



**Business Council
of Manitoba**

**SUBMISSION TO FINANCE MINISTER FRIESEN
IN PREPARATION FOR THE 2018 -2019 BUDGET**

Presented: Thursday, March 1, 2018

February 26, 2018

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

Minister Friesen,

The Business Council of Manitoba prepared this submission for your consideration in advance of the upcoming Manitoba provincial budget. While we provided ongoing advice over the past year through meetings, discussions and participating in government consultations we believe it useful to set out some of the advice we provided as well as some current commentary on our Province's challenges and opportunities. We appreciate the opportunities extended by you and your ministerial colleagues to engage on an ongoing basis on a variety of topics.

The Business Council has consistently advocated positions essential in our view to improving the health and prosperity of the Province of Manitoba. At times we contributed positively to important decisions on policy, expenditures and investments.

Our overall objective continues to be to make Manitoba a better place to live, work and invest. Achieving that objective requires a combination of policy choices and expenditure decisions by government that will enable Manitobans to fulfill their potentials individually and collectively. We believe that approach will strengthen our capacity to build a prosperous future.

Previous advice to you and your predecessors remains relevant and current. To build the foundation for our prosperous future we advance positions that will lead to a more competitive economy in which all Manitobans thrive.

There is no doubt that our provincial and national governments continue to confront serious challenges but there are also many opportunities. If we are to increase jobs and employment opportunities and enhance our ability to attract investment into Manitoba we again suggest that our government must be prepared to adopt new policies to best serve the interests of all citizens. It is important to do so on a timely basis.

Stable Fiscal Framework

It will not surprise you when we state that a sound, stable, fiscal framework is the starting point for a prosperous growing economy. The Business Council of Manitoba is on the record expressing our collective view that it is a dangerous situation when the provincial debt is so large that even with low interest rates the entire annual provincial deficit is attributable solely to interest payments on the provincial debt.

The Risk of High and Escalating Interest Costs

Last year we stated that borrowing to pay interest costs further impairs government 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 government services. Quite simply government debt continues to grow, and so will the amount needed to service the debt. New government revenues will continue to simply go first to debt servicing before being available for investments in our future.

With a growing public debt and rising interest rates the pressure on the Province of Manitoba and its ability to provide services to its residents mounts. Over the past three years our commentary on the threats of a growing debt and the impaired ability to service that debt and provide services to citizens has been consistent. The threat has not diminished. In fact, with continued rising debt within Manitoba Hydro (which will have to be financed by the Province of Manitoba if appropriate rate increases are not granted for the foreseeable future by the Public Utilities Board – see more detail in our Hydro section) and with the Bank of Canada on a course to raise rates the threat is seriously increasing.

Some provinces are budgeting small surpluses, several others are forecasting deficits, and our national government has committed to large deficits. In your first budget you committed to an eight year effort to eliminate the deficit. It is essential that progress continue.

Not progressing with deficit reduction may very well lead to reductions in the province's credit rating. Rating reductions not only raise the prospect of increased borrowing costs for the province and its agencies they signal a decreased confidence in the minds of investors. That is a risk we should not tolerate. Private businesses in Manitoba are also in the capital market, as are emerging innovators and developers. Their success depends on a province perceived positively at home and internationally.

Careful Expenditure Management

Our advice remains for the province to continue to practice prudent expenditure management. In saying this we recognize it is a fine balance in determining what to reduce and what to fund. While full agreement on all expenditure decisions is not likely, our caution is that not all areas can or should be cut. Providing services, investing in health, education and infrastructure, supporting community wellness, and enhancing a competitive economic climate are at the heart of a government's obligations to its residents.

Innovative approaches, new funding models, partnerships and where applicable, social impact bonds all hold promise; but the choices must be made on a case by case basis. A cookie cutter approach seldom yields the desired outcomes.

Need for Increased Revenues

While expenditures are being managed another part of the equation is government revenue. Currently the revenue yielded by our economy from all sources including equalization is not sufficient to meet all costs including interest payments on the debt. We do not advocate tax increases. We are on the record advocating for a full review of the provincial taxation structure to ensure we operate in a competitive tax environment while government receives adequate

revenue to fund services and public investments. The Business Council is prepared to participate in a comprehensive review.

