is fundamental to our economic future. We support a province open to enhanced trade.

Accordingly we continue to advocate for speedy improvements to the Agreement on Internal Trade now being considered by Premiers. The New West Partnership offers opportunities for Manitoba businesses. Without it we run the risk of being excluded from opportunities in western Canada.

We are also supportive of the Canada - EU Trade Agreement and in principle support the proposed Trans Pacific Partnership. The TPP would provide significantly increased access for Manitoba exports of agricultural and value added products as well as for manufactured goods. Expansion of trade by Manitoba exporters should be a core element of the province's economic development strategy.

Manitoba must be proactive in recognizing emerging opportunities and continue to work with Manitoba businesses in their efforts to capture a larger share of international markets for their goods and services.

5. Tourism

Our Tourism sector deserves immediate attention so we can compete and increase our share of the national and international tourism markets. Additional public and private investments are being made in our tourism assets, such as refreshing the Manitoba Museum, the proposed expansion of the Winnipeg Art Gallery and the construction of the Diversity Gardens. Travel Manitoba has made important strides in marketing our tourism assets, working with the industry to promote Manitoba at a time when conditions are right to significantly increase tourism visitation and enhance our profile nationally and internationally.

However Travel Manitoba is hindered as Manitoba continues to lag behind other jurisdictions in allocating resources to strategically market our province at a time when conditions are favourable for us. Expanding our share of the tourism market would generate more jobs and incomes for Manitobans and increase tax revenue. We continue to advocate that the province adopt a sustainable funding model as many other jurisdictions have successfully done. An appropriate model is the one now being discussed by government and industry. It would reward government, Travel Manitoba and the tourism sector if our collective efforts are successful. It should be implemented now for application in the 2016 tourism season.

CONCLUSION

Our challenge is:

Will we and our governments be bold enough to implement policies to keep our economy competitive and innovative, our people educated and skilled, and be committed to a sustainable future where all Canadians – indigenous and those here through immigration – have the opportunity to fully participate in our society?

We have an incredible opportunity before us. If we accept and meet the challenges of being fiscally prudent and responsible, economically competitive with other jurisdictions, forward looking in our strategic investments, and open to all Manitobans fully participating we will succeed.

Respectfully submitted,

Business Council of Manitoba
November 26, 2015