

BC CHAMBER OF COMMERCE

*Presentation to the Standing Committee on Finance
And Government Services*

**BC CHAMBER
OF COMMERCE**



Abbotsford, October 6, 2006

BC Chamber of Commerce

The Chamber is a volunteer, not for profit association, which serves its members as the provincial federation of autonomous community chambers of commerce/boards of trade and corporate members.

The Chamber represents the views of 130 chambers of commerce and boards of trade, representing over 31,000 businesses of every size, sector and region of the province. As such the Chamber truly is “The Voice of BC Business.”

Known to be in operations as early as March 1867, the Chamber was re-established in 1951 with a mandate to:

- Develop a true cross section of opinions of the British Columbia business community
- Present members’ opinions to the provincial and federal governments
- Promote trade and commerce
- Improve the economic and human well being of the people of British Columbia

The Chamber performs these roles through a strong advocacy platform based on a unique policy development process.

This policy process has been highly successful at generating innovative policy solutions through local evidence-based analysis as well as information and judgments about the needs of communities across the province as well as the values of influential stakeholders and community members. The understanding that it is only through the direct input of local chambers that the chamber develops policy recommendations has come to a growing realization by the media, public and by government that the chamber is the organization able to continue to offer real solutions to real challenges facing business across the province.

Given our mandate – to advocate a policy framework that promotes a healthy and vibrant economy in which all British Columbians can grow and prosper – we are very pleased to be able to make this submission to the 2006 Standing Committee on Finance and Government Services.

Introduction

The provincial government Budget Consultation Paper outlines a clear message, “What Choices Would You Make?”

The Chamber believes this is a critically important message as the choices made in Budget 2007 will have profound implications for the future economic prosperity of the province.

With an increased surplus will come increased pressure on government to increase spending, as such a cornerstone of the Chambers comments will focus on the need for prudent fiscal management.

While the government is legally committed to balance the budget we must be clear, prudent fiscal management does NOT mean program spending can be above the rate of inflation within a balanced budget.

During the 1990’s the challenge facing British Columbia was clear. The need to cut taxes, reduce regulation and balance the labour code were widely agreed to be essential to the provinces ability to grow and to attract new investment. Since then many of these “big ticket” issues have been addressed but this success brings its own challenges as the province faces new pressures, both domestically and internationally. Indeed our ability to sustain our current economic growth is likely to present even more complex and problematic challenges given that responsibility for many of these issues rests beyond the provincial government’s sphere of influence.

The rise of new industrial powers in China and India, in particular, as well as the dynamic created by the creation of new free trade areas subjects all economies to new efficiencies and new competition. The task for the province is therefore simple; we need to protect our current strengths and develop new basis for competitive advantage.

With the release of the Provincial Governments First Quarterly Report for 2006/07 the Finance Minister announced a stronger economic outlook than anticipated for 2006 that will see the provincial surplus rising from \$600 million to \$1.2 billion.

This improved economic performance, which has also seen revenue rise by just over \$1 billion, is offset by the identification of significant challenges that lay ahead, many of which are outside the provinces ability to control.

Natural resource revenue continues to be volatile with natural gas alone \$774 million down on Budget 2006 forecast. The province also sounded a note of caution regarding BC’s forest industry pending a better understanding of the impact of the softwood lumber deal. While the government recognizes that the certainty the deal provides to the industry is welcome the impact of lower lumber prices could have a significant impact on revenue.

Staying the course on Fiscal Responsibility

During periods of strong economic growth it is critical that government maintain a commitment to balance and prudence in its decisions regarding public financing. The Chamber believes that this can be achieved while making strategic investments to produce an economic and fiscal framework to encourage long term, inter-generational growth.

