

2017 Provincial Budget Submission

Manitoba Chambers of Commerce

October 2016

Introduction

The Manitoba Chambers of Commerce, established in 1931, is the umbrella organization for Manitoba's chamber movement. With a membership comprised of Local Chambers of Commerce as well direct Corporate Members, the Manitoba Chambers of Commerce is Manitoba's largest and most diverse business lobby, representing over 10,000 businesses and community leaders.

Our Mission is similar to that of many organizations in Manitoba, namely, *to foster a dynamic economy and vibrant communities, making Manitoba the best place in which to live, work, invest and raise a family. What sets us apart is our Vision, which describes the Manitoba we are working to achieve.*

Concerns

- Manitoba has a billion dollar deficit which is not sustainable
- Focus needs to be on growing the economy and restoring confidence in the business community
- Budgets should always be viewed through lens of making Manitoba more competitive
- Manitoba has seen its credit rating downgraded twice in the past three years
- Current government has indicated that it make take another eight years to balance the Budget

Positives

- Government focused on finding efficiencies and cutting red tape
- Manitoba's economy expected to perform better than the national GDP growth for a seventh straight year according to most recent BMO Economic report released October 6, 2016. The report refers to Manitoba as the "King of Consistency".
- Commitment to join the New West Partnership
- Support in Budget 2016 for the 96/4 investment model in tourism
- Indexing of basic personal exemption and indexing tax brackets to inflation.

Finance Ministers Mandate letter

The Minister of Finance has been provided with an important role within the new government. The responsibilities shared with the Minister reflect the Manitoba Chambers of Commerce positions that are key to re-establishing Manitoba as a strong business leader.

“As Minister of Finance, you have a key role to play in delivering on these particular Most Improved Province commitments:

- *Most improved province in family tax relief.*
- *Most improved province in job creation performance.”*

“...you have a mandate to restore the fiscal integrity of the province and move to a balanced budget. You will do so by developing both immediate and longer-term steps to eliminate waste, duplication and overlap in government spending.”

“As Minister of Finance, you are the lead in fulfilling the following platform commitments:

- *Taking steps towards balancing the budget over time.*
- *PST reduction from 8% to 7% will take place no later than 2020.*
- *Index the tax brackets and the basic personal exemption by the rate of inflation within our first full budget year.*
- *Further raise the basic personal exemption towards the national average within our first term.*
- *Reducing red tape across government with the help of a Red Tape Reduction Task”*

Provincial Budget

The Manitoba Chamber of Commerce believes that for Manitoba to achieve the level of prosperity needed to take the Manitoba economy to the next level the provincial government needs to increase its focus in the budgeting process to ensure economic growth is the driving force behind decisions that are made.

The Chamber believes that there are a number of key economic indicators that the provincial government should take into consideration when making decisions in regards to their 2017 Budget deliberations.

During their budgetary process The Chamber would urge the government to ask itself whether those decisions positively influence the following economic indicators?

- Average weekly wages
- Labour force growth – Public and Private
- Provincial Government Spending
- Debt indicator
- GDP per capita

The Chamber believes that if Provincial Budget 2017 is focused on increasing economic opportunities and prosperity in the province these indicators will be positively influenced.

Background – Manitoba Prosperity Report

The Manitoba Employers Council (MEC), established in 1980, is the largest collective of individual employers and employer associations in Manitoba.

In 2016 the Manitoba Employers Council undertook a process of reviewing and analyzing a number of key economic indicators over the last ten years to determine whether Manitoba has achieved its prosperity potential relative to neighboring jurisdictions (BC, Alberta, Saskatchewan and Ontario).

