



**Business Council
of Manitoba**

**SUBMISSION TO FINANCE MINISTER SCOTT FIELDING
IN PREPARATION FOR THE 2019 -2020 BUDGET**

Presented: Wednesday, February 20, 2019

February 15, 2019

Honourable Scott Fielding
Minister of Finance
Province of Manitoba
Legislative Building
Winnipeg, Manitoba

Minister Fielding,

The Business Council of Manitoba is pleased to provide its submission providing our views, advice and recommendations as you finalize your 2019 budget. We note this will be your first provincial budget against which your progress in achieving the specific commitments laid out in your mandate letter will be measured. We support those objectives and we offer advice on how we believe they may best be achieved.

Over the past several months we have appreciated the opportunity to provide advice to you and other ministers on key elements of government operations as you collectively work toward your stated objectives for making Manitoba the 'most improved province'. Public policy matters. It sets the framework against which we will measure our collective success fiscally, economically and socially.

We thank you for your willingness to engage with us on these matters. Dialogue is an important first step on the road to success as a province and your willingness to receive our input is appreciated. At all times we strive to respond with balanced contributions.

The Business Council of Manitoba, now in its 21st year was established in 1998 and has regularly provided advice to the provincial government consistent with our overall objective of making Manitoba a better place to live, work and invest. Our members, leading business from across the province, continue to seek to invest in Manitoba to ensure a prosperous future for all Manitobans.

The members represent a cross section of the Manitoba economy, rural and urban, and collectively they directly employ more than 40,000 Manitobans.

We earnestly believe it is private sector investments that create long term wealth and sustained prosperity. We also believe the public sector has a very important role in ensuring conditions are set and foundations are sound to allow the private sector to invest, to create opportunities for all business and to employ Manitobans. Public policy, and public investments in education, health, communities and infrastructure are the primary purview of government. We succeed and excel when we are all working together. That cooperation and partnership is necessary if your government's commitment to Manitobans to be the province with the "most improved job creation and economic growth" is to be achieved. Long term sustainable growth and prosperity driven by private sector investment is what will ultimately produce a balanced budget and make Manitoba "most improved in public finances".

These are turbulent times for the international and Canadian economies. Disruptive trade disputes, rate increases by central banks in Canada, the U.S. and elsewhere, and slowing rates of growth at home and in Canada's major trading partners combine to present a backdrop of uncertainty within which Canada and Manitoba must navigate. Many forecasters suggest the North American economic expansion may be peaking. While Manitoba appears to be stable this does not guarantee economic growth. Those same forecasts suggesting provincial economic growth in 2019 and 2020 will not surpass 2.0% are worrisome.

Continued Prudent Fiscal Management

We commend you and your colleagues for the significant improvements in the province's fiscal performance in your first two years. Continuing progress in managing expenses this fiscal year coupled with increased federal transfers provides some optimism that the goal of annual deficit reductions will be achieved. We encourage continued prudent fiscal management.

The big danger as we have commented previously is the alarming growth in debt servicing costs. Your forecast that this fiscal year summary interest costs on the provincial debt will exceed one billion dollars is sobering. Every extra dollar of annual deficit adds to the problem. Future increases in the prime interest rate and the resulting higher cost of borrowing will perpetuate the problem.

The debt load of Manitoba Hydro also continues to be a concern. The debt resulting from the two major projects, the Bipole III transmission line and the Keyask generating station, will add significantly to total hydro debt. The resulting problems of generating sufficient revenue to service the debt, coupled with the perceptions by bond rating agencies of a total growing Manitoba debt load are serious.

However, Manitoba Hydro also presents opportunities. Even with forecast rate increases Manitoba consumers and businesses will enjoy among the lowest electric rates in North America. And – our electrical energy is green – a substantial benefit. Surplus green energy is a distinct economic marketing advantage in efforts to attract investment to Manitoba. Third, our energy is not just relatively low cost and green, it is secure. Abundant hydroelectricity should be regarded as an engine for growth, an asset, not an anchor.