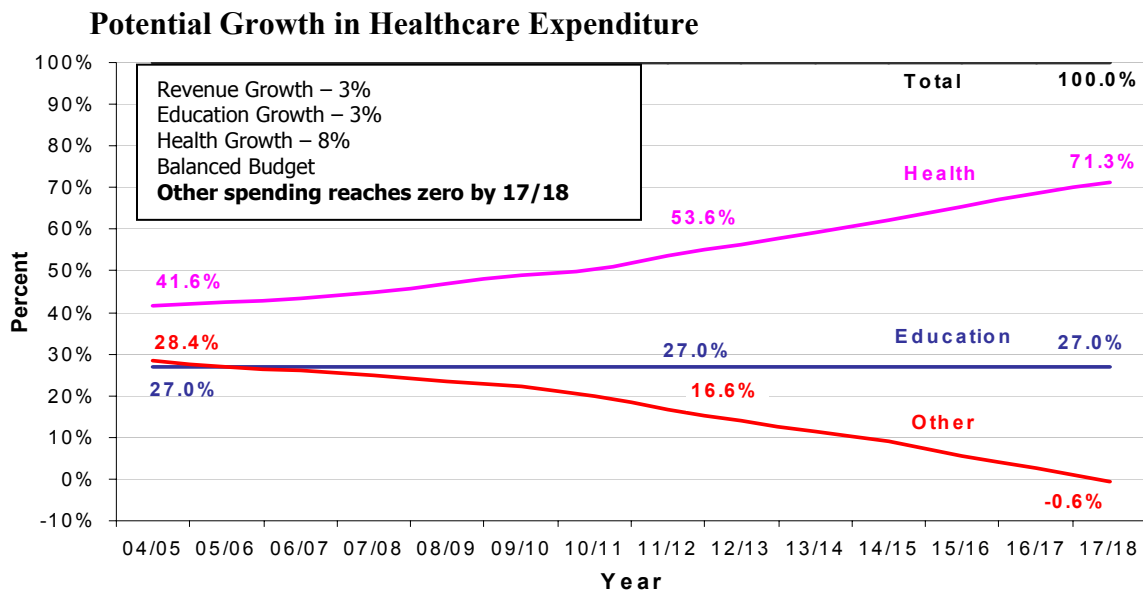
Controlling Public Spending

The chamber remains committed to ensuring that government keeps public spending firmly under control. We noted with some concern that total government spending increased by \$722 million more than originally budgeted in 2006. While we accept that this increase was driven by very specific circumstances and therefore does not indicate a trend, it is worrying all the same for the simple reason that increased public spending can become a vicious circle. Increases in public spending feed greater expectations; this in turn generates the need for further revenue; which results in calls for increased spending.

As such the Chamber recommends that public spending be capped to increase by no more than 3% per annum, in line with the projected growth in the economy and the population.

Healthcare is the key to controlling public spending.

In the Quarterly Report the government indicated that health authorities have already set their stall out for increased funding, despite having an additional \$2 billion invested since 2001.



As demonstrated above if we continue to spend on healthcare at the 8% increase we saw last year by 2017 a full 71% of the total provincial budget will be spent on healthcare with 27% on education.

While we realize there are several assumptions in the above graph that are far from certain it does demonstrate a simple truth - we simply must realize that pouring more money into the system is not the answer; it is a recipe for disaster.

The Chamber welcomes the provincial governments recently announced “Conversation on Health” as a valuable forum to address the unsustainable nature of spending on healthcare and the need for fundamental structural reforms to be undertaken.

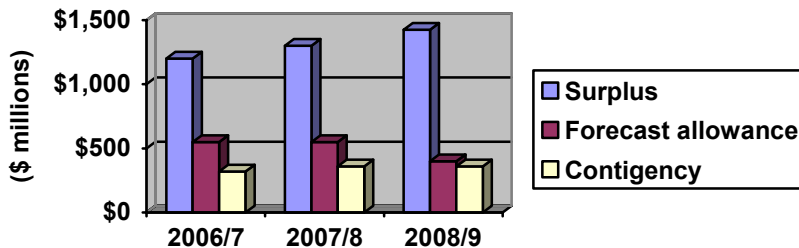
The Chamber recommends that the government resist calls for increases in health spending above the rate of inflation until the Conversation on Health is complete and a comprehensive plan for the long term sustainability of healthcare in BC is developed.

Surpluses

We would like to take the opportunity to commend the government for its continued commitment to fiscal responsibility, to its focus on reducing taxes, balancing the budget and eliminating costly regulation. The actions taken by government in this regard have laid the necessary foundations for the positive economic climate currently being witnessed across the province.