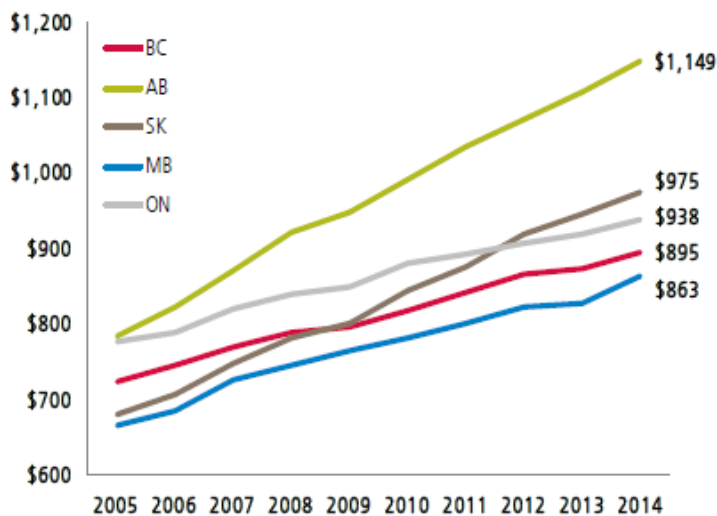
Average Weekly wage rates

Growth of the average weekly earnings (AWE) of Manitoba workers showed moderate progress over the decade, but the indicator continues to rank last amongst the provinces.

From 2005 to 2014, Manitoba workers saw their labour income increase nearly 30%, from \$666 to \$863 (see Figure 15). In hourly terms, wages increased from approximately \$16.65 to \$21.58 per hour.

Despite this progress, the gap between Manitoba's 5th place ranking and the 4th ranked province more than doubled over the decade. In 2005, Manitoba's AWE was \$15 less than 4th place Saskatchewan. By 2014 the gap had more than doubled to \$32 compared to 4th ranked British Columbia.

*Figure 15:
Average weekly earnings, 2005 - 2014
(current dollars)*



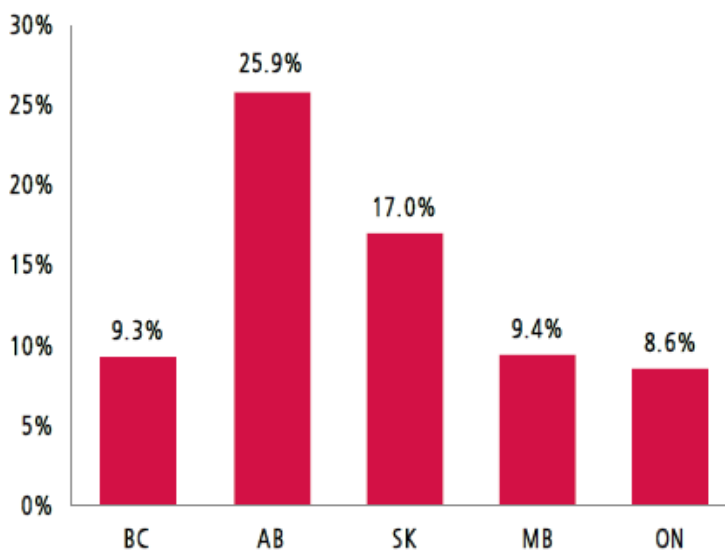
Source: Statistics Canada, CANSIM Table 281-0027, Survey of Employment, Payrolls and Hours (SEPH), average weekly earnings by type of employee, overtime status and detailed North American Industry Classification System (NAICS), industrial aggregate excluding unclassified businesses.

Labor Force Growth

A province's labour force is the total number of all the employed (persons having a job or business) and the unemployed (persons currently without work, available to work and seeking work).

Manitoba's labour force grew by nearly 57,000 individuals, or 9.4%, from 2005 -2014 (see Figure 11). While this growth rate ranks third on a relative basis, Manitoba's work force grew the least of any province in absolute terms.

*Figure 11:
Labour force growth, 2005 to 2014 (% change)*



Source: Statistics Canada, CANSIM Table 282-0001, Labour force survey estimates (LFS), by sex and detailed age group, unadjusted for seasonality.

Manitoba Prosperity Report

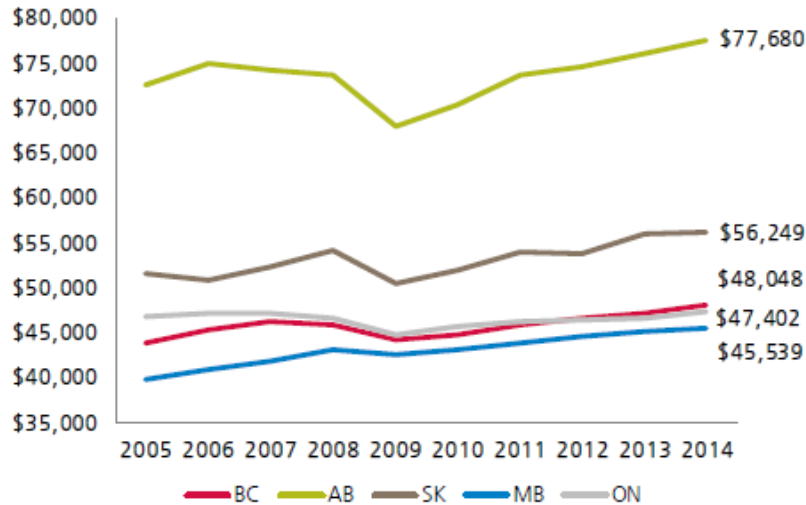
GDP Per capita

At \$45,539 in 2014, Manitoba's GDP per capita continues to make Manitoba the least prosperous province (see Figure 1).

