



**GREATER CHARLOTTETOWN AREA
CHAMBER OF COMMERCE**

**2016 Pre-Budget Submission
to the
Provincial Government**

**Building
A
Private Sector Driven
Economy**

**Greater Charlottetown Area Chamber of Commerce
January 2016**

Introduction

The Greater Charlottetown Area Chamber of Commerce welcomes this opportunity to offer its comments on issues that have a direct bearing on the advancement of the provincial economy. We view the 2016 Provincial Budget as an extremely important document, not only as an indication of the Government's fiscal and program plans, but more importantly, an indication of the strategic direction the Provincial Government intends to pursue to advance the Island economy.

Advocacy is a key activity of The Greater Charlottetown Area Chamber of Commerce. Its advocacy efforts are aimed at representing the interests of its some 1000 members, who employ 18,000 Islanders. The Chamber recognizes, however, that a strong and vibrant business community is more than a reflection of the drive and abilities of its individual members. A thriving business community is dependent on appropriate public policy to establish an environment in which our members can succeed, and thus expand the provincial tax base.

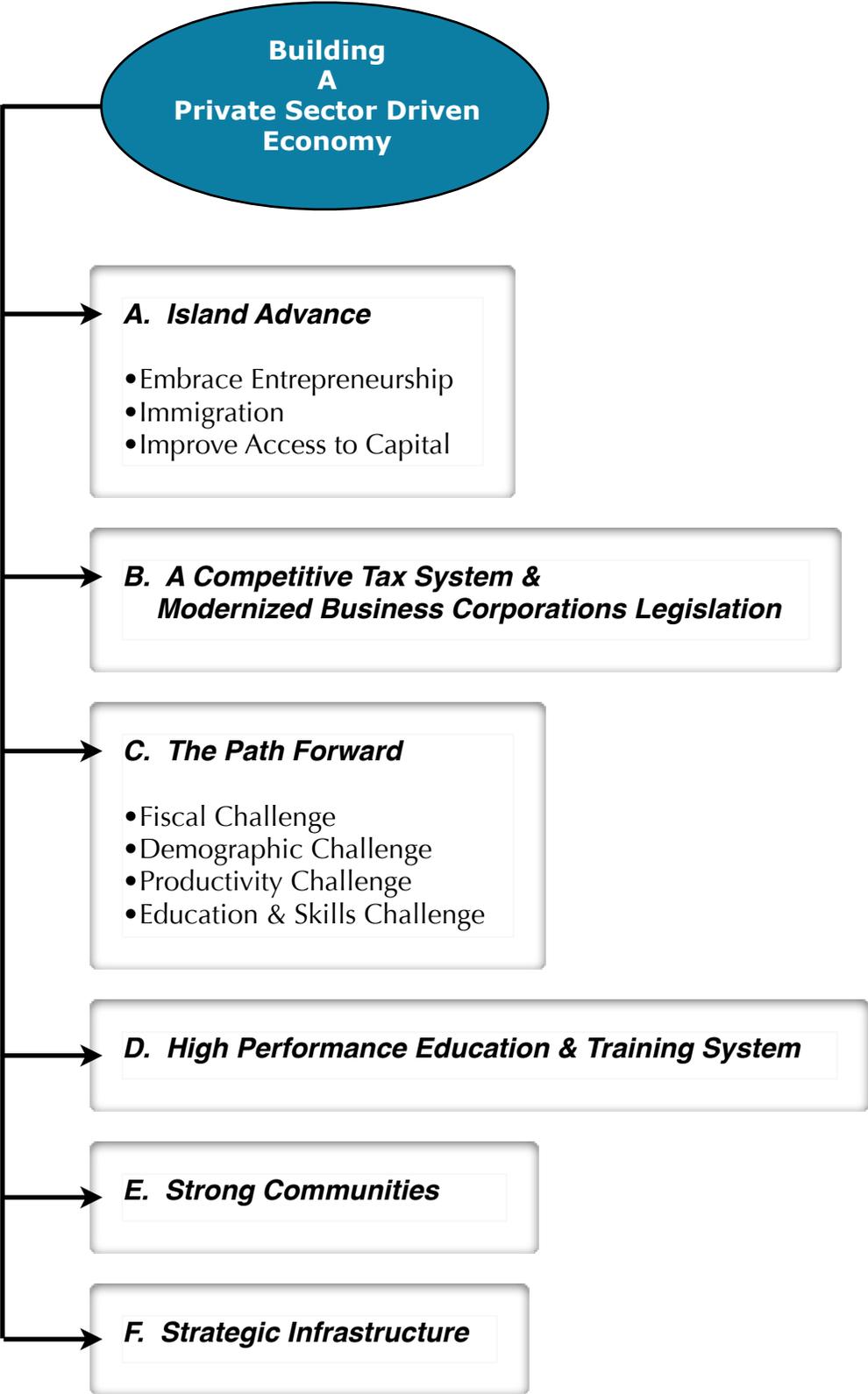
Over the recent past, the Chamber has issued a number of documents that have been prepared with input from the business community. These documents (and associated interventions) have had a central focus - to promote and build a private sector driven economy. The Chamber has stressed that it is only through a vibrant and expanding private sector that the provincial tax base can grow, a tax base that ultimately funds the bulk of our economic and social programming.¹