There appears to be some federal government interest in supporting national and regional electric power grids. Such arrangements which provide additional markets may prove to be beneficial to Manitoba Hydro and should be pursued.

As important as it is, expenditure management alone is not enough. While federal transfers are currently important Manitoba's objective should not be to maximize equalization from the federal pool but to grow our own source revenues. That includes increasing yields from all sources – *without* raising tax rates. Personal and corporate tax revenues grow when the economy is growing, as does PST. So once again, the challenge in Manitoba continues to be how do we grow our economy?

Pursuing Economic Growth

Over the past two years in discussions with your colleagues and publicly we have stressed the importance of growing the Manitoba economy arguing that it is equally important to fiscal management. However, managing expenditures does not reduce the provincial debt. A growing economy benefits government, businesses and employees. We advocate a stronger focus on job growth is needed, building on the strengths of various sectors, to yield increased employment opportunities and more incomes for Manitobans. The commitment to economic growth is in your government's mandate and is a key responsibility you as Minister of Finance share with several of your cabinet colleagues.

Manitoba enjoys a relatively low unemployment rate. Despite that low unemployment rate too many Manitobans remain unemployed or underemployed at the same time Manitoba businesses are identifying a shortage of skilled labour. Our objective should not be just more jobs, but jobs with higher skill levels, and ensuring we have a predictable and stable means of producing, attracting and retaining the talent we need in an increasingly competitive global marketplace.

We applaud the government's efforts to be more innovative in delivering services to Manitobans, more cost efficient in the delivery of those programs and more successful in achieving the outcomes required. We ask that there be a bold innovative approach to economic growth. There are many tools at your disposal and actions that can be taken, many in partnership with business and the postsecondary institutions that have a critical role in training our talent. Collaboration between employers and those who train our current and future employees is essential. That is why the Business Council is working with the education institutions to develop a strategy to ensure we can succeed building on existing partnerships between business and educational institutions. Government is a critical partner in implementing the strategy.

We note that your "Growing Manitoba's Economy" report spoke to the importance of skills, knowledge, creativity and talent – all elements of a growth strategy. We encourage the government to continue to focus as well on strategies to ensure fuller participation of our indigenous population in the economy. They represent a large potential for economic growth. Not only do we regularly express our support for efforts that will allow them to contribute to and benefit from Manitoba society more than they have to date, many of our members have taken their own initiatives to provide training and employment.

Also, we are pleased the Manitoba government is continuing as a financial partner supporting the Aboriginal Education Awards program. That program which will soon have provided 2500 awards valued at \$6 million demonstrates the benefits of public-private collaboration.

Improving Manitoba's Competitiveness

Throughout 2018 concerns about the competitiveness of the Canadian economy and the long-term implications for exports and employment were increasingly raised. These concerns continue in 2019. Manitoba is not immune and businesses here are confronted with the same issues jeopardizing competitiveness.

Private sector organizations across Canada including the Business Council of Manitoba have commented on the need to improve our overall competitiveness. While our national reputation

for attracting investment is not as good as it could be, we can improve factors within our control in Manitoba.

Areas where we could improve our competitiveness include:

- improving taxation policy to ensure it is fair, equitable and efficient;
- reforming provincial and municipal regulatory systems providing for public safety and health protection, and doing so without overburdening compliance, but ensuring timely decision making by authorities;
- supporting and encouraging innovation in both the public and private sectors;
- investing in our transportation infrastructure to ensure it moves goods and people efficiently and enables trade;
- investing in community assets to strengthen and support our communities;
- improving access to capital;
- promoting Manitoba more aggressively to expand our markets and attract capital; and
- addressing labour market issues including growing the critical supply of the talent we need.

Manitoba businesses trade around the globe and observe first-hand the large changes taking place in other jurisdictions which require we also take action to be increasingly competitive. The expression ‘if you are not progressing you are falling behind’ has never been more appropriate.