While Manitoba's GDP avoided a significant downturn during the 2009 recession, its moderate annual growth rate of approximately 1.5% makes it difficult to achieve parity levels with better performing provinces.

Over the decade 2005-2014, Manitoba GDP per capita increased from \$39,707 to \$45,539 (see Figure 1), an increase of 14.7% (see Figure 2). Despite this growth, Manitoba GDP per capita remains \$1,863 per person less than that of 4th place Ontario residents.

Figure 1:
Provincial GDP per capita, 2005-2014
(chained 2007 dollars)



Source: MEC calculation, Statistics Canada, CANSIM Table 051-0001, Estimates of population, by age group and sex for July 1, Canada, provinces and territories, CANSIM Table 384-0038, Gross domestic product, expenditure-based, provincial and territorial.

Province of Manitoba Economic Forecast and Spending

Since 2013 revenues have risen from approximately \$11.5 billion to \$12.5 billion; an increase of over \$1 billion. These revenue increases have also resulted in an increase of expenditures at a slightly higher rate. In the last budget year of the previous government (2015) provincial government operating expenditures were just shy of \$13 billion. In the first budget under the new government, government expenditures were targeted at just over \$13.5 billion.

	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

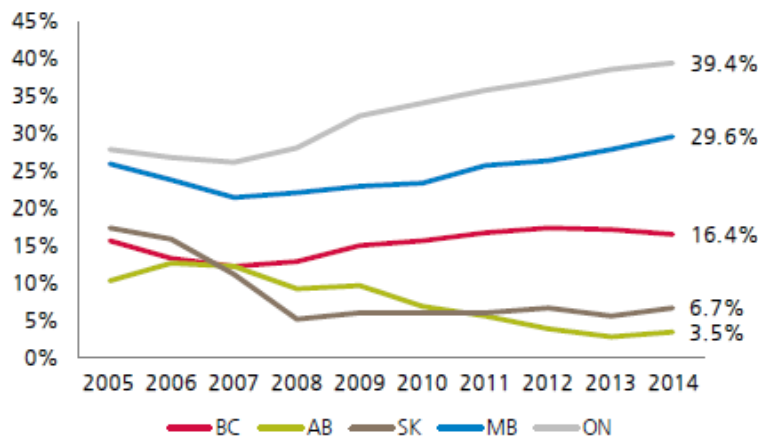
The Manitoba Chamber of Commerce believes that repeated budgets have shown that the provincial government has not shown a focus on reducing expenditures.

Provincial Net Debt

Since the global economic recession of 2008/2009, Manitoba’s net debt as a percent of GDP steadily increased from its modern historic low of 21.4% in 2007 to 29.6% in 2014 (see Figure 19).

Manitoba's net debt as a percentage of GDP increased 13.7% over the decade starting in 2005. Alberta and Saskatchewan have seen their net debt drop while British Columbia's net debt remains nearly unchanged. Ontario saw its net debt increase by 41% over the timeframe.

Figure 19:
Provincial net debt % of GDP, 2005 – 2014



Source: MEC calculation, Statistics Canada, CANSIM Table 384-0038. Provincial Budgets, 2005 – 2014.

MCC Policy Development

Simply put, policy is the heart of the Manitoba Chambers of Commerce (MCC). Policy resolutions play a key role in giving MCC our grassroots nature, as they depend upon the will of the local chambers. True to MCC's commitment to those grassroots, resolutions are not limited by the core values, strategic directions or the positions taken by the Chamber on emerging issues.

Policy resolutions are primarily submitted by local Chambers, but may also be proposed by the Board of Directors or the Policy Committee. The submitted resolutions are then discussed, possibly amended and then rejected or approved by local chambers at MCC's Annual General Meeting (AGM).