In this Pre-budget Submission the Chamber has solidified the central focus of building a private sector driven economy. We have reviewed the main themes presented in previous background documents, presentations and interventions. In addition, we have added Strategic Infrastructure as a current key issue.

The following schematic summarizes past themes. Each is then expanded upon, highlighting key messages, suggestions and recommendations. The overall message is that the economic future of the province is a function of how well the private sector performs. Without question, the business community is the lifeblood of our future prosperity and growth of the provincial tax base.

¹ Federal conditional and unconditional grants account for 38% of Provincial revenues.

Summary of the Chamber's Current and Ongoing Advocacy Themes



A.**Island Advance**

The Island Advance Task Group brought together experienced and knowledgeable private sector and government interests to examine what could and should be done to drive the provincial economy forward. After considerable research and deliberation, the Group identified three initiatives critical to success:

- a) Embrace Entrepreneurship
- b) Attract, Integrate and Retain Skilled and Entrepreneurial Immigrants
- c) Improve Access to Capital

a) Entrepreneurship is recognized as central to economic advancement and rising standards of living. But recognition is only the beginning and perhaps the easiest - it is more difficult to move from ideas to action. The Chamber understands that the Provincial Government has launched an internal process to examine ways and means of building an entrepreneurial culture in the province. To facilitate this process, the Chamber **suggests** that Government:

- draw upon what has already been done in Island Advance
- use the experience of the business community
- look to the business community for guidance/assistance
- fully involve the private sector in development of appropriate programming

In the final analysis, it will be the potential for profits created in the private sector that will drive entrepreneurship and risk taking.

b) Attract, Integrate and Retain Skilled and Entrepreneurial Immigrants is also a core element to the province's economic future. The demographics are well known - with the number of deaths about to be greater than births, the province's current and future population growth is primarily dependent on international migration. Also, as the population ages, meeting labour force demand will depend on positive net migration, either through fewer out-migrants to other provinces² or continued inflow of international migrants.

² 2014 saw PEI's largest recorded net out-migration to other provinces.

The Chamber **suggests** that Government:

- continue its strong efforts to bring international migrants to the province
- continue to support the Chamber in its efforts to integrate and retain international migrants via PEI Connectors and Business Forums
- further examine ways and means of turning the tide on net losses to other provinces

c) Improving access to capital is the third initiative identified by Island Advance to further build a private sector driven economy. The Chamber outlined some of its views on this matter in its Submission to the Legislature's Standing Committee on Education and Economic Development regarding Motion 10, focusing on the importance of a competitive tax system as it affects corporations and investors. (See B. below)

B.

Competitive Tax System & Modern Business Corporations Legislation

The Chamber (via Island Advance), in its Submission to the Legislature's Standing Committee on Education and Economic Development re Motion 10, stressed the importance of a competitive tax structure to build a private sector driven economy. The Chamber addressed 'changes to the provincial tax system that would encourage entrepreneurship, business start-ups and business expansions, and would increase access to capital, particularly for new ventures.'