Policies enacted here affect our activities and success globally.

The Manitoba government initiated much needed reforms in health, education and the delivery of public services. We also note the government announced it is actively pursuing investors for the Social Impact Bond announced recently. Some Council members are actively considering participating.

We hope the government applies that same enthusiasm to issues affecting our economic competitiveness. Future prosperity depends on it.

Immediate Actions to Improve Competitiveness

The “Growing Manitoba’s Economy” report spoke to these issues and highlighted many of them as being top of mind concerns raised by the hundreds of stakeholders they engaged. The competitiveness of our manufacturing sector, in particular, is a serious concern. We encourage the Manitoba government to make a review of our competitiveness a priority issue before the new Cabinet Committee on Economic Development.

To assist the cabinet committee in their deliberations we recommend the government establish a *Competitiveness Task Force* whose mandate is to present to government a set of specific action-oriented recommendations for immediate and mid-term implementation to improve the competitiveness of the Manitoba economy. The Business Council and its members would be pleased to participate and contribute.

By making short and long term actions to improve competitiveness a priority we will also set the foundation for long term growth.

The Business Council is on record advocating a systemic approach to tax policy reform. We continue to encourage the Manitoba government to establish a tax commission to provide advice to ensure we remain competitive in the rapidly changing global marketplace.

We note with approval the successes to date on regulatory reform, but we encourage more and faster action in addressing the tens of thousands of regulatory items that remain. A recent announcement indicated that in the first two years of this mandate only about 3 percent of provincial regulations have been reviewed.

Credit Programs

Last year we argued strongly that credit programs with a positive return are not wasted expenditures but rather important investment tools to increase employment and tax returns to the province. We are pleased that the government has maintained and is expanding the film tax credit program and commend you for making timely decisions. The analysis clearly shows that Manitoba communities have benefitted immensely through this program. The industry is on track to setting a record for film production in Manitoba, approaching a quarter billion dollars.

Similarly, we support your continuation and strengthening of the TIF model to promote economic development. It has proven to be successful.

Credit programs can be very effective tools in meeting the objectives of increasing employment and investment, economic growth, and net positive returns to the government treasury. We have serious concerns about another measure the government proposed last year.

In Budget 2018, the provincial government announced its intention to remove the Special Tax Deduction for Credit Unions. This move will have a very negative impact on credit unions, their members and the overall Manitoba economy. Credit unions play an integral role in the financial services sector in Manitoba, and decisions related to their regulatory and tax burdens have very significant impacts on their operations.

In many of our communities, credit unions are critical providers of financial services and loans for small and medium sized businesses (SMEs), consumers and producers who may not otherwise be served in their absence. We urge the government to pay attention to the Credit Union Central of Manitoba's analysis of the removal of the Special Tax Deduction for Credit Unions. That analysis strongly demonstrates the degree to which Manitoba SMEs and producers could be impacted by the credit unions' impeded ability to provide them with vital financing. This is a move in the wrong direction when access to capital continues to be a major concern and was in fact flagged in the 'Growing Manitoba's Economy' report.

We support Credit Union Central of Manitoba's request that the Special Tax Deduction for Credit Unions be reinstated in Budget 2019. Failing that the removal of the deduction should be delayed until the government can conduct further analysis of the impact of its proposal.

Trade and Tariffs

On trade, we note the government's new approach to providing services for small and medium businesses considering or just entering the export market. However, we remind the government that a key and critical role remains for elected representatives of the province to lead efforts in

trade promotion and investment attraction. One such role is to help open doors for exporters, especially in several of the emerging key markets in Asia where, it is expected political leadership will promote economic relations. As an example, former Manitoba governments supported the “Team Canada” approach and it proved to be quite effective.