Recommendations

The Manitoba Chambers of Commerce remain committed advocates for developing a quality of life that will make Manitoba THE place to call home. Over the past year, our organization has addressed issues of concern to the government and put things on the radar for consideration for Budget 2017.

As the government prepare for the budget, the Manitoba Chambers of Commerce ask that the following issues be addressed throughout the process:

Manitoba Budget Planning

If the provincial government is focused on increasing Manitoba's economic opportunities and prosperity, these indicators will be positively influenced.

Resolution:

That the Provincial Government focuses on the following economic indicators in their budgeting process:

- **Ensure Manitoba's GDP per capita is competitive with other Western provinces.**
- **Contain annual increases in program spending to two-to-three percent (in line with inflation plus population growth);**
- **Have Manitoba's annual spending as a percentage of GDP level among the top three most competitive when compared with other provinces;**
- **Ensure Manitoba's annual labour force growth is competitive with other Western provinces.**
- **have Manitoba's weekly wage rates among the top five most competitive in comparison with other provinces;**

Adopted by Manitoba Chambers of Commerce, April 2014

Provincial Government Spending

In today's globally competitive business environment, it is imperative that government create a climate that attracts new business and allows existing businesses to prosper.

Repeated budgets have shown that the Provincial Government has not focused on expenditure reduction. This must become a priority. Any provincial government spending policy should be based on four principles:

- *Sustainability* – Is the spending sustainable over a continued timeframe?
- *Transparency & Simplicity* – Spending should be structured so it can be clearly understood by taxpayers and is inexpensive to administer.
- *Accountability* – The government must be publicly accountable to taxpayers for money raised and expended.
- *Efficiency* – Government spending should be done in the most efficient manner and performance measures established.

Resolution:

That the Provincial Government:

- **In an effort to evaluate government expenditures for efficiencies and effectiveness, establish a Commission on Efficiencies that will engage the public in determining if provincial services are being provided in the most cost-effective and efficient manner.**

- **Accept and implement LEAN principles and approach that would help create a culture in the public sector that inspires and rewards employees for finding efficiencies.**
- **Set a target to reduce provincial government reliance on equalization payments, analyzed year by year, with a goal to eliminate reliance on equalization payments from the federal government by 2040 in an effort to generate economic growth.**
- **Set a target of having Manitoba's annual spending as a percentage of GDP be among the most competitive when compared to other provinces.**

*Submitted by MCC Policy Committee
Adopted by Manitoba Chambers of Commerce, May 2015*

Returning Manitoba to a Balanced Budget

Issue:

Manitoba continues to pile on the debt, despite indications that our economy is chugging along at a modest pace.

The Balanced Budget, Fiscal Management and Taxpayer Accountability Act, introduced by the former Progressive Conservative government in the mid-90's, cuts the salaries of cabinet ministers every year in which the government runs a deficit. As the core government deficit grows, so too does the overall provincial debt, now forecast to hit more than \$18 billion.

This has raised alarm bells for credit-rating agencies that downgraded Manitoba's credit twice in the last two years. The most recent downgrade in July 2016 came from S & P Global Ratings. The credit rating agency said "the new government has set a target to return to fiscal balance within a lengthy eight years, but did not provide a detailed fiscal plan beyond the current fiscal year". This follows the summer of 2014 downgrade from Moody's Investors Service. Providing a stable, responsible path to restore our credit rating and taking advantage of Manitoba's continued growth will take more than simply waiting for revenues to surpass expenditures.

Resolution:

That the Premier of Manitoba and the Minister of Finance adhere to a commitment of returning to a balanced budget.

*Submitted by Winnipeg Chamber of Commerce
Adopted by Manitoba Chambers of Commerce, May 2015*

Tackling Manitoba's Economic Competitiveness through Taxation

In today's globally competitive business environment, the Manitoba Chamber (MCC) believes it is imperative that government create a climate that attracts new business and allows existing businesses to grow and thrive in Manitoba. Business leaders have made it clear that they don't believe Manitoba's business climate is competitive with other provinces. Regardless of who creates it, all tax policy must support the following three principles:

- *Growth* – The tax system should stimulate economic growth
- *Transparency* – The tax system should be structured so that its intent can be clearly understood by the taxpayers and administered by authorities in an impartial and predictable manner.
- *Accountability* – The government must be publicly accountable to taxpayers for money raised and expended by it.