Considering the tie-in of the Submission to the preparation of the 2016/17 Budget, the Chamber's **recommendations** are listed below:

- iv) the general corporation tax rate (and the rate applied to manufacturing and processing) be reduced over a four year period from the current 16% to 12%
- v) the small business tax rate be reduced from 4.5% to 3% over a two-year period; the threshold should remain at \$500,000
- vi) the large corporation HST restrictions be phased out as per the Ontario schedule that began in July 2015
- vii) the Provincial Government continue to discuss, with the Canada Revenue Agency, the issue of HST avoidance and the underground economy in order to develop a 'made for PEI' response
- viii) the Provincial Government (in conjunction with the other Atlantic Provinces via the Council of Atlantic Premiers) propose expansion of Atlantic Investment Tax Credits offered by the Federal Government

- ix) the Provincial Government introduce refundable R&D tax credits, at least to the level of those provided by the other Atlantic Provinces
- x) the Provincial Government examine the benefits of expanding the tax holiday program to other sectors with demonstrated growth potential
- xi) the Provincial Government thoroughly examine replacing the CEDB equity tax program with a program that is broader in coverage, has increased incentives to enhance access to capital, and is easier to administer
- xii) the Provincial Government, in discussions with the other Atlantic Provinces, move to harmonize the provisions of the PEI Share Purchase Tax Rebate with those of New Brunswick, Nova Scotia and Newfoundland & Labrador. Pending harmonization, the Chamber recommends that the maximum credit available under the Share Purchase Tax Credit be increased to \$100,000, with consideration to having the incentive claimed via CRA tax returns, as per the practice in the other Atlantic Provinces

To continue to build a private sector driven economy, it is critical, at a minimum, that PEI's corporate tax regime be competitive with other jurisdictions. By this the Chamber means:

- businesses in PEI, whether new or established, should not have a tax restriction or tax burden greater than a similar business in another jurisdiction - to the degree that business investments in PEI would be negatively affected
- incentives to investors, either individual or pooled, should reasonably match what is available in other jurisdictions

On a related matter, the 2015 federal budget announced changes to the federal gross up and tax credit rates to be implemented 2016 through 2019. As a result, the Province may need to consider adjusting the provincial dividend tax credit rates to ensure continued integration of corporate and personal taxes.

A **modernized Business Corporations Act** is an important initiative, not only to set out the legal framework for the incorporation of provincial corporations, but also to serve as the core element to the development of a modern corporations registry. An important aspect is the ultimate easing of the costs of doing business in the province via integrated licensing and e-commerce applications. The Chamber, in its submission to the working group drafting the revised legislation, not only underscored the impact of this initiative on business development, but emphasized the advantages of private sector delivery of a digital registry system. The Chamber **recommends** that private sector delivery be thoroughly examined, particularly given the openness of neighbouring Provinces to pursue such an option.

C. The Path Forward

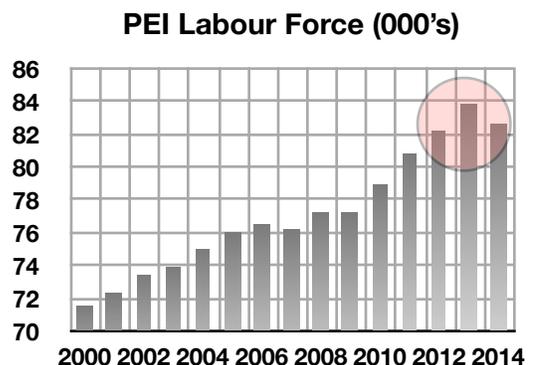
In 2015, the Chamber prepared a document outlining a number of challenges that need to be met if the provincial economy is to continue to advance. The Path Forward was well received and was referenced heavily in the ‘run-up’ to the last provincial election. Again, its overall theme was building a private sector driven economy as the path to economic growth and prosperity. The challenges outlined remain current and are worth revisiting.

The Fiscal Challenge continues (See Appendix 1). While program expenditures of late have been restrained, the achievement of a balanced budget proves elusive. Recent developments suggest that the economy is entering a new phase of slower economic growth, an occurrence that will continue to limit growth in own-source revenues. Even with this, the provincial budget must come into balance, and on an ongoing basis, if growth in debt is to be minimized. As it is, even a balanced budget will lead to increases in net debt due to non-budgetary and net capital transactions.