Targeting Economic Growth

Prior to the 2016 election the Business Council in partnership with other organizations advocated seven basic pillars to grow the Manitoba economy. Action on all seven pillars is necessary to sustain a competitive economic climate. Consistent positive rates of economic growth are necessary if the Manitoba government is to fulfill fiscal obligations, provide services to Manitobans, and make the investments necessary in our communities to enhance the economy and our quality of life.

It is a growing economy that will yield additional revenues without tax increases. And it is a growing economy that will provide employment opportunities for Manitobans in all regions.

As mentioned, we see the need for broader tax reform beyond the government's commitment to reducing the PST, adjusting income tax brackets, and adjusting other minor taxes. All of these are actions to be applauded for their immediate impacts especially on low and middle income Manitobans. Developing the blueprint for significant tax reform will require a concerted effort. Growing the economy will also require a concerted effort necessitating the Manitoba government implement policies and initiatives to enhance competitiveness, stimulate private sector investment, attract new investment and capital from outside Manitoba, and make critical investments in education, training and other essential capital projects.

Two overriding concerns on the economic front are growing the economy and ensuring we not only maintain but enhance our competitiveness in an increasingly challenging international environment. It is essential that we deploy all the appropriate tools at our disposal to ensure Manitoba businesses can thrive, invest and create jobs.

The choices before government must be selected within the economic development framework the province is now developing. The economic framework and strategy is overdue. Business owners and investors are awaiting both the strategy and strong clear decisions from their government on how they will work to sustain Manitoba's competitive advantages.

Last year we said sustaining a competitive economic climate requires government decisions not only on taxation and the regulatory framework but investing in world-class infrastructure that is required to move people and goods, and enabling access to capital and Innovation. All of these continue to be a challenge in our province.

We urge the government to move quickly once the framework is completed. We ask that you share it with those employing Manitobans and those who want to continue to invest in building Manitoba.

CentrePort

We have serious concerns about the lengthy delays in approving the business plan for CentrePort. Interestingly the legislation creating CentrePort was unanimously supported in the Manitoba Legislature. The organization was established as a component of an economic development strategy not only of the capital region but the province. The main reason for

CentrePort's establishment was to help rebuild Manitoba's role as one of the continent's most important transportation hubs. CentrePort would continue to have an essential role, and probably an even more critical one, if NAFTA ends and Canada and Manitoba must work to strengthen other trade relationships while maintaining our links with the US market. Also, CentrePort has built a strong, international network of recognition and support for its vision and purpose. There is little chance that a different model would have comparable credibility and prospects.

In our view CentrePort will play an important role in attracting investment into Manitoba. Delays in decision making have created very tight time deadlines. We urge the Manitoba government to approve the business plan immediately and proceed with the necessary steps to enable CentrePort to implement their business plan.

Trade

Manitoba's high level of trade activity benefits the entire economy. Recognizing the wide spread positive impacts of trade across our province the Business Council will continue to partner with the Manitoba government in trade promotion and we encourage the government to continue to work with the federal government to protect the interests of Manitobans in trade negotiations, and expand markets. These recommendations are no different from last year.

We encourage the government to take a leadership role in communicating the mutual importance of trade to Manitoba, Canada, the Americans, and overseas. The agreement with the European Union will become more important. Leadership by the Premier and the minister responsible for trade, supported by the business community, will deliver significant benefits. 'Manitoba Trade and Investment' needs the capacity to continue to work with Manitoba exporters to advance our positions, conduct trade analysis, identify emerging opportunities and communicate those opportunities to Manitoba businesses.

Access to Capital

Access to capital continues to be a significant impediment to achieving greater economic growth in the Province of Manitoba. We are pleased that the Manitoba government recently issued requests for information and for pre-qualifications to seek partners to establish a venture capital fund in Manitoba. This is a significant step and will help support startups in small business ventures in Manitoba.

Private sector partners have expressed interest in participating in leading edge technology ventures with investments in artificial intelligence and machine learning. The EMIL proposal is one example of the interest in the private sector.

We continue to advocate Manitoba continue with support for the 'Passport System' developed by securities regulators in Canada. That system, in which the Manitoba Securities Commission is a significant participant, insures Manitoba businesses seeking capital have access through a national system with an international interface. The 'Passport System' is proven to be timely, efficient and effective with all provinces and territories participating.