With the North American trade regime still in flux, it is essential that Manitoba make trade diversification a major priority. In addition, the efforts of our federal and provincial governments to promote the mutual benefits of trade within the U.S. will need to continue to ensure American support for the new trade agreement is not eroded before ratification occurs.

The Business Council remains ready to help lead efforts to expand our international markets. In the past we have participated in trade missions and are prepared to do so going forward.

Trade discussions and disputes will continue. To that end the Manitoba government requires the internal capacity to conduct analysis and provide advice on issues and how they will impact Manitoba. The government has a team of trade analysts with an exceptional reputation. They provided critical advice to government during NAFTA trade negotiations and discussions on entering the New West Partnership, as well as during trade and tariff disputes on such commodities and products as softwood lumber, and steel and aluminum. That team should remain intact within whatever departmental structure the government adopts so the government may avail itself of expert advice to ensure Manitoba’s interests are included in future negotiations.

Tariffs and retaliatory tariffs, trade caps and quotas are not efficient and detract from expanding markets and trade.

Just as Manitoba’s history of economic growth has been built on trade, so will our future prosperity. We urge the Manitoba government to fully support trade expansion and diversification and to work with Manitoba export ready businesses to take advantage of new and expanding trade agreements. The new trade environment in the Pacific region has great potential for our value-added agricultural production. Acting as we recommend will strengthen our competitiveness and enable our businesses to compete more effectively.

We note other provinces are actively engaged with the Government of Canada and its foreign trade counselors in promoting the benefits of new trade agreements to Canadian businesses. We encourage the Manitoba government not to miss the opportunity to ensure Manitoba’s interests are represented and that Manitoba derives maximum economic benefits from these opportunities. This function is best located within Growth, Enterprise and Trade.

On Canada-US relations, we want to stress the importance of reestablishing and enhancing province-state cooperation through continuing active participation in organizations where Manitoba has had a longstanding and worthwhile involvement such as the WGA, NGA, the regional Legislators’ Forum, NASCO, and the trilateral forum for Agriculture Ministers and Secretaries. It may appear as a long list, but all these organizations build strong relationships which can be especially helpful when relations between the national governments become strained.

Internal Trade

We commend the Manitoba government for its leadership in the New West Partnership and in promoting reductions in interprovincial trade barriers nationally. Too many barriers remain, and we urge Manitoba to aggressively pursue reductions and have the matter dealt with by provinces on a priority basis. While the barriers to the inter-provincial sale of beer and wine garner media attention countless more needless barriers remain. They are economically inefficient, costly to consumers and impede economic growth and job creation.

CentrePort

CentrePort Canada, North America's largest tri-modal inland port, has achieved significant success in the past year and is gaining momentum as a critical economic development and job creation project for Manitoba. With phased-in full servicing now available in the lands that fall within the RM of Rosser, over 1200 acres of land in the inland port were acquired by private developers or individual businesses in the last year. As CentrePort moves forward with its plans for a 700-acre Rail Park in the heart of the inland port, the Business Council encourages the Province to make timely decisions in support of this critical project.

Coupled with other investments planned by the Winnipeg International Airport Manitoba will be able to capture the benefits of increased trade possible through the new Trans Pacific trade agreement and the Canada-EU agreement.

Access to Capital

It is well known that Canada faces enormous competition for capital. In recent years capital inflows have been significantly below those of many of our competitors. Within that context Manitoba competes with other Canadian jurisdictions. Being an attractive jurisdiction depends in part on our fiscal performance and on our ability to incent investors to choose Manitoba.

The absence of a venture capital program in Manitoba is a significant weakness. Last year we complemented the government for issuing a request for information to seek partners in a venture capital fund. We are disappointed with the ongoing delays in announcing progress and urge the government to move more quickly. Startups and small businesses would benefit from such a program.

