



**Business Council
of Manitoba**

**SUBMISSION TO FINANCE MINISTER FRIESEN
IN PREPARATION FOR THE 2017 - 2018 BUDGET**

Presented: Monday, March 6, 2017

March 6, 2017

Honourable Cameron Friesen
Minister of Finance
Province of Manitoba
Legislative Building
Winnipeg, Manitoba

Minister Friesen,

The Business Council of Manitoba is pleased once again to have the opportunity to submit its views and recommendations as part of the Government of Manitoba budget consultation process.

The Business Council has for many years presented its views and thoughts on important issues and topics. We commend the government for its acceptance of some of the pre-election recommendations the Business Council provided in the fall and winter of 2015 - 2016. Also we note that recommendations we and other organizations made have been adopted as a matter of government policy. We believe a dialogue between government and stakeholders is productive and leads to informed policy choices and our recommendations and comments are offered in that spirit.

Our overriding objective is to have a healthy Manitoba – economically, socially, culturally and with positive health outcomes.

A prosperous economy, or more accurately a prosperous province, is one in which all citizens have the opportunity to fully participate in and benefit from economic activities. We are however confronted with very serious challenges.

Fiscal Management

After years of repeated deficits Manitoba is confronted with a serious fiscal situation. Deficit years outnumbered years with a surplus over the past thirteen years.

Debt has continued to grow. Annual interest payments on the debt weigh heavily on the government and Manitoba taxpayers. Borrowing to pay interest costs further impairs government's capacity to provide services for Manitobans to the point where the obligation to pay the interest on the public debt is the greatest threat to continued services.

Accumulated net debt has doubled since 2007-2008, standing at \$21.4 billion at the end of the 2015-2016 fiscal year. Annual interest payments remained relatively constant, but only because interest rates fell over much of that period. For example the Bank of Canada Rate was 1.75 percent in December 2008 compared to 0.75 percent in December 2016. Manitoba cannot rely on fortuitous interest rates into the future. When rates in the U.S. begin to move they will affect international borrowings.

Continuing deficits require more borrowing, increasing the debt, and in turn interest charges. The fiscal pressure on the province mounts.

The current debt amassed over several decades and eliminating the deficit created by the debt load is not a short term task either. In its first budget the government realized the enormity of the challenge when it committed to an eight year timeframe for producing a balanced budget. We recognize the difficulty of overcoming a deficit as large as the one confronting the Province of Manitoba. Last year the deficit was attributable to interest payments exceeding \$800 million. Prolonged action will be necessary.

When we met your predecessor more than a year ago we spoke of the challenges in managing the debt and protecting the credit rating of the Province of Manitoba; we expressed concern that the growing debt at Manitoba Hydro, which if added to the Manitoba Government debt, would severely impair credit ratings leading to potential higher servicing costs for Hydro and the Government of Manitoba, and in the extreme, to limited access to debt markets. Although rating agencies have historically looked at Hydro and Government debt separately, they are increasingly commenting on Hydro debt and it is not a big stretch to think they might start combining them given that the Province of Manitoba guarantees the debt of Manitoba Hydro.

We encourage the government to take the steps necessary to ensure that Hydro can be placed on a solid independent financial footing, thus restoring the utility to a dividend-generating asset for all Manitobans, while at the same time safeguarding the province's overall financial stability. The steps need include a concerted effort to convince the rating agencies and the bond market participants that Hydro should continue to be considered a separate entity and not rolled up into the Manitoba Government total debt for their evaluations. Proper capitalization of Hydro and an indication that rate increases of some measure to sustain the Hydro debt are viable over coming years would help to stave off concerns that may emerge surrounding the credit ratings. We consider action on this item to be of the highest priority.

Also with respect to Manitoba Hydro, we continue to recommend that the government actively pursue discussions with neighbouring provinces and the federal government on establishing a Canadian national power grid to provide more capacity for diversity exchange and power sharing, access to larger markets, and increased security of supply. Such a grid may provide additional markets and revenue for Hydro. A national electricity grid based substantially on hydro electric generated power will contribute to achieving Canada's target for greenhouse gas emissions.