Resolution:

That the Provincial Government commit to a provincial review of the tax structure (both personal and corporate) of Manitoba, focused on examining:

- **Implementation of long-term provincial strategies to provide the business community with confidence and certainty that tax reduction is a priority, and**
- **Setting a target of having Manitoba's tax levels and provincial tax threshold levels in the top three most competitive when compared with other provinces.**

Land Transfer Tax

- **Waive the Land Transfer Tax for first time homebuyers and create a new system for calculating fees equal to the cost of the service.**

Provincial Sales Tax

- **Reduce the PST to a level more competitive with other provinces.**

Corporate Tax

- **Index tax thresholds to inflation on an annual basis.**
- **Create a tax rate that is in the top three most competitive when compared with other provinces on a current basis (Manitoba is currently 5th).**

Personal Tax

- **Raise upper end of the bracket for the lowest personal income tax bracket to \$44,000.**
- **Raise the personal tax exemption to become more competitive with other provinces.**
- **Index brackets to be consistent with other provinces.**

Payroll Tax

- **Eliminate this tax over a five-year time frame through a threshold approach.**

*Submitted by Winnipeg Chamber of Commerce
Adopted by Manitoba Chambers of Commerce, May 2015*

Manitoba Access to Capital Strategy

One of the biggest challenges facing entrepreneurs and businesses in Manitoba is the availability of capital to grow and expand their business.

The 2016 Manitoba BOLD platform outlines a number of recommendations aimed at establishing a strong venture capital industry in Manitoba, driven by a provincial strategy that identifies all stages of financing, current capital availability and local gaps along the entire capital continuum.

Difficulties in accessing capital are hindering the full potential of Manitoba's business community and the economy overall. Manitoba requires a bold capital strategy, one tied to the key sectors driving the future of Manitoba's economy.

Resolution:

That the Provincial Government:

- **Increase funding to Manitoba's existing business incubators from the current \$300,000 shared allocation to \$500,000 per incubator, for prototyping/proof of concept/Beta testing; including establishing a funding mechanism for the creation of new business incubators across the province.**
- **Establish a comprehensive 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 funds – Series A, B, C) and provincial initiatives to address gaps;**
- **Establish four Venture Capital funds, each valued at \$50-100-million and focused on the following sectors – Agri-Food, Creative/Design, Clean Technology and Life Sciences**
 - **Investments of \$2-5 million per enterprise;**
 - **Capitalization of the funds – Manitoba public sector pension funds (25%), provincial government reallocation of payroll tax revenue (25%), private capital (50%);**
 - **Provincial incentives to entice public sector pension funds, in the form of a loss reserve to mitigate some of the risks, must be created;**
 - **Province to offset funds' administration costs in the first three years, in particular, the start-up costs estimated at \$2.5-million;**
 - **Recruit an established, independent professional fund manager to operate each individual fund, with fund manager responsible for non-administrative fund start-up costs (estimated at \$400,000-\$800,000);**
- **Exempt venture capital funds from Manitoba's payroll tax;**
- **Allow for venture capital returns, if reinvested in a Manitoba-based company, to be 100% tax-free, for a period up to 10 years;**
- **Extend the existing Small Business Venture Capital Tax Credit so that it can be invested in a venture capital pool or multiple pools;**

- **Modify the Commercialization Support for Business program to enable all businesses and not-for-profit organizations to apply, to streamline and simplify the process and to modify funding limitations to match reasonable business requirements**

Submitted by the Winnipeg Chamber of Commerce

Adopted by Manitoba Chambers of Commerce, May 2016

Conclusion

By focusing greater attention on key economic indicators and measuring our success the results will be greater prosperity for all Manitobans. The Chamber believes that to achieve this we can't tinker our way to success. The Chamber believes it's time to be BOLD and focus on growing our economy, creating jobs and leveraging our strengths through a strategic, focused and results driven approach.

Manitoba's opportunity in the next decade centres on the very real prospect of a growing economy and a much larger tax base that comes with that growth. A larger tax base will provide opportunity to pursue—affordably—a package of tax reforms and reductions that can cement many of the province's recent economic gains. If Manitoba can reform and reduce its taxes in a strategic fashion to promote business competitiveness and investment, while maintaining critical social and infrastructure investment, then the province is sure to win the ability to lever even greater economic gains—emboldening a virtuous circle of future growth, prosperity, and opportunity.