We are on record as supporting the 'Passport System' for harmonization of securities regulation in Canada. That system works well to ensure Manitoba investors and issuers have efficient and timely access to a national system and an international interface. While the Supreme Court opinion issued late last year may leave open the opportunity for some provinces to pursue a different model centred in Ontario we continue to recommend Manitoba support the Manitoba Securities Commission remaining a part of the national 'Passport System'. We are advised that Alberta and Quebec, the two jurisdictions which intervened with Manitoba in the court referral remain committed to the passport model.

Pension Legislation

Over the last two years we raised with your predecessor the importance of pension regulation reform. Several provinces across the country completed their pension reviews and are implementing new flexible and innovative regulatory regime's ensuring the continuation of defined benefit plans within the private sector.

Manitoba lags behind most provinces. The Pension Commission completed its review and consultations. The government is in receipt of their recommendations. We strongly urge you to introduce and pass legislation in the upcoming session.

If Manitoba continues using the current antiquated system that has proven to be overly prescriptive and unresponsive to market reality the sad result will be that more employers may be forced to terminate those plans to the detriment of their employees.

Immigration

Immigration and the Provincial Nominee Program will continue to be critical tools in attracting people with the necessary skills our province needs. Manitoba should continue to push the federal government to be more flexible in its criteria for selecting candidates which are well suited for Manitoba. Rural communities are forced to forgo excellent recruits even though they have demonstrated their capacity to absorb and place new Canadians. In addition, we find it troubling that Manitoba's share of the national PNP program continues to slip at a time other provinces are promoting increased use of the program and are seeking larger allocations.

Mining

In 2018 the provincial government released its mining protocol respecting indigenous participation in future mining exploration and development in Manitoba. It is well received in northern Manitoba and we support that policy. Some important joint initiatives between mineral development companies and indigenous communities are on the horizon and should be encouraged.

Last year we recommended the government improve its internal operations with respect to mining and mineral resource development. For several years exploration and development in Manitoba has languished. Manitoba's share of national expenditures for prospecting and exploration continues to decrease.

Unfortunately, we must repeat that recommendation this year.

Northern Manitoba residents will not benefit from the employment potential through mineral development unless the provincial government takes immediate action to demonstrate its commitment to the mining sector and proves that Manitoba is a jurisdiction that welcomes mineral exploration. For many communities the mining sector together with its supporting services is the only basis for well-paying jobs. Manitoba should actively pursue and support mineral development in partnership with northern and indigenous communities.

Tourism

The tourism sector continues to grow, providing jobs and delivering increased revenue to government proving the merit of the decision early in the government's mandate to adopt a stable, predictable funding model to support Travel Manitoba's tourism marketing program.

Increasingly tourists are looking for unique experiences when they travel. Manitoba has much to offer and has been recognized as a top ten world destination for 2019. However, to ensure we remain attractive to tourists we must continue to invest in developing new tourism product and experiences to promote. Recent public and private capital commitments to museums and galleries demonstrate our collaborative support for building our tourism product and enhancing our communities. Those venues are examples of the diversified attractions and experiences that Manitoba has to offer. Similarly, the breadth of experiences offered by the creative industries in Manitoba including our major performing arts groups is another asset to be supported and promoted.

Arts and Culture

Manitoba's arts and cultural sector is an economic driver. In fact, "Growing Manitoba's Economy" refers to the importance of the creative industries in Manitoba and their substantial contributions to our economy.

Thousands of Manitobans are engaged in the sector and are awaiting release of the government's cultural policy review. Equally important they are anxious to see how the government plans to implement its policy and how it will work with and provide support to the cultural sector.

The private sector in Manitoba has increased its support of cultural industries recognizing both the cultural and economic benefits for our province. That corporate support is a complement to, and not a replacement for public support. Annual provincial financial contributions and investments in the cultural sector regrettably have been stagnant for over a decade despite the fact the sector makes a positive net contribution to the provincial economy.

We repeat our commitment as a Business Council to work with the provincial government to develop new approaches and innovative solutions to support, sustain and enhance our cultural community. We note that our principal performing venues are seriously in need of capital rejuvenation.