While there are serious taxation issues to be addressed to enhance the competitiveness of our businesses and our economy revenues from all sources are not sufficient to meet our \$800 million obligation for interest payments. The reality is that this year the government is not in a position to consider significant tax relief for Manitobans despite a strong wish to do so. However, we continue to advocate for a full review of the provincial taxation structure to ensure competitiveness while government receives the revenue it requires to fund services. The Business Council is prepared to participate in a comprehensive review.

We recommend the province continue to practice prudent expenditure management, and also adopt measures to grow the economy which includes continued critical investments in infrastructure and capital projects.

Growing Our Economy

Prudent fiscal management is only part of the solution. The Business Council believes Manitoba must also focus on growing the economy and increasing employment and incomes for Manitobans, leading to more government revenues. Fiscal management must be complemented by strong efforts to grow the economy at a rate higher than that experienced over the last decade. Annual growth rates of two per cent will not deliver what is needed – more jobs, more employment, and greater government revenue at prevailing tax rates.

Sustaining a competitive economic climate, one of the basic economic pillars the Business Council and other business organizations recommended prior to the election, is essential to successfully grow our economy.

Ensuring Manitoba is competitive with other jurisdictions in Canada, the U.S. and elsewhere will be a challenge. Our competitiveness is affected by government decisions on taxation, the regulatory framework, investing in world-class infrastructure to support the movement of people and goods, and enabling access to capital and innovation.

Carbon Pricing

A particular issue that will affect our competitive position is carbon pricing. Important national and international arguments have been made for pricing carbon as a tool for reducing greenhouse gas emissions. Carbon pricing is however only one of the tools available to government.

Adopting a price on carbon out of step with competing jurisdictions may produce negative consequences counter to our objective of growing the economy. If we do not adopt policies conducive to growing our economy we will not overcome our current fiscal impediment.

Several key business sectors are likely to be adversely affected with an increase in carbon prices, including manufacturing, transportation and agriculture. Any carbon pricing framework adopted must include measures to ensure individual Manitobans and those sectors most adversely affected are provided with the means of quickly adapting. As has been the case in numerous other instances some form of adjustment assistance may be required. The principle of adjustment assistance is not new and has been adopted previously across Canada both nationally and provincially when policy changes fundamentally impact the competitive balance.

Access to capital

We urge Manitoba to fulfil its commitment to implement a venture capital program to provide increased access to venture capital funds in Manitoba to support start up and small business ventures particularly in the growing technology and innovation sector. These firms hold considerable promise to provide a growing employment base in our province. The private sector has expressed an interest in participating. Public leadership will trigger substantial new investment by private capital.

Related to the availability of capital and the ability to raise funds we recommend that Manitoba continue its support and participation in the Passport System implemented by securities regulators

across Canada, including the Manitoba Securities Commission. The commission performs an essential role in building the Manitoba economy and ensuring Manitoba businesses have ready access to regulators, nationally and internationally, and are able to raise capital efficiently and effectively.

Infrastructure and Capital Investments

If we are to be the most improved province, in addition to building upon a stable fiscal framework and ensuring a competitive economic climate we will require both the public and private sectors to continue to invest in economic and community infrastructure.

The Business Council supports infrastructure and transportation investment that enables private sector investment, export growth and trade, and improved productivity and competitiveness.

The Council advocates a focused, strategic approach to investment in infrastructure and transportation that includes:

1. Trade based strategic infrastructure investment;
2. Stable and predictable funding;
3. Innovation and incorporation of technology; and
4. Community sustainability and prosperity.

Investments in trade related transportation as well as community investments are an integral element of government activities in our economy. The Council recommends public infrastructure investments be continued on a timely basis. If we do not do so we may lose opportunities for partnering between the private and public sectors as well as lose significant federal funding. Private and federal funds are committed for traditional and community infrastructure including investments in education, culture, and other community assets. Those assets contribute to our quality of life, enhance our comparative advantage in attracting and retaining trained workers and professionals, and contribute to economic activity in an important sector.

