

2014-15

Budget Priorities

Presented to the Honourable Blaine Higgs,
Minister of Finance
Province of New Brunswick

Fredericton Chamber of Commerce
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Avoiding the political lures of the pending election in September 2014, the Fredericton Chamber of Commerce encourages the Province of New Brunswick to maintain its focus on long-term financial stability through strategic and aggressive economic development and the elimination of the provincial debt and deficit. In the final year of the current mandate, this government must decrease the nearly \$1.4 million daily debt currently being incurred by the province.

I. INTRODUCTION

Fundamentally we suggest that the provincial government, governments in general, and their associated budgets should support and position the economic environment for sustainable growth. Associations and businesses, within this process, have the obligation to identify not only areas of risk but also areas of opportunity. For the short- and long-term future of the province, it is imperative that the focus remain on an economic agenda through responsible management rather than a political agenda.

The seriousness of New Brunswick's fiscal situation is outlined in the Auditor General's 2013 report on page 13: "This continued increase in Net Debt represents a very disturbing trend. An even higher demand will exist on future revenue to pay past expenses. Such continued negative trends impacted the Standard & Poor's decision to downgrade the Province's bond rating from AA- to A+ in 2012. This rating change will ultimately result in more expensive borrowing costs. As well, New Brunswick's increased borrowing may constrain future borrowing capacity and affect future provincial operations and delivery of services."

Reducing costs through efficiencies and discipline while making strategic investments that foster trade, attract investment and maximize productivity are key to economic growth. One area where efficiencies may be found that the business community welcomes is the privatization of service delivery in instances where this is the best solution.

We recognize that the government is facing a difficult set of economic circumstances and support tough decisions that have to be made through balanced, strategic and integrated solutions. The work being done on public pension reform is a primary example of maintaining a commitment on fiscal responsibility for a difficult issue that the Province should mirror in other areas. At the end of the day though, the province must:

1. increase its productivity;
2. reduce debt; and
3. facilitate an innovative, vibrant and business-friendly economic ecosystem.

To achieve financial stability and growth, the Province must concentrate on economic drivers that create wealth in communities.

II. VISION / ECONOMIC DRIVERS

In order to achieve the economic prosperity that will benefit all New Brunswickers, the provincial government must focus on initiatives that result in increased productivity and wealth creation while continuing to find efficiencies and restrict spending. Facilitating an economic environment that will allow the economy to grow through business success benefits the entire province. Over the past year through the Vision 2020 plan, Fredericton has rededicated its focus on entrepreneurship – working to creating conditions to allow a growing startup community to innovate, thrive and create wealth. Many of the principles of the plan are equally applicable on a provincial level.

(a) Innovation, Entrepreneurship and the Startup Community

The support, incubation and growth of a vibrant startup community both locally and provincially is key to future prosperity. Initiatives that encourage startup enterprises to have a long-term mission will produce the greatest results for the province. We support the Province creating conditions leading to sustained, generational wealth for new and existing businesses. Minister Higgs has consistently stated that New Brunswick primarily has a revenue problem and it will be these businesses that grow the Province's revenue. The intersection of entrepreneurship and innovation is the basis of success in Fredericton and is a model that can be replicated province-wide.

The chamber recognizes the important role of innovation and entrepreneurship in the development and growth of Fredericton's significant knowledge-based sector, and welcomes recent government investments to NBIF, NBRIC, and Planet Hatch amongst others. We acknowledge the role of innovation in driving improvements to productivity.

(b) Productivity and Wealth Creation

Value-added opportunities must continue to be a priority for the province, particularly in regards to potential energy projects. The Fredericton chamber continues to support the responsible use of natural resources, including exploration for shale gas and the construction of the Energy East pipeline. We suggest that the highest profile measurement for economic performance is the quantitative result of value-added production and the export value of refined products. The direct export of natural resources represents a missed opportunity to leverage the untapped advantages in the province.

"Canadians have been collectively incarcerated in a beguiling productivity trap for almost a generation. We work harder and harder, use up our natural resources faster and faster, while the trap keeps us less rich, less able to provide public goods and less competitive." Kevin Lynch, former clerk of the Privy Council, in the *Globe & Mail*. The erosion of Canada's industrial productivity [by which we mean the value of goods and services produced, per capita] is a significant issue of shared concern for both governments and business. Economic performance is of critical importance to New Brunswick, which exists in a highly competitive and globalized environment. New Brunswick borrows to subsidize the delivery of public services, and gains in productivity are essential to maintaining financial sustainability and a high quality of life for citizens.

The Fredericton Chamber of Commerce recommends a balanced approach to fiscal management, emphasizing changes to public and fiscal policy designed to create increased efficiencies within government services, and strategic investments and initiatives that will lead to sustainable wealth and job creation.