Education

Last year our submission set out our vision for education. That vision continues to be relevant and we remain committed to that vision which is appended to this submission. Education and training underpin our efforts for economic growth.

The 'Growing Manitoba's Economy' spoke to the importance of 'skills, knowledge, creativity and talent development'. None of that will be in abundance without strong and early government action and investment at all stages in our educational system and its infrastructure.

The Business Council and the Post-Secondary Presidents of Manitoba are collaborating on a report and strategy focusing on the development of people and talent. The private sector will not have the capacity to generate wealth and employment opportunities without a highly performing educational system. Government must be a full partner in putting into action a common strategy. Our joint report to government will be submitted soon, and we look forward to discussing how we can advance the recommendations.

Infrastructure

The Business Council has consistently advocated and supported a comprehensive provincial infrastructure investment strategy that includes:

- Investment in strategic infrastructure that supports and contributes to growth;
- Investment in trade related infrastructure throughout Manitoba;
- Investment in community infrastructure including education to train our future talent; and
- Investment in community assets including arts and culture that supports Manitobans, adds to our tourism product and contributes to our economy.

Our members, as the leading and largest businesses in Manitoba, create long term business plans. These plans dictate where business is going to invest. To plan, it is essential our members understand what the long-term vision, and long-term expenditure plan is for the provincial government when it comes to infrastructure. The two must work hand in hand, to complement one another. The private sector working with the provincial government is a positive thing. We remain committed to participating in developing a long-term strategy.

The strategic approach we advocate for infrastructure investment is based on stable and predictable funding, innovation and incorporation of technology, and community sustainability. The end goal is improving Manitoba's infrastructure and increasing our prosperity.

We advocate that the government adopt and commit to multi-year funding for infrastructure. There is permanent funding for healthcare, for education, for public safety, and we believe a similar model of multi-year infrastructure funding for infrastructure should exist.

We also urge the Manitoba government to embrace innovation in design to stretch out the service life of infrastructure being built. It would also reduce maintenance costs. Research conducted in Manitoba has demonstrated how innovative practices can extend the life cycle of infrastructure investments.

Our members tell us that they see the real absence of a strategic infrastructure vision to renew and expand strategic and trade related infrastructure.

Concluding Comments

Manitoba continues to have pressing fiscal challenges. Total debt is growing, annual interest payments are at an all-time high consuming an increased share of government revenue, and the debt:revenue ratio exceeds 151 per cent.

None of the above are positive indicators and Manitoba has no course but to continue prudent fiscal management. The government is making notable headway in reducing the annual deficit and we support efforts to balance the budget.

Positive factors include our diversified economy and prospects for growing our economy, enhancing our talent pool and providing more employment opportunities for Manitobans. We offer recommendations we believe will help us as a province to achieve that potential. In so doing we will meet the government's objective of making Manitoba the province with the "most improved job creation and economic growth". To get there we need to make strategic investment decisions with our public dollars that support and enable private investment. Private investment creates the long-term sustainable growth, employment and prosperity that will make Manitoba a better place to continue to live, work and invest.

Despite some serious concerns about the future of the North American and global economies we can look forward positively to 2020 and Manitoba's 150th anniversary as a province. We will have reason to celebrate especially if we make the right choices.

The government's success to date in addressing the financial challenges coupled with continuing public support gives the government the opportunity to make big and tough decisions with long-term payback. We recommend the decisions be made through the lens of growing Manitoba's economy and creating wealth and sustainable employment for Manitobans.

Respectfully submitted,

Business Council of Manitoba

Fiscal and Economic Competitiveness Committee

Murray Taylor, Chair
Don Streuber, Vice Chair
Roy Cook
Darryl Levy
Tom Bryk
Brad Peacock
Al Babiuk
Don Leitch

Extract from 2017-2018 Submission to Finance Minister Friesen

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.