Prudent fiscal management has put the province in the enviable position of forecast surplus of \$1.2 billion this year. Following the revised forecasts of the September Budget Update the government now estimates the surplus at \$1.3 billion next year and \$1,425 billion for 2008/9.

Balanced Budget Plan



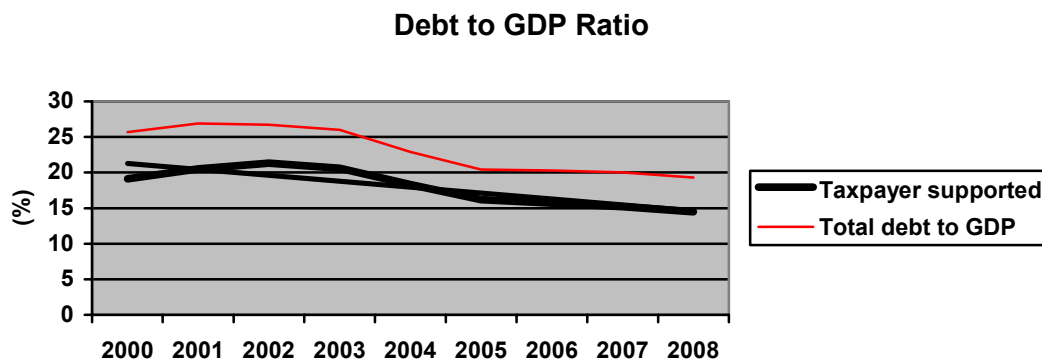
Since the province has moved to a situation of structural surpluses the chamber has been a strong voice of caution regarding the inevitable calls for a substantial increase in government spending. While the Chamber understands and accepts that the government has a responsibility to ensure adequate funding of the key social programs cherished by British Columbians we continue to urge government to ensure we mitigate the debt burden we saddle future generations of British Columbians with.

Debt

Key to ensuring long term growth and prosperity will be addressing the debt burden we leave to future generations. Although the government must be commended for its sound fiscal management which has seen Moody's Investor Services upgrade BC's debt rating to its highest possible rating Aaa, taxpayer supported debt remains a concern.

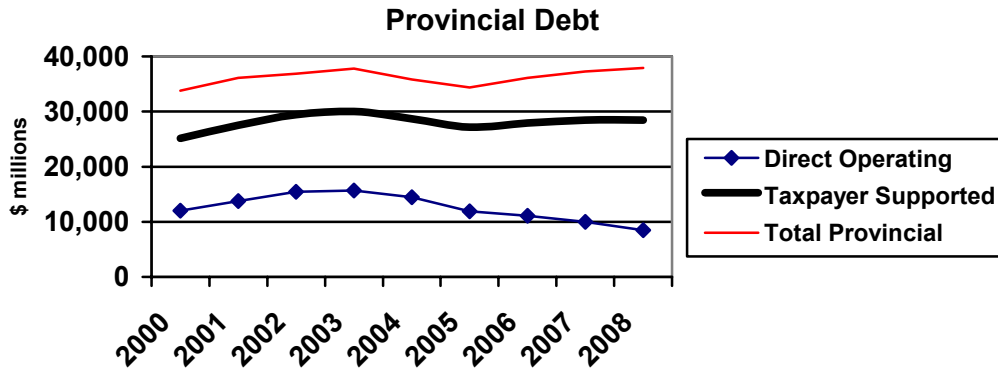
The key with debt is that it be affordable. As with any business or household, can we afford what we borrow? The key measurement here is taxpayer supporter debt to GDP. This covers the amount of debt that is ours as tax payers in relation to the amount of money the province earns from economy activity. In short as the economy grows so will provincial revenue, this enables the province to afford to borrow more. As we can see from chart 2 the important thing to note is that this figure is going the right way, down. Both the taxpayer supported debt to GDP and the total debt to GDP ratio is set to fall, with taxpayer supported set to fall from 16.2% this year to 15.2% by 2007/8 and down to 14.5% by 2008/09. We will also see total debt to GDP fall from 20.7% to 19.3% by 2008/09.