Improvements to productivity will require a strategic approach to many factors, including:

- population growth and the attraction of skilled workers, to grow the NB workforce;
- capital investment in critical infrastructure, including transportation links to export markets;
- A competitive provincial tax burden for businesses and individuals;
- Investment in higher education and a commitment to innovation [discovery, research and development activity] used to berate new opportunities and efficiencies.

We submit that the business readiness and community readiness sections that follow provide the pillars to achieve these goals.

Short- and long-term strategic planning is required for New Brunswick to fully take advantage of its economic opportunities.

III. BUSINESS READINESS

Both short- and long-term initiatives are needed to be incorporated into the annual budget process. Increasing the province's productivity and developing a sustainable economic environment are long-term goals, but we recognize that the Province is also facing short-term issues.

- (a) **Tax Burden** – Being cognizant that all businesses are impacted by the total true tax burden, ***we recommend that the provincial government restrict making short-term revenue decisions based on changing business' real tax burden through individual tax component changes.*** The budgeting process should identify the current actual tax burden and seek at a minimum not to increase this burden. This approach would assist in decision making and prioritization of strategies and implementation plans for business. A major concern for the chamber over the past 18 months has been the New Brunswick Drug Plan. We appreciate the minister of health's willingness to hear our concern in this matter and hope for a meaningful consultation process in 2014. We reiterate that for the foreseeable future, small- and medium-sized businesses cannot afford the cost of an additional payroll tax to partially fund this initiative.

We also recommend that the Province reconsider its position on lowering the small business tax rate. The tax burden is one of primary mechanisms that governments have at their disposal to create attractive economic conditions. We submit that New Brunswick's goal should be to have the lowest tax burden in Atlantic Canada over the next two to three budgets, starting in 2014 with an aim to attract new business, encourage startups and help existing businesses.

- (b) **Transportation** – Our economic development and growth, particularly under an innovation agenda, depends heavily on export and global market channels. It is therefore imperative that we have expanded transportation assets. The provincial budget should recognize and support key areas such as the Fredericton Airport's Community Air Access Strategy, strategic capital investment in road maintenance and expansion, and multi-modal shipping. Air access in particular is hindering local entrepreneur market access as well as foreign direct investment in New Brunswick. ***We recommend budget decisions that will directly impact this region's transportation assets. All infrastructures should be maintained and advanced through a strategic plan and investment horizon of at least five years.***
- (c) **Human Capital and Skills Set Development** – Business readiness in relationship to human capital requirements has both a short-term view and that of longer-term investments. A fully developed human capital strategy must also be supported by integrated population growth and education strategies, which follow in the next section.

In the near-term, attention needs to be paid to the isolated pockets of labour shortages or inadequate skill-set requirements. With a provincial unemployment rate hovering around 10%, the typical reaction is to address broad sweeping initiatives that can affect the masses. The reality is that we also need to develop short-term strategies to address skills shortages that exist in either a region or an industry. In the medium- to long-term, a prepared workforce will be essential for the province to take full advantage of economic development opportunities in energy, innovation or other emerging industries. A highly skilled workforce increases the competitiveness of business and industry and yields economic benefits to individuals and our economy as a whole.

We recommend that the government continue workforce expansion programs which support businesses in hiring new graduates - creating employment opportunities. Related, the Fredericton chamber supports the Province's efforts to curb the effects of the proposed Canada Job Grant which we understand will significantly affect the current Labour Market Agreements and Labour Market Development Agreements, in turn affecting the Province's ability to deliver effective programs such as the One-Job Pledge.

We recommend that the budgeting process identify and support such initiatives including skills-gap analysis and trending requirements; trade-specific intra-province rules and guidelines; and qualification and certification recognition.

In addition to a long-term vision and creating a modern economic ecosystem, the general population must also be positioned for success.

IV. COMMUNITY READINESS

Along with ensuring that that New Brunswick's economic ecosystem is primed and ready to grow and take advantage of potential opportunities, the province's population must also be prepared on a number of levels.

- (a) **Population Growth** - Immigration represents the most obvious opportunity to turn the tide on a declining population caused largely by the outward migration of our young skilled workers and aging population, but we must also focus on the retention and repatriation of native New Brunswickers. Successfully retaining our youth, curbing outmigration trends, and attracting newcomers requires the co-operation of all departments and stakeholders. The key issue throughout this brief is economic growth in the province. Immigrants will face the same pressures to leave the province as our current youth and skilled workers unless economic growth improves. In addition, the tax burden is limiting the ability of workers to return to the province. We recommend that the government review the stipulation that immigrants cannot buy into existing businesses through the Provincial Nominee Program. ***To facilitate this process, we recommend an investment in a structure in which immigrants could purchase a business and then be mentored by the seller for a period of time.***

In the 2012 Auditor General's report, it was noted that although the New Brunswick Immigration Investor Fund (NBIIIF) had been in existence for 19 months, at that time, no funds had been invested in economic initiatives as of March 31, 2012. ***We recommend that the board regularly review management's plan for timely investment of these funds.***

- (b) **Health** - In 2012, health funding made up 34% of provincial expenses. We acknowledge that the government has made great strides in reducing the amount of expenditures in this area in the last two years and understand that changes in financing and funding are continuing to be made to this department.

