THE WINNIPEG CHAMBER OF COMMERCE

2017 PRE-BUDGET SUBMISSION

THE WINNIPEG CHAMBER OF COMMERCE

2017 PRE-BUDGET SUBMISSION

ABOUT THE WINNIPEG CHAMBER

Founded in 1873, The Chamber is Winnipeg's largest business organization, dedicated to fostering an environment in which business, and all Manitobans, can prosper. The Chamber's vision is for Winnipeg to be:

- A competitive, technologically innovative city with a skilled labour force and modern infrastructure to support existing and emerging industries
- A city with a bright future

The Chamber firmly believes that a positive and competitive business climate brings with it wealth, prosperity and a high quality of life for its citizens. The Chamber and the Province share the same end-goal and are working toward it.

Through its membership, The Chamber feels it can identify and provide valuable insight into currently held perceptions and concerns for Manitoba's future, as well as potential solutions. We are therefore pleased to present this submission on behalf of its 2,000 member companies that employ approximately 90,000 workers in the City of Winnipeg.

RECCOMMENDATIONS IN BRIEF

Manitoba's economy continue to out-perform its prairie neighbours, but we need to continually improve conditions for a competitive, diversified, and resilient economy which provides a high quality of life to all Manitobans. We have focused our comments to four priority areas:

1) Establish a tax commission to improve the tax system

Manitoba's tax system has been without a comprehensive review for 16 years. We recommend the development of a commission to establish a streamlined tax system, including matching federal-provincial exemptions for individuals, raised exemptions for small businesses, and the elimination of the payroll tax. This recommendation is particularly timely in light of a proposed price on carbon, as it will impact other government cash transfers.

2) Enable better access to capital and labour

To improve economic performance, we need to improve investment conditions, including access to a skilled and highly qualified workforce. A made-in-Manitoba *access to capital* strategy may be the best way to encourage new investment into the province. As recently as 2014, Manitoba tied PEI as the worst provincial performer in this area, with zero venture capital investment.

3) Outline your plan to reduce the deficit

While Manitoba's provincial debt remains the 4th lowest in Canada for 2015-16 (at 1.3% of GDP) according to RBC Economics Research, its expenses are somewhat higher relative to other provinces. Manitoba can improve its credit rating and economic outlook by outlining a plan to get the deficit under control.

4) Improve value for money in government services

Manitobans consistently expect better value-for-money from our government while balancing demands for improved social outcomes and service delivery. While the Chamber appreciates that a value-for-money audit has been undertaken, we also hope the government explores unique opportunities to innovate service delivery models, including social enterprise and social investment strategies.

ECONOMIC BACKGROUNDER: MANITOBA STRONGEST IN PRAIRIES

Weaker global performance is keeping expectations modest for the Canadian economy. Infrastructure spending programs have improved prospects in some provinces, including Manitoba, but the Chamber continues to monitor the deficit position and acknowledges that stimulus spending is at best a short-term rather than long-term strategy.

With a strong and diversified economy, Manitoba's economy is presently out-performing its prairie counterparts. As oil-producing regions see declines in job and GDP numbers, Manitoba remains steady. The Conference Board of Canada suggests that only Quebec, Ontario, and British Columbia will see job gains in 2017.

Although the province's goods-producing industries are generally healthy, there have been a few disruptions, particularly to vulnerable northern industries. Heavy rain and flooding have weakened the outlook for agriculture, and gains in mining are offset by a slump in oil and gas. Manufacturing is expected to advance by 2.4 per cent and construction by 0.9 per cent; the latter fuelled by large Hydro and infrastructure projects, including Winnipeg's True North Square and Southwest Transitway. Manitoba is expected to see increases in goods consumption due to the addition of new jobs to the economy in 2017.

Highlights

- More than 1,100 jobs will be lost in 2016, but employment will rebound in 2017.
- Manufacturing will continue to be a reliable source of growth into the medium term.
- Total real GDP will advance 2 per cent this year—one of the strongest performances in the country.

Economic Indicators

(percentage change)

	2015	2016f	2017f
Real GDP	2.3	2.0	2.3
Consumer Price Index	1.2	1.5	2.1
Household disposable income	6.4	2.1	2.8
Employment	1.5	–0.2	1.1
Unemployment rate (level)	5.6	5.9	5.5
Retail sales	1.5	5.9	2.3
Wages and salaries per employee	1.8	2.8	2.2
Population	1.1	1.4	1.2

f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

RECOMMENDATIONS

1. ESTABLISH A TAX COMMISSION

In today's globally competitive business environment, government needs to create a climate that enables existing businesses to prosper. We recommend the development of a commission to establish a streamlined tax system, including matching federal-provincial exemptions for individuals, raised exemptions for small businesses, and the elimination of the payroll tax. This recommendation is particularly timely in light of a proposed price on carbon, as it will impact other government cash transfers to individuals and firms.