The private sector and individual Manitobans pledged significant amounts to support numerous capital projects and are awaiting confirmation of provincial participation. Delayed decisions on provincial participation threaten the viability of some projects. Other pressures and opportunities may divert the private capital elsewhere.

The Business Council recommends that Manitoba complete its internal reviews and determine which infrastructure and capital investments will be supported and make those announcements at the earliest opportunity. Given the importance of the investments to growing our economy these announcements should be made soon so that planning and construction may commence. In addition several major private sector projects are announced or already underway throughout the province. However those projects alone will not sustain the construction sector and employment in the building trades and supporting businesses if public sector investments are not forthcoming.

We encourage Manitoba to adopt a long term view of the importance of its capital investments and their role in the provincial economy. A stop and start approach to capital investments whether in infrastructure, in building health or education capacity, or community assets will not contribute to growing our economy or making Manitoba the most improved province.

CentrePort is another successful example where continued strategic investments in infrastructure built a solid model. New public and private investments will strengthen the foundation for economic growth in Manitoba.

The Arts and Culture sector is one area in which investments will not only generate economic activity but also improve the quality of living in our province. For example the proposed rejuvenation of the Manitoba Museum, the expansion of the Winnipeg Art Gallery, the announced Diversity Gardens at Assiniboine Park and the proposed relocated Royal Aviation Museum of Western Canada are examples of community institutions that enhance our quality of life as well as our international image. All have received significant funding from the private sector.

Significant capital investments in education at institutions in Manitoba are also awaiting confirmation of provincial funding. Many of those investments will produce positive returns on the investments through training Manitobans, research programs, and advancing innovation and our overall competitiveness.

Trade

Trade, a backbone of our economy, and trade policy is becoming increasingly important in the current international climate. We again recommend that Manitoba continue to support Manitoba businesses in their efforts to expand international markets for Manitoba products and services. At this time it is even more important that Manitoba be proactive in advancing our province's interests internationally to ensure we not only maintain but increase the levels of trade that contribute so significantly to our prosperity.

International trade agreements such as the Canada-EU agreement and the proposed Trans Pacific Partnership would enhance the ability of Manitoba exporters to expand into those markets. We recommend Manitoba endorse such trade agreements and work with Manitoba businesses to maximize opportunities. In the absence of a TPP we support continued action to improve market relations in those Pacific markets, particularly Japan. Manitoba should encourage the federal government to actively pursue alternative trade agreements in the Pacific region.

Specifically we believe it is important Manitoba take the lead in communicating the mutual importance of trade to Canadian provinces and American states. The Premier and the Minister responsible for trade must lead these efforts. The business community is prepared to participate. Developing close relationships at the provincial-state level is critical to Manitoba exporters. It is essential that the government provide 'Manitoba Trade and Investment' with the capacity to continue to work with Manitoba exporters to advance our position in key markets and conduct the trade analysis to help identify emerging opportunities.

Internal trade

We complement Manitoba for having moved quickly to sign onto the New West Partnership. We also encourage Manitoba to continue to take a forceful leadership role in improving the national agreement on internal trade. Several previous deadlines set by Premiers have been missed.

Education

An educated and skilled labour force continues to be the foundation for any successful jurisdiction. Economic prosperity cannot be achieved without skilled labour and professionals, increasingly in the sciences, engineering and technology fields.

The Business Council previously recommended the government pursue a progressive policy of implementing an early childhood development strategy including new mechanisms for government, community and business investment to support innovation projects particularly with low income Manitobans. We continue this recommendation.

Action to address the quality of education students are receiving is essential. International studies that indicate Manitoba students are not rated as high as students in comparable jurisdictions is a matter of concern. Manitoba scores are below the Canadian mean scores.

Manitoba has one of the highest proportions of aboriginal citizens of all provinces. The Business Council continues to recommend that the provincial and federal governments cooperate to implement an integrated strategy spanning from education through economic development with the goal of ensuring our aboriginal citizens are not only equipped with the skills to share in building our province but have the opportunity to invest in their own enterprises and have treaty obligations fulfilled.