We recommend the continued advancement of a community health clinic in the downtown Fredericton core and recommend that the government provide funding to establish such a clinic immediately. When announcing the commitment of \$200 million in renovations for the Dr. Everett Chalmers Hospital in Fredericton on 22 November 2013, Minister Fleming stated: "The heavy lifting is over. This is a classic turnaround. We are ready to start investing now, back into health care.... We are in the health-care business with efficiency, with a new sense of purpose" and "We've got our house in order financially..." Community Health Clinics represent the most efficient and cost-effective mechanism of providing health care that is available. The planned clinic in Fredericton would reduce and prevent the overload of persons attending the hospital emergency room while taking some of the structural and resource pressure off of the hospital as a whole along with other resources. We also agree with the recommendations that this clinic be easily accessible to the public, have adequate evening hours to accommodate shift work employees, persons with young children, and other persons in need of after-hour clinics.

(c) **Education** – New Brunswick’s educational institutions are deeply engaged in communities, socially, culturally and economically. Intertwined with human capital and skills development, New Brunswick’s education system, particularly post-secondary education must be managed to prepare its citizens for current and emerging industries within the province. In order to reap the maximum benefit from the emerging energy industry, our post-secondary institutions must prepare citizens to fill related positions as well as positions in secondary industries that will consequently grow. In Addition, primary, secondary and post-secondary institutions in the province must prepare the population for the challenges ahead with an emphasis on entrepreneurship, research and development and innovation. The current funding model for post-secondary institutions is based on a 30+ year old formula that the institutions themselves don’t fully understand and do not maximize its potential to positively affect the province’s skills gap. ***We recommend that post-secondary education institutions be incentivized to more aggressively develop programs and faculties that support innovation, entrepreneurship, and high-grow potential industries.***

New Brunswick ranks third highest in spending on education in the country at 6.6% of GDP. The recent decision to provide universities with multi-year funding, will enabling them to plan for the future with a greater degree of certainty and commitment. ***We recommend that the same measures should be taken with our college system in New Brunswick.***

Now is the time for tough decisions to limit government spending in certain areas coupled with strategic investments in economic development.

V. CLOSING

The chamber appreciates the opportunity to be heard during the annual budget process and the minister's engagement with all of the various stakeholder groups in the province. The recognition that each of our organizations ultimately has a common goal – making the province economically vibrant and sustainable will pay dividends. Maintaining a business-friendly province is a key component of this goal. Balancing fiscal responsibility with reasonable growth and development targets is a challenge that will require difficult and perhaps unpopular decisions. With the highest national increase in federal transfer payments this year, a downgraded credit rating and unemployment rate hovering around 10%, it is no secret that New Brunswick is in economic trouble.

The Auditor General's stated in her 2013 report that "Although recent government efforts to control spending are noteworthy, it is not enough. The Province still has a structural deficit. In general, to correct a structural deficit, expenses or services/programs need to be reduced, revenues need to be increased, or some combination of the two need to occur. Continued fiscal diligence is required in government policy and decision making to improve the fiscal health of the Province".

We submit that the recommendations in this document as summarized below support the statement above. The government must continue to find efficiencies, but more importantly, strategically support initiatives that will grow the province's revenue on a short- and long-term basis:

- ***That the provincial government restrict making short-term revenue decisions based on changing business' real tax burden through individual tax component changes.***
- ***That the Province reconsider its position on lowering the small business tax rate.***
- ***That budget decisions which will directly impact this region's transportation assets. All infrastructures should be maintained and advanced through a strategic plan and investment horizon of at least five years.***
- ***That the government continue workforce expansion programs.***
- ***That the budgeting process identify and support initiatives including skills-gap analysis and trending requirements; trade-specific intra-province rules and guidelines; and qualification and certification recognition that help close the province's skills gap.***
- ***That there is an investment in a structure which immigrants could purchase a business and then be mentored by the seller for a period of time.***
- ***That the New Brunswick Immigration Investor Fund Board regularly review management's plan for timely investment of funds.***
- ***That the government provide funding to the planned community health clinic in the downtown Fredericton core.***
- ***That multi-year funding scheme applied to universities be applied to the college system in New Brunswick.***
- ***That post-secondary education institutions be incentivized to more aggressively develop programs and faculties that support innovation, entrepreneurship, and high-growth potential industries.***

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