Graph 1



However this is not the full story regarding debt. The debt to GDP ratios outlined above are dependent on the health of the economy, while GDP is growing at a healthy rate the province can afford to carry more debt. However, this does not tell the story regarding what debt burden will the province pass on to future generations, this is shown by graph 2 which outlines the total provincial debt burden.

Graph 2



The two debt measures that are heading in the wrong direction are taxpayer supported debt and the total provincial debt burden. While this is a concern it is not yet a worry.

The focus for the chamber will be to ensure that the correct debt measurements continue to go in the correct direction. It is neither advisable nor realistic (despite what Alberta may say) to think BC could, or should, have zero debt. There is a need for investment across the province - the key is to ensure that we can afford what we borrow.

The nature of surpluses are such that it is dangerous to direct these revenues to program spending as they simply increase government spending in future years thereby reducing our ability to cushion the economy against unforeseen challenges. The benefit of utilizing the surplus to debt reduction is that it actually frees up sustainable revenue that government can reinvest without risking the economy.

The Chamber recommends that the government direct the surplus, along with all unused reserves and contingencies to paying down the provincial debt.

We would also recommend that the government take debt repayment out of the normal budget process by introducing legislating that will ensure that debt repayment is removed from political interference and short term priorities overriding the importance of reducing the debt burden we are leaving our children by laying out long term debt reduction strategy.

Fiscal Policy

During strong economic periods of growth it is critical that government invest in producing the economic and fiscal framework to encourage long term, inter-generational growth. Key to this is a competitive taxation regime.

The chamber commends the government on its action to reduce the taxation burden. The strong focus shown by this government has resulted in BC enjoying a competitive taxation regime compared to other provinces (while lagging Alberta we are at least within sight) and in relation to many other North American jurisdictions.

There is no room for complacency. Now is the time for government to develop a comprehensive plan that addresses our tax competitiveness on a short, medium and long term bases.

Long term

The chamber believes it is critical that the government continue to review the personal and corporate taxation rates compared to competing jurisdictions and to ensure that over the long term BC maintains, or improves upon, our comparative position.

Medium Term

Over the medium term our members have been clear that given our relative competitiveness with competing jurisdictions on personal and corporate tax the priority for the government must be a focus on addressing many of the structural/sectoral anomalies that detract from our competitiveness and our ability to attract investment.

Local Government Taxation

The size of business community's contribution, along with the complex nature of the local property tax system, is now recognized in many communities as the single biggest impediment to economic development and attracting new investment.

In addition property tax is not the only cost incurred by business at the local level. The business community is also the target for Development Cost Charges and municipal licence fees, both of which the municipal government have significant latitude to set with no recourse for the business community.

This is to say nothing of the charges incurred at the regional government level.

It must also be noted that as the province looks to accommodate the increasing demands from regions/municipal levels of government for more local control over transportation this too will incur costs for the local taxpayer, primarily the business community.

The Chamber recommends that the government undertake a fundamental review of the local property tax system with a view to establishing a system that is fair, equitable and reflects the true cost of service for each taxpayer group.

In the absence of an immediate review the Chamber recommends that the government provide immediate relief to the business community by announcing a reduction in the School Tax.

Provincial Sales Tax

Lowering the sales tax puts disposable income into the hands of consumers and encourages spending across the province in a wide range of products and services.

While BC has the joint lowest sales tax of any province that levies a sales tax we are far behind Alberta who have eliminated sales tax altogether. The Chamber feels a structured program to reduce sales tax should be a high priority for the government for a number of reasons.

The chamber has always advocated for a taxation system that allows more of an individuals earnings to remain in their pockets. This acts as an incentive to drive savings, while also ensuring that individuals are attracted to the province by a tax system that is competitive with our competing jurisdictions by ensuring that the income they earn can be used to better their standard of living.

While it is true that much of the above can also be driven by reducing personal income tax, a further lowering of the sales tax by 0.5% per year reduction in the PST would also go a long way towards helping the many communities along the BC Alberta border who are facing the significant challenge of trying to stem cross border shopping trips that take significant money out of the local economy.