The Chamber commends the Province for the steps taken to improve the Province’s fiscal position over the recent past. Both net debt and own-source revenues are starting to decline as a percentage of GDP - an encouraging sign. Also, and as previously mentioned, program expenditures have been constrained, resulting in them being a declining percentage of GDP.

The Chamber strongly **recommends** that the recent efforts of restraint continue. Uncertainties around higher interest rates, and slower overall economic growth demand a cautious fiscal stance. There is no tax room available - increases in tax rates will set the economy back and limit opportunities for business to expand the tax base.

While **the Demographic Challenge** has been covered under the Island Advance writeup, it is worth noting that the province’s labour force has recently peaked.³ The Chamber **suggests** that an in-depth analysis be undertaken to determine why, and the consequences of a stable or declining labour force on meeting the future demand for labour. As the labour force has declined, so has employment. What we seem to be seeing in the province is increased economic activity without any commensurate increase in employment.



³ The province’s labour force declined by 1.2% Nov. 2015 over Nov. 2014. (Labour Force Survey)

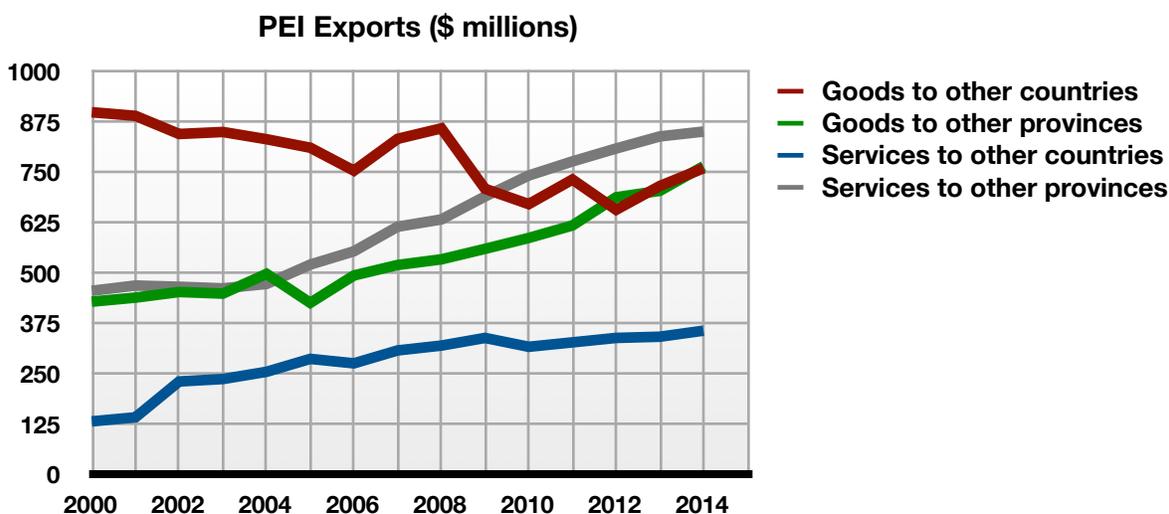
The Education and Skills Challenge will be covered in the next section. Needless to say, this is a critical issue for the economic and social development of the province.

The Chamber has noted in a number of presentations and interventions the **importance of exports** in advancing the provincial economy. Exports are central to bringing new monies into the economy, a theme of the Premier’s Economic Forum, Premier’s 2015 year end interview, and the “Salesforce PEI” initiative.

Given the broad makeup of the Chamber’s membership, it is important to emphasize that exports are more than goods shipped internationally. Exports, as reported in GDP,⁴ are of two categories (goods and services) and two destinations (international and interprovincial). In 2014, exports of goods accounted for 56% of exports, and services, 44%.

GDP basis, 2014	International	Interprovincial	
Goods	28%	28%	56%
Services	13%	31%	44%
	41%	59%	100%

There have been significant changes over the past number of years in both the composition and destination of exports as shown in the graph below.



Exports of services to other provinces have grown to become the largest component of total exports, followed by rapidly increasing international export of goods over the past 3 years. The Chamber continues to encourage a broad approach to export promotion that recognizes the importance of both goods and services and interprovincial and international destinations.