While significant changes have occurred within the provincial, national and international economies, Manitoba's tax system has not been subject to a comprehensive review in 16 years. We recommend the establishment of a provincial commission charged with recommending a reinvented, modernized personal income system for Manitoba, with a specific focus on tax rates and brackets, including marginal rates on capital gains and dividends. With a prospective carbon price arriving in 2017, now presents an opportune moment to review the way revenues are collected and spent.

Business leaders have clearly told us over the last number of years that they don't believe Manitoba's business climate is competitive with other provinces. The Winnipeg Chamber of Commerce believes that a competitive tax framework must exist in an effort to give businesses the opportunity to prosper, supported by the following three principles:

1) Prosperity – The tax system should contribute to economic prosperity.

2) Transparency – structured so that it can be clearly understood by the taxpayers and administered by authorities in an impartial and predictable manner.

3) Accountability – The government must be publicly accountable to taxpayers by money raised and expended by it.

Since 1999 the provincial government has experienced continued increases in revenue due to a combination of increased taxation revenue (including a rise in the PST) as well as increased revenues from the federal government though transfer payments and equalization. Repeated budgets have shown that the provincial government has not shown a focus on reducing expenditures. We hope the government begins to focus on getting the deficit under control, partly by creating a culture in the public sector that inspires and rewards employees for finding efficiencies.

	EXPENDITURES $ (000s)	REVENUE $ (000s)	TAX REVENUE $ (000s)	FED GOVT. REV $ (000s)
2016	13,537,630.00	12,577,669.00	7,585,368.00	3,844,555.00
2015	12,865,145.00	12,354,435.00	7,583,488.00	3,592,080.00
2014	12,339,124.00	11,944,681.00	7,270,356.00	3,529,362.00
2013	12,068,883.00	11,496,830.00	6,798,573.00	3,538,346.00

2. IMPROVE ACCESS TO CAPITAL AND LABOUR

To improve economic performance, we need to improve investment conditions, including access to a skilled and highly skilled workforce. A made-in-Manitoba *access to capital* strategy may be the best way to encourage new investment into the province. As recently as 2014, Manitoba tied PEI as the worst provincial performer in this area, with zero venture capital investment.

1) Initiate a capital strategy

From a regulatory perspective, we recommend participation in a coordinated federal regulatory commission. From a budgetary perspective, we recommend that the government develop an “access to capital” strategy that identifies all stages of capital financing, current capital availability, and local gaps along the entire capital continuum (idea, incubator, angels, venture capital). We also recommend increasing funding to incubators for prototyping and beta testing, and a clear delineation between commercialization and innovation or research.