The Chamber recommends the provincial government, on the expectation of a continued operating surplus, reduce the PST by a further 0.5% per annum with a long term goal of 4.5% PST.

Property Transfer Tax

We have witnessed a resurgence in the residential housing industry that has significantly boosted economic activity in regions across the province. However it would be wrong to assume that this will continue indefinitely, government must be proactive in stimulating continued activity in this critical sector.

BC is one of the few jurisdictions to charge a capital tax against the purchase of residential homes, namely the Property Transfer Tax (PTT). While the provincial governments has taken steps to phase-out, or eliminate, capital taxes such as the Corporate Capital Tax, the PTT still exists

The Chamber therefore recommends that the provincial government either immediately eliminate or implement a program to phase out the PTT in order to boost the residential construction industry and to eliminate a purely capital tax.

Successful Tax Credit Programs

The Chamber has been consistent in its support for government support through tax credits where they can be shown to be either necessary to level the playing field for BC industry, or where there can be demonstrated a return on the investment to the province.

The Chamber believes that several of the existing tax credit programs have been very successful and are therefore worthy of extension. These are;

- Film and television tax credit
- Mining Exploration Tax Credit
- Production Services Tax Credit
- Scientific Research and Experimental Development Tax Credit

Short Term

In terms of immediate achievables the Chamber believes there are a number of taxation/administrative measures that could be easily instituted that would have a dramatic effect on the competitiveness of the business community without a significant impact on provincial coffers.

Harmonization

The federal government levies the Goods and Services Tax (GST) on most property and services supplied in Canada. The province of BC levies the Social Service Tax (SST) on most goods and services supplied in BC. Most businesses operating in BC are required to collect, record, report and remit GST and SST on taxable sales of goods and services. Each government has its own audit processes, with the related necessity to maintain and store records.

This imposition of two levels of tax creates significant and unnecessary costs for businesses in BC. These are costs that, unlike the taxes themselves, add nothing to government revenues.

The federal government has indicated willingness and a desire to enter into agreements with the provinces to harmonize the GST with provincial sales taxes. To date, the provincial government in BC, more for political than economic or revenue generation reasons, has rejected the federal initiatives towards harmonization.

The Chamber recommends that the government commit itself to moving quickly to reaching agreement with the federal government for the full harmonization of the SST and the GST, including the harmonization of the collection, reporting and remission of the GST and SST and the related audits.

Capital Tax on Large Financial Institutions

Capital tax is a particularly onerous form of taxation as it plays a direct role in hampering investments on both a local and international scale. As such the Chamber believes it is critical that government immediately take steps to eliminate the capital tax on large financial institutions.

While it may seem that large financial institutions are an easy target given the perception of huge profits the existence of a 3% capital tax simply results in banks either not choosing to invest in BC in favour of Alberta (no tax) or Ontario (currently 1% with a stated policy of phasing the tax out), or actually moving existing operations (and jobs) to these jurisdictions.

Cost \$100 million

PST on Hotel Consumables

As the province looks to expand tourism's contribution to the provincial economy with the goal of doubling tourism revenue to the province by 2015 the Chamber believes that for a small investment the government can have a significant impact on increasing the ability of the industry to maximize revenue while allowing for increased reinvestment in their facilities – ultimately leading to higher revenues and visitor numbers.

The Chamber recommends that the government amend provincial legislation to introduce a PST exemption for in-room consumables to bring the industry in line with those of manufacturing industry exemptions.

Cost \$6 million

PST on Legal Fees

In BC legal fees are the only professional fees that are subject to the provincial sales tax. This is both discriminatory and unfair. This puts both the legal profession and Canadian business that access the legal system at a distinct competitive disadvantage to other jurisdictions.

The discriminatory nature of this tax was highlighted recently in a Supreme Court decision which ruled PST on legal fees are unconstitutional if charged to low income individuals. As a result of this ruling the Ministry of Provincial Revenue has confirmed that BC lawyers should exempt low-income clients from payment of the 7 % social service tax on bills for legal services to low-income clients, and has now issued guidelines in that respect.