⁴ Source: Statistics Canada, Provincial Economic Accounts

D.**High Performance Education and Training System**

The Chamber has, on numerous occasions, expressed its concerns over the province's relatively poor academic performance in the K-12 system. We believe that our concerns have been heard, and as a result of discussions with Ministers and education officials, we are encouraged with the actions taken to address academic standards and performance. The Chamber supports the recent structural changes as having the potential for administrative cost savings, enhanced engagement of stakeholders and better policy and program development. However, form should not be confused with substance. Administrative changes cannot be an end in themselves, but only a means to enhanced academic performance. It's the outcomes that count, not the changes in process.

With regard to post-secondary skills development, the Chamber **continues** to call for a full examination of the supply and demand for skilled labour, including an assessment of the adequacy and appropriateness of training, and credential recognition. This is becoming more critical as the labour force stabilizes or declines.

E.**Strong Communities**

A vibrant business sector is dependent on strong communities, communities where we reside, work and play; communities that are the geographic center of what we value - housing, sewer and water, police and fire protection, transportation, a sustainable environment, cultural amenities, and recreation. Without the required infrastructure, our communities cannot be strong and cannot deliver the required quantity and quality of services for economic and social development. Economic capital and social/public capital⁵ can be likened to the two blades of a pair of scissors - both must work together to be effective.

Strong communities need adequate financial resources. The Chamber has, in previous pre-budget submissions, argued that the impasse over the **Provincial - Municipal funding agreement** must be resolved. In 2014, we offered three guiding principles:

- i. funding should realistically reflect expenditure needs and service demand
- ii. funding should be formula-driven to provide the degree of certainty required for multi-year planning
- iii. larger municipalities should be required to adopt provincial standards of performance measurement

⁵ Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together. (World Bank)

The Chamber stands by these principles and strongly **suggests** the issue be resolved as soon as possible. (As an aside, if 2015 Municipal Grants had been the same percent of Provincial Own-source Revenues as in 2010, upwards of an additional \$4 million would have been added to the 2015 amount.)

Strong communities **embrace cultural diversity**. With international migration being the requisite for population stability and growth, embracing diversity will be a significant factor to successful integration and retention. Again, this is a theme that has been part of the Chamber advocacy at both the provincial and municipal levels. Integration and retention are essential ingredients in building a private sector driven economy, from both the labour force and entrepreneurial perspectives.

F. Strategic Infrastructure

The importance of infrastructure investment for economic growth and business and community vitality is well recognized and has been studied exhaustively. Overcoming the infrastructure deficit could be the challenge of our times. However, given the results of the recent Federal election and the commitment to increased infrastructure spending, it appears that ‘the stars may be aligned’ for an increase in funding for capital projects in the province. Whether there will be any incremental monies to the already announced 10 year New Build Canada Fund plus the Gas Tax Fund seems to be unclear. For Prince Edward Island, the already announced programming represents approximately \$440M in dedicated federal funding, including more than \$277M under the New Building Canada Fund and an estimated \$163M under the federal Gas Tax Fund. In addition, Prince Edward Island also stands to benefit from:

- monies for projects of national significance
- additional funding available for P3 projects
- GST Rebates that provide municipalities across the country with additional resources to address their infrastructure priorities.⁶

Obviously, this has the potential to make a significant impact on the province, provided the opportunity continues to be handled strategically via a comprehensive, planned and inclusive process. The Chamber believes the business community could make an extremely positive contribution to the assessment and review process. Business community involvement would give additional information on which to base business plans to ensure that local economic impact is maximized. This would in no way jeopardize Communication Protocols (as per Federal/Provincial Agreements).