We support the Manitoba government and its intervention in the Supreme Court of Canada in support of provincial regulation and the 'Passport System'. Manitoba businesses benefit through the ability to raise capital in Manitoba and beyond through the Manitoba Securities Commission.

Another important matter related to the financial services sector is pension regulation. When you were appointed Minister of Finance awaiting your attention was a review of the pension legislation and regulations in Manitoba.

Several other provinces had already completed pension reviews and were implementing new regulatory regimes and approaches. Your Pension Commission review is completed. In making your decisions we urge you to carefully consider the new flexible and innovative approaches adopted in other provinces. We believe provisions that provide increased flexibility and are less prescriptive would better serve employees and businesses in Manitoba.

Hydro

Earlier this year the Business Council of Manitoba intervened before the Public Utilities Board in the hearings on the Manitoba Hydro rate application. Our overriding position was that the financial health of the corporation be addressed, and Hydro be placed on a solid financial footing in order to recover all its costs into the future for existing obligations and those associated with current capital projects.

We have attached the written comments submitted when Murray Taylor addressed the Public Utilities Board on behalf of the Business Council of Manitoba on February 1, 2018. These comments elaborate further on themes we have expressed concerns on regarding the financial condition of Manitoba Hydro and potential impact on the financial condition of the Province of Manitoba.

We continue to be concerned about the level of growing Hydro debt which will soon approach 50 per cent of total Province of Manitoba guaranteed debt and protecting its credit rating.

Decisive action may be required by the Province pending the recommendations of PUB.

Carbon Tax

The Business Council of Manitoba already communicated our concerns with the impacts on our competitiveness of the national approach to greenhouse gas reductions and the provincial implementation. Our views are shared by other business organizations in Manitoba and elsewhere in Canada.

The economic impact of a carbon tax will be to shift investment away from Manitoba and impair our competitiveness. These impacts and a decreased ability to compete in export markets, most significantly the United States will be reduced investment in new capacity and reduced employment. Our submission to your colleague the Minister of Sustainable Development detailed our position on carbon tax implementation. We strongly urge you to consider our submission and to address the national and international impacts on Manitoba businesses and workers of an inconsistent framework.

We note that the British Columbia government, which has had a carbon tax for several years committed to addressing these exact impacts on its business community.

Credit Programs

In recent months speculation about pending government decisions to discontinue the use of some important programs for economic development has produced reluctance by key decision makers and investors to proceed with Manitoba projects. For example, speculation that film tax credits and the TIF (tax increment financing) program might be significantly reduced or disbanded is already affecting potential investors.

These programs encourage, attract and stimulate investment both inside and, increasingly, outside the Perimeter. They support a high tech industry with high paid, high skill jobs that also serve to bring images of our province to the world. The highly skilled labour is generally young people who choose to remain in the province rather than leave. They would likely leave the province if the work opportunities were diminished or eliminated.

The film credits are critical in overcoming locational disadvantages. While Manitoba has many advantages, the fact that it is located a significant distance from major production centres, buyers and decision makers are in other cities and Winnipeg has no direct flights to LA or NY can impact decisions by major investors. Manitoba tax credits are triggered by spending on Manitoba labour which has proven to have a positive rate of return on the investment and in our view should be continued. There are examples in Canada where shortsighted decisions about tax credits have led to catastrophic results in those provinces, and the need for subsequent programming aimed at undoing some of the damage to the embarrassment of those governments.

In fact, Ontario and British Columbia also offer regional credits to incent film production out of the major urban centres.

Similarly, the TIF program has contributed substantially to rejuvenating the centre of Winnipeg, attracting investment into our province.

Investments with a positive return are not in our view wasted expenditures. To the contrary these programs have increased employment and tax returns to the province.

Tourism

The province acted boldly at the beginning of its mandate when it adopted a new innovative funding structure for Travel Manitoba as recommended by a large cross section of businesses in Manitoba. That approach coupled with creative marketing by Travel Manitoba is yielding positive results. Their marketing campaigns build on investments in tourism assets throughout the province including in commercial accommodations as well as attractions. The result generates employment throughout the province and significant additional tax revenue. Quite simply they are growing the tourism economic pie.