The Chamber feels that this does not go far enough and therefore recommends that the government should amend the Social Services Tax Act to remove the 7% PST on legal fees in BC.

Cost \$115 million

Skills

Skills must continue to be the focus

The chamber was the leading voice calling for the introduction of the Training Tax Credit introduced in Budget 2006. Upon further work by the chamber to design the actual credit system it became clear that while a welcome start \$30 million a year for 3 years will be insufficient to address the sheer scale of the issue.

The chamber therefore recommends that the government introduce a review mechanism that be initiated after year one of the program to review the take-up. The Chamber also recommends that the government create a fund to be used in the event that the program is found to be oversubscribed to the degree that it is affecting employer's ability to provide training, or that it be found to be excluding employers for lack of funds.

Cost – dedicate fund of \$60 million to be spread over 2007/8 – 2008/9. To be dedicated to debt reduction if not utilized.

Education is the key

The future prosperity of the province and therefore our ability to invest in the future health of our people and communities rests on education. Unfortunately many British Columbians are being denied access to post-secondary education due to financial restrictions. This is not a situation where the chamber asks for government to fund the cost of education, students are willing to pay but require government assistance to access the loans needed to finance their education.

As such the Chamber recommends government review the student loan system to change the restrictions which apply to students with poor credit, providing appropriate due diligence measures have been taken; increase the amounts available for student loans to reflect the true cost of education; change the funding formula to ensure amounts available are no longer tied to number of weeks on a course.

Co-operative Education Tax Credit

A province-wide co-op infrastructure is already well established. Co-op Education programs exist in every region of BC, and are currently offered in 23 post-secondary institutions.

In 2000/01, private employers created approximately 5,600 co-op placements in BC for BC post-secondary students. In 2004, that number had declined more than 25 per cent to approximately 4,100. During that same period, the provinces of Quebec, Ontario, and Manitoba recognized the need to stimulate the employment/economy cycle by initiating co-op tax credits to private employers to employ and train students.

The chamber recommends that the provincial government introduce a co-op tax credit to BC business employers equal to 15% of wages paid to qualified co-op students for work placements, with tax credits capped at \$1,500 per student for each co-op work placement.

Cost - Based on 4,100 co-op placements in 2004, the maximum annual cost of this proposal to the government would be approximately \$6 million.

Immigration is the missing piece

While the Chamber largely agrees with the CD Howe Institute¹ that increased immigration alone is not the panacea to our looming labour shortage, it must be stated that short of a major increase in the productivity of our workers, a proactive immigration program presents the single most potent tool to address the need for significant levels of new workers.

The numbers speak for themselves as to the need for skilled labour injection into Canada to maintain a competitive business climate. With the advent of baby boomers starting to retire, there will be a net increase in need of positions in both the white and blue collar sectors. In BC alone we will see province's labour force participation rate fall from 72.8% to 67.3% by 2015. Perhaps more worrying still is that this shift will occur as the province creates 1,000,000 new jobs over the next 12 years, with only 650,000 students in B.C. finishing grade 12 during this time frame.

It is essential that Canada have a proactive immigration policy, that is not only able to compete with other jurisdictions but also gives potential immigrants assurance that their applications will be processed in an efficient manner within a reasonable and predictable period of time. Otherwise, they will look to other countries.

The provincial and federal level of government must take a coordinated approach to addressing this critical issue. Areas the Chamber believe must be immediately addressed are further increases to the capacity of the provincial nominee program to provide the ability to increase capacity to attract new immigrants in all classes, the immediate creation of the national foreign credential centre, the need to provide education overseas to better prepare immigrants for integration into Canada, the introduction of a flexible two-year Working Holiday Visa Program, and a shift of resources away from processing family class immigrants to cut the wait time for skilled and economic immigrants from its current 18-24 months.

Quite simply without action in these areas the current immigration system is not capable of attracting the ready-to-work immigrants with the required skills base to B.C. in a timely manner.

The Chamber recommends that the government work with the Council of the Federation to lobby the federal government to undertake a fundamental review of the Canadian immigration system to ensure that the immigration system and process meet the needs of the economy.