⁶ <http://www.infrastructure.gc.ca/regions/pe/pe-nbccp-npcc-eng.html>

Recap

Based on the foregoing, the Chamber offers the following specific **recommendations** as input to the preparation of the 2016/17 Provincial Budget:

- i) produce a balanced budget via continued expenditure restraint
- ii) more closely integrate the capital budget with the operating budget by including an estimate of the anticipated increase in net debt
- iii) address the competitiveness of the tax system as it affects business development/ expansion, and attraction and retention of skilled employees
- iv) commit to implementing changes to the Business Corporations Act, including an assessment of the costs and benefits of private sector involvement in the delivery of a new digital registration system
- v) fully involve the private sector (via Island Advance) in any program design regarding entrepreneurship, immigration and access to capital
- vi) commit to a new Provincial - Municipal funding program based on the principles suggested in E. - Strong Communities.
- vii) pursue continuous improvement in academic standards and performance in the K to 12 system and provide regular reports to the public on means and outcomes
- viii) ensure that new infrastructure projects are strategic in that they are examined and implemented with advancing the Island economy as the lead consideration

Thank you for the opportunity to present our concerns and recommendations.

Submitted by:

Wendy Drake, President _____

Appendix 1⁷

Summary of Provincial Finances Year ending March 31 (Millions)	2011	2012	2013	2014	2015
Taxes	\$707.6	\$756.4	\$782.5	\$820.6	\$847.4
Fees & Services	\$51.5	\$55.6	\$58.2	\$60.3	\$60.8
Other	\$131.6	\$144.4	\$161.0	\$159.1	\$149.9
Total Own-source Revenue	\$890.7	\$956.4	\$1,001.7	\$1,040.0	\$1,058.1
Equalization	\$329.8	\$329.0	\$337.1	\$339.5	\$359.8
Health & Social Transfers	\$156.4	\$165.4	\$170.5	\$179.9	\$184.0
Other	\$155.2	\$136.3	\$87.8	\$93.4	\$90.0
HST Implementation				\$39.0	
Securities Regulation					\$35.0
Total Federal Revenue	\$641.4	\$630.7	\$595.4	\$651.8	\$668.8
Total Revenue	\$1,532.1	\$1,587.1	\$1,597.1	\$1,691.8	\$1,726.9
Program Expenses	\$1,441.4	\$1,506.5	\$1,497.3	\$1,556.6	\$1,549.9
Interest	\$107.7	\$106.5	\$116.2	\$116.2	\$130.5
Amortization	\$46.4	\$58.2	\$63.4	\$64.9	\$66.8
Total Expenses	\$1,595.5	\$1,671.2	\$1,676.9	\$1,737.7	\$1,747.2
Deficit	-\$63.4	-\$84.1	-\$79.8	-\$45.9	-\$20.3
Increase in Net Debt	\$122.8	\$199.2	\$131.5	\$59.4	\$35.2
Net Debt	\$1,708.9	\$1,908.1	\$2,039.6	\$2,099.0	\$2,134.2
Deficit as % of Increase in Net Debt	51.6%	42.2%	60.7%	77.3%	57.7%
GDP	\$5,424	\$5,573	\$5,783	\$6,003	\$6,183
% increase in GDP		2.7%	3.8%	3.8%	3.0%
% increase in Own-source Rev.		7.4%	4.7%	3.8%	1.7%
% increase in Program Exp.		4.5%	-0.6%	4.0%	-0.4%
% increase in Total Exp.		4.7%	0.3%	3.6%	0.5%
% increase in Taxes		6.9%	3.5%	4.9%	3.3%
Own-source as % of GDP	16.4%	17.2%	17.3%	17.3%	17.1%
Source:	Provincial Finance documents & Statistics Canada				

In both 2014 and 2015, the deficit was improved by 'one-time' Federal grants. Without these, the underlying deficit in 2014 was \$85 million and \$55 million in 2015. The updated deficit for 2016 is now \$30.5 million, a \$25 million improvement over the 'underlying' deficit of \$55 million in 2015. Unfortunately, it is not possible to compare the 2016 Budget to the Public Accounts of previous years due to differences in presentation, particularly in netting expenditures against revenues.

Total Federal Revenues have been static if the HST and Securities grants are removed; thus, 38% of Total Provincial Revenues have had limited growth. The growth rate in Own-source Revenues is declining.

In summary, with the constraint in program expenses, the deficit has been coming down. However, with limited growth in both Federal and Own-source Revenues, pressures on the deficit will increase - unless there is further expenditure restraint. Tax increases will not solve the fiscal problem if it is structural in nature.

⁷ GDP for 2015 is estimated.