Mining and Northern Development

The ‘Look North’ report produced important recommendations addressing the needs of northern communities and highlighting the urgency for northern development. Most significantly the report advocated the province make a concerted effort to dramatically improve our ability to attract investment in the mining sector.

The ‘Look North’ correctly pointed out that for many communities resource development and mining are the only economic opportunities. The history of resource development in Manitoba shows it generates additional employment in related services and transportation.

Employment reductions in northern communities are seriously impacting those communities. In some our Indigenous population is being hit especially hard. While notable strides have been made in recent years in improving the participation rates of Indigenous citizens in the mining sector, those gains will be lost in the current climate of mine closures. Recent reports showing Manitoba as less attractive for investment must be taken seriously.

We suggest the government work aggressively to adopt and implement the recommendations of ‘Look North’. Immediately the government should improve its own internal operations with respect to mining and mineral resource development to ensure we send only the signal that Manitoba is open for mineral development and wants its communities to benefit. Even in the current climate there are opportunities to partner with others to attract investment in exploration and development. Manitoba lags other similar jurisdictions, but now is the time to pick up the pace.

Arts and Culture

Many major organizations within the arts and culture community in Manitoba continue to struggle. Both government and the private sector have traditionally provided support recognizing the important contributions of our cultural organizations to our community.

Over the past decade or more the share of support by government to these organizations decreased. Contributions from the private sector have increased. We urge the government to complete the cultural policy review it initiated and work with the cultural community and the private sector to ensure we sustain our vibrant cultural industry in Manitoba. Culture is a key component of our economy, generating jobs, attracting tourists, and enhancing our reputation on the world stage.

The Business Council of Manitoba is prepared to work with the Province of Manitoba in developing new approaches and innovative solutions that will support, sustain and enhance our cultural community.

Education

Employers have a significant interest in education, the success of our K to 12 system and the stream of talent in a wide range of disciplines graduating from our post secondary colleges and universities. These students from across Manitoba are critical to the success of Manitoba businesses.

The Business Council of Manitoba vision for education is that Manitoba has a robust educational system:

- Providing equal opportunities for all to achieve a basic education and the opportunity to seek further training and studies;
- Meeting the needs of business, and the broad public and private sectors, with skilled and competent Manitobans; and
- Contributing to a growing economy.

The vision includes a Manitoba where:

- Early Childhood Development programs are available to ensure all preschool children are fully prepared for entering elementary school.
- All students receive high quality education at the K-12 level with graduation rates matching or exceeding the Canadian average.
- All qualifying students have the opportunity to pursue additional training and post-secondary education to enable them to earn incomes and contribute to Manitoba society.
- Graduation rates for all Manitoba students exceed the Canadian average.
- The Manitoba economy flourishes with high levels of employment for all groups in all regions of Manitoba.
- Manitoba business is a partner in improving and investing in the education system.

We want to continue to partner with the government to provide opportunities for our youth as we have through the successful Aboriginal Education Awards program. Together we can do more. Any partnership should include our colleges and universities in strengthening connections between the education system and employers. Education is an important driver of our economy, educating, training and supplying people with skills to succeed. Innovation and growth depend on our education system. In the future in a growing economy labour force demand will outstrip the supply of skilled graduates. While we continue to require skilled immigrants and the Provincial Nominee Program we must graduate more.

The Business Council launched a summer youth program that exposes young people from low and moderate income families including Indigenous and new Canadian students to the opportunities for employment in the private sector. Our members engage in job fairs for high school students to demonstrate the broad range of skills required by our members and encourage students to pursue the educational opportunities of their choosing.

Concluding Comments

Manitoba is no different than most other jurisdictions in Canada faced with fiscal pressures and economic development challenges. Nonetheless we have an abundance of opportunities across our province, rural and urban. Agriculture and the value added food sector hold immense potential particularly with the prospects of significant increases in exports through the new Trans Pacific Partnership agreement. Manufacturing, technology, and other fields of innovation will benefit from forward-looking policies and programs. Our transportation sector is unmatched. We enjoy a vibrant financial services sector. Our education system is willing to partner with the private sector to become a notable generator of economic activity and wealth for the province. Our members are keen to make new investments.

Timely decisions and a commitment to investing within our community will benefit all Manitobans.

Respectfully submitted,

Business Council of Manitoba