Further to this the Chamber also recommends that the province work with the federal government to further enhance the Provincial Nominee Program to increase the number

¹ **No Elixir of Youth: Immigration Cannot Keep Canada Young**, CD Howe Institute.
<http://www.cdhowe.org/index.cfm>

of skilled workers accessible through the program, as has recently been done for entrepreneurs.

Investing in our future

Infrastructure Investment

The provincial government has been consistent in its commitment to a significant capital infrastructure investment program. While this investment is necessary to address a long history of underinvestment the focus for the chamber will be to ensure that investment does not impact the need for debt reduction to remain a priority of the government.

While it is acceptable to borrow to build, this does not give the government carte blanche to spend on every project that catches a bureaucrat's eye. The Finance Minister announced that departments have been ordered to lay out their 10 year capital plans; these will then be reviewed to determine what is affordable. This is an important initiative and one the Chamber has been disappointed not to have seen materialise.

The Chamber has been a strong supporter of the governments investment in the critical infrastructure of the province from Prince Rupert through to the Lower Mainland Gateway Project and the recent announcement of funding for Kitimat bulk terminal facility the chamber continues to urge the government to remain cognizant that this commitment is simply a down payment on our ability to serve as Canada's Gateway.

The Chamber will also continue to urge the government to focus on areas where a return on investment exists in the sense of economic growth as an essential element in determining which projects are financed. This is particularly important for communities outside the Lower Mainland where local economies have developed and grown on the strength of our natural resources. In order to continue growing we will need to facilitate access to and development of our considerable natural resources. Access to resources is the first step. Access from a permitting and regulatory perspective is being addressed, what we need is physical access, and infrastructure.

The Chamber recommends that in areas where no infrastructure exists the BC government needs to approach this lack of access as an investment in our future.

We would also urge the government to enhance its use of P3's, or Public Private Partnerships. The key to P3's is their ability to transfer some of the cost of capital investment along with some of the risk to the private sector. If done properly (and following best practices from around the world there is no reason to believe BC could not become a world leader) P3s are a merger between the government and the private sector over a project involving a publicly owned commodity, with both sides sharing the risks and the benefits.

The chamber recommends that the government publish the capital investment plans of all government ministries prior to committing any public funds.

Conclusion

The Chamber recognizes the significant progress made in the economic health of the province over recent years. However, the Chamber also recognizes that the current economic prosperity of BC is built on a base that is subject to significant pressures and challenges, many of which are outside the province's ability to control or influence.

With that in mind the Chamber believes that now is not the time for reckless calls for unsustainable increases in government spending.

The Chamber calls on the government to commit to continuing its tradition of fiscal responsibility in Budget 2007. Further the Chamber believes that now is the time for government to produce a visionary plan for the development of long term, inter-generational growth that builds on our strengths while looking at diversifying the economic base of the province.

The Chamber realizes that we have laid out an ambitious plan. However, in the same way that the government now lays out 3 year budget plans the chamber sees our plans as long term, we realize that they cannot all be achieved in the 2006 Budget but the foundations can be laid and the principles can be adopted.

In conclusion the Chamber believes that the answer to the four questions posed by the Consultation Paper can be summarized as follows;

1. Don't overspend
The additional money we get from a vibrant resource sector provides government with a strong fiscal platform, but doesn't make our challenges go away all of a sudden.
2. Don't raise taxes.
A legislative requirement to balance the budget combined with intense public pressure to increase public spending leads to a temptation to believe that there is public support for an increase in tax to boost public spending. Increasing tax would only hamper efforts to generate the economic and business growth needed to help expand and sustain the tax base in the future; and
3. Keep debt affordable
The ability of future generations to enjoy a high standard of living will be driven by the level of debt we leave future generations. The Chamber also believes that while government has the fiscal capacity it is incumbent on them to use this capacity to reduce the debt burden we leave to future generations
4. Make strategic investments
Government must invest in areas that are tied to the province's productivity and competitiveness – things like infrastructure, education and skills, initiatives aimed at boosting investment and business activity, and fostering innovation.

For further details on the full range of recommendations of the BC Chamber we would draw your attention to our 2006-07 Policy Manual, copies of which have been distributed to your offices.