The Business Council of Manitoba values the long-standing partnership it has enjoyed with the Province of Manitoba in contributing matching funds for the Aboriginal Awards Program. This program is an example of a highly effective public private partnership, unique to Manitoba where matching funds are delivered by the private sector in a program benefitting and targeted at aboriginal students. The Business Council covers all administration costs.

Tuition fees in Manitoba are below national averages for comparable institutions. The current policy of tuition caps denies post secondary institutions in Manitoba access to funds that could be used to improve facilities, programs and the quality of the education experience.

We continue to recommend the province allow post secondary institutions to set their tuition rates, intervening only when a compelling argument can be made that fee increases do not serve the public interest. A related action is to increase the number of available bursaries to offset higher tuition fees and to ensure post secondary education remains accessible to all qualifying Manitoba students.

We also recommend the province examine the current tax credit system for students for tuition fees to determine if it is the most effective means of attaining the objective of ensuring accessibility to post secondary education.

Immigration

Immigration and the Provincial Nominee Program in particular continue to be significant drivers of the Manitoba economy as they have been for two decades. We support efforts to streamline the nominee program and ensure it delivers skilled workers to businesses and communities, both rural and urban.

Businesses derive substantial benefit through the provincial nominee program in their recruitment of workers who are not available in Canada, allowing the businesses to grow while benefitting communities.

We recommend the Province proceed with its announced reforms to the Provincial Nominee Program and continue efforts with the federal government to align the program to better serve Manitoba's interests.

The immigration stream of New Canadians is seeing increasing numbers arrive as refugees, many with little or no English or French language skills, and no skills training to allow them to participate in our economy. The Business Council supports federal and provincial efforts to ensure the inclusion of New Canadians in our society through the provision of more English language training and skills upgrading.

Similarly, many New Canadians come with skills but cannot apply them if they do not know English. They know that proficiency in the English language is necessary to getting jobs in Manitoba and achieving the standard of living they are seeking. Too many young immigrants remain unemployed or underemployed.

Accordingly we urge Manitoba to continue to press the federal government to increase Canada's contributions to the settlement of New Canadians in Manitoba. Enhanced federal participation to support increases in provincial efforts will produce only positive outcomes in our community with a positive return on the investment.

Our Northern Economy

We commend Manitoba for its northern development initiative to identify and enhance opportunities in northern Manitoba. Northern businesses provide significant employment opportunities, and have the potential to contribute more to the overall health of the province. However, particular areas of concern include the mining sector which is seeing a decline in employment at a time when it should be expanding. We recommend the province adopt policies to reverse the troubling decline that has occurred. The mining sector continues to have great potential to provide significant employment for northern Manitoba residents, including in many First Nations communities.

Churchill continues to hold potential and we urge Manitoba and Canada to complete discussions and negotiations to ensure Churchill continues to serve northerners. The port could play an increasingly important national strategic role in the Arctic while supporting northern Manitoba communities.

Pension Reform

The Business Council supports the current review of Manitoba pension legislation and regulations and commends the government for its recent actions to address valuations and solvency funding requirements by extending the amortization period for any solvency payments. Significant legislative changes will be necessary if defined benefit plans are to remain viable options for workers and employers in Manitoba. We note that several provinces, confronted with the same challenges as Manitoba, are reforming their legislation. We recommend Manitoba fully review those changes to ensure Manitoba the future Manitoba framework is consistent with the best practices being adopted and provides firms and pension plans with a solid footing.

One specific principle we recommend the government adopt is more flexible valuation requirements respecting solvency funding requirements.

In conclusion, our challenge in Manitoba has always been to ensure a prosperous future, now made more difficult with the compounded complexity of the fiscal demands on our financial resources. We cannot risk a pause in our economic progress while we focus solely on fiscal issues to the exclusion of seizing investment opportunities and implementing policies that will enhance our competitiveness. The Business Council and the private sector will continue our efforts to build our province.

Respectfully submitted,

Business Council of Manitoba

Fiscal and Economic Competitiveness Committee

Murray Taylor, Committee Chair

Steve Kroft, Council Chair

Rick Duha

Poly Craik

Mark Chipman

Don Leitch