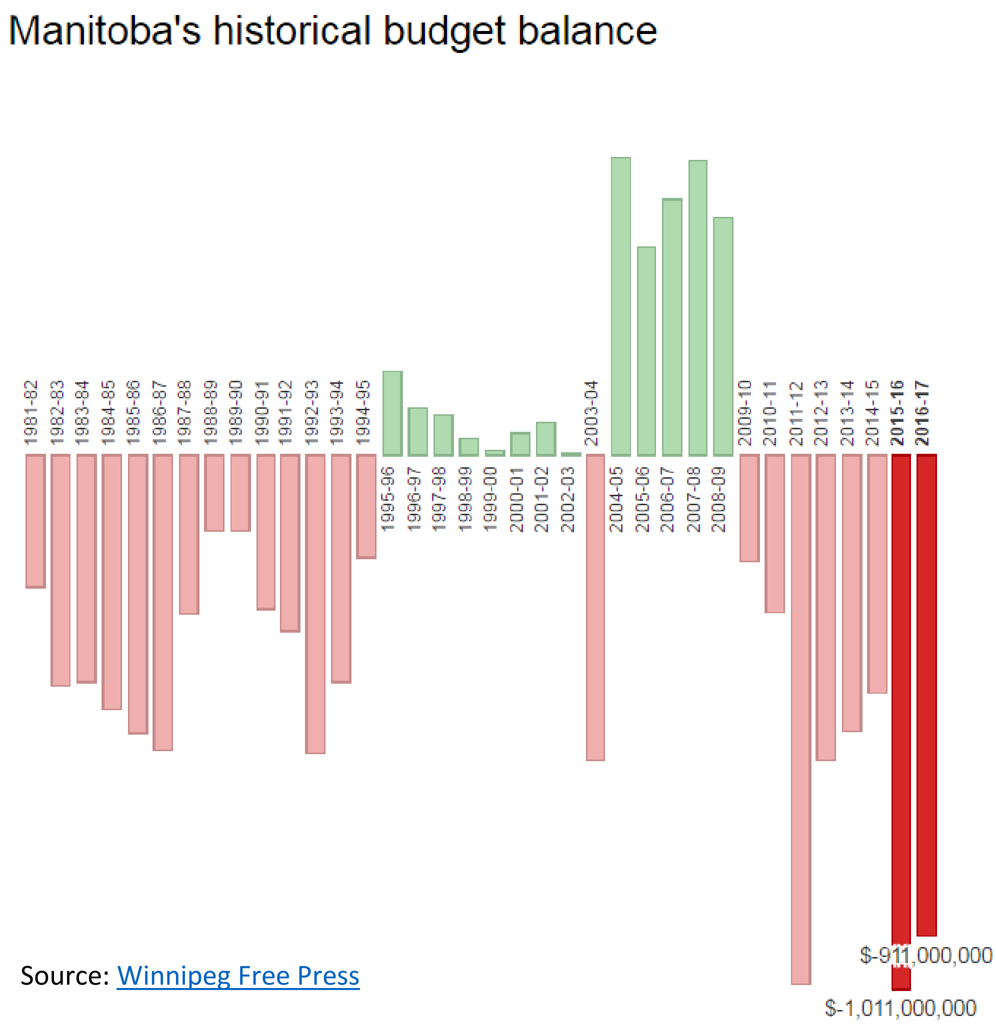
2) Improve skills in our labour force

To complement the earlier recommendation in social enterprise training, engage education leaders in a comprehensive review of Manitoba’s education outcomes to ensure they are in line with the needs of industry. This includes a need to improve outcomes in primary, secondary, and post-secondary education (reading, math and science skills), as well as college and trades-oriented schools. In addition, we recommend re-examining ways of re-opening the “employer direct” initiative of the Manitoba Provincial Nominee Program, which allowed employers to directly nominate individuals for permanent residency.

3. OUTLINE YOUR PLAN TO REDUCE THE DEFICIT

While Manitoba’s provincial debt remains the 4th lowest in Canada for 2015-16 (at 1.3% of GDP) according to RBC Economics Research, its expenses are somewhat higher relative to other provinces and after a period of successive deficits it needs a plan to improve investor confidence. Manitoba can improve its credit rating and economic outlook by outlining a plan to get the deficit under control. Successive budget deficits threaten to undermine the province's capacity to deliver long-term programs.

Manitoba's credit rating was downgraded by Standard & Poor's partly because Manitoba is expected to have a sustained debt burden over the long-term. With a year-end deficit for 2016 of over $1 billion, the government must signal to the investment community that we are ready to improve our fiscal position.



Source: [Winnipeg Free Press]()

4. IMPROVE VALUE FOR MONEY IN GOVERNMENT SERVICES

Manitobans expect better value-for-money while balancing demands for improved social outcomes and service delivery. In addition to the identification of internal efficiencies, cost pressures present novel opportunities to innovate service delivery models, including social enterprise and social investment strategies. We also recommend the consideration of a universal basic income.

1) Expenditure management

We recognize that the government has already undertaken a value-for-money review, and will be implementing independent recommendations. In addition to said independent recommendations, we recommend reducing government wage expenditures by tying provincial collective agreements compensation adjustments to the average weekly earnings and CPI for Manitoba. Broadly speaking, we also encourage the government to adopt modern technology and procedures as tools that will enhance both service and communication to citizens.

2) Social enterprise and procurement

We recommend that the government implement the February 2015 Manitoba Social Enterprise Strategy, developed in partnership between the Province of Manitoba and the Canadian Community Economic Development Network (CCEDNET). Social enterprises may multiply the impact of dollars spent in the private (or “third”) sector which would otherwise be spent directly on government services.

A dollar spent on training, education, addictions treatment, and skills development for offenders, for instance, offsets the high cost associated with incarceration and the administration of justice. CCEDNET reports that Manitoba Justice spends approximately \$500M annually, up from \$200M in 2006. The Auditor General of Manitoba reported \$600M will be needed between 2014 and 2020 just to meet projected prison population growth, at an estimated capital cost of \$220,000 per bed. Recidivism rates in Manitoba are 31% (2013) for new criminal convictions and 72% (2011) for new criminal charges. Investments in social enterprises employing people at high risk of re/offending can address unsustainable justice costs.

3) Consider basic income

There may be an opportunity to significantly reduce the bureaucratic costs associated with the delivery of cash benefits while simultaneously improving social outcomes. A basic income is a form of social security in which a universal cash benefit is paid as an alternative to other conditional cash benefits. If administered as a reverse income tax, the administrative savings may be substantial.

To that end, we recommend that the province seriously consider the creation of a pilot project in 2017 that would improve social outcomes, workforce participation rates, and administrative efficiency.

CONCLUSION

By improving our tax system, improving our pools of labour and capital, seeking better value-for-money in government services, and outlining a plan to improve our fiscal position, the Chamber believes that we can improve the wellbeing of all Manitobans for generations to come. These measures can create not just a more desirable investment climate, but it positions our city and province as a desirable and dynamic place to live.