



**FREDERICTON
CHAMBER
OF COMMERCE**

— *The Voice of Business* —

364 York Street, Suite 200
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2019-20 Budget Priorities: Finding Strategic Balance

Presented to the Honourable Ernie Steeves
Minister of Finance,
Province of New Brunswick

Fredericton Chamber of Commerce
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Introduction: A Cohesive Tax/ Debt Management/ Economic Development Strategy

New Brunswick's provincial finances and economy are in a precarious position and their symbiotic relationship means that government decision-makers will have to make thoughtful, deliberate and frequently difficult decisions in the coming years. The capital budget delivered at the end of 2018 makes it clear that this government is willing to make unpopular choices - we encourage this same attitude when delivering the operating budget later this year.

As we have advocated extensively, New Brunswick requires leaders that not only understand the difference between spending and investing but are also willing to act on that knowledge. This kind of restraint is required not only to provide the services that New Brunswickers need and deserve, but also to be able to create the competitive business environment that business needs to thrive. Without consistent and sustainable economic growth, any other positive decisions made by your government will be for naught.

In other words, the relationship between the Province's finances, its ability to deliver services and economic development are symbiotic and inextricably linked. It's one of the reasons our organization's vision is *Stronger Community Through Business Prosperity* - a concept that we believe is equally applicable provincially. What flows from here is that the Province must carefully balance its current short-term revenue needs with its long-term growth needs - viewing decisions (at least in part) through a business lens. "Is this likely to increase or decrease economic growth?" is a legitimate question to ask for every decision. That question won't always be determinative but going through the exercise would help public servants understand and appreciate the relationship described above.

This relationship also means that tax policy is the best economic tool we have available. When viewed in this context, every dollar spent by your government is relevant to the business community. The less the Province can spend today, the more breathing room it has to improve business conditions both now and into the future (and to reduce debt and provide services). As a starting point, the government should review what services it currently provides and decide if each is a core area of government. If not, consideration should be given to whether government should continue to deliver a particular service and/or whether the private sector is a more appropriate.

New Brunswick not only needs to be open for business - it has to let the world know. Between our high taxes, an unwillingness to develop natural resources and the lack of private sector capital investment is a signal from companies that there are better places to do business. This has to change. And change



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dramatically if New Brunswick ever hopes to be a “have” province. We are too far behind other jurisdictions economically to aim for average, we have to do much better than that in order to close the gap.

Recommendation: develop a cohesive tax / debt management / economic development strategy.

Recommendation: engage the business community and other stakeholders to develop a plan to communicate the urgency of New Brunswick’s fiscal situation to the citizenry.

A Business-Like Lens

Government can’t run exactly like a business - there are different priorities, responsibilities and pressures. However, there are lessons the government can learn and apply from the business world that would be beneficial to all New Brunswickers:

Run operations and departments efficiently - not all policy decisions can be made based on business principles, but the implementation of policy through governmental departments and civil servants should be delivered in a business-like manner. The best source of ideas for finding savings within the government will come from current civil servants. Those who work in the system everyday have the most specific and actionable information on where the Province can save. Anecdotally, one of the primary causes of demoralization within the civil service is that their ideas are not given proper credence by supervisors or political leadership. Implementing ideas generated by this group therefore has the twofold benefit of saving expenses while enhancing a culture of employee engagement, increasing morale.

Debt Management - it is normal for governments, businesses and individuals to carry some debt. Credit can be a useful when managed properly, but when accumulating more and more debt becomes the norm, it is hard to pull out of that cycle. New Brunswick is beyond the point of paying one credit card with another - our credit rating is teetering; increased interest rates are looming and growth is marginal. If New Brunswick doesn’t decide to tackle its deficit addiction, someone else will decide for us.

There are three primary ways to balance the books - raise taxes, reduce expenses or grow the economy. New Brunswick individuals and businesses are already being taxed beyond capacity. With the increased rate of spending over the past decade, there are surely opportunities for savings on the expenses side - but the real opportunity (and the only sustainable one), is to increase growth.



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Results-oriented decision-making - “what isn’t measured isn’t managed” is a common phrase in the business world. From the outside, it appears too often that government policies, decisions and programs are created or continued for reasons other than their effectiveness accomplishing the stated goal. As an accountability measure, we call for greater transparency in decision-making processes, such as publicly releasing economic impact reports where available, particularly when costs to businesses or citizens can reasonably be expected to be impacted.

Recommendation: apply business-like principles to decision making, delivery of services and implementation of policy of all departments and programs, including social programs – if a program is not achieving results, it must be abandoned or altered. This would also include not undertaking what the province cannot afford (as Premier Higgs has stated publicly concerning matching funding from the federal government) and increase cross-departmental communications to avoid unnecessary duplication.

Recommendation: communicate to New Brunswickers why reducing the debt and deficit is important. Our annual interest payments are around \$700 million. That means we are paying about \$80,000 an hour in interest on services that we received in the past - \$80,000 we don’t have to hire nurses, reduce taxes or manage our infrastructure.

Recommendation: incentivize public sector employees to exceed savings targets through process improvement and efficiency best practices, with associated savings being used to reduce the provincial debt.

A Comprehensive Tax Review

People, capital and many business operations are all highly mobile today. Our province is already struggling with that very issue as we feel the pull to other parts of the country that otherwise have a better economy and more opportunities for people and businesses. The province’s current economic growth plan has identified the lack of private-sector capital investment is a major drag on our economy. This was before WorkSafeNB rates skyrocketed, CPP and minimum wage were increased, a new statutory holiday was introduced, or of course, before the pending carbon tax is implemented. These costs are on top of being one of the most highly taxed jurisdictions in North America. The one cost advantage we clearly have in New Brunswick is labour, but there isn’t enough of it. Simply put - New Brunswick businesses are struggling to compete.



It is evident from the ever-increasing complexity of the tax code that tax policy has become a political tool at the provincial and federal levels. The latest example is the introduction of Bill 9 to the legislature in December. The Bill in and of itself does not comply with tax policy best practices across the country, but perhaps more worrisome is that it is being presented out of context of the very report used as the basis for its introduction¹. The report actually calls for a full review of the province's property tax regime, not to tax equipment and machinery as another one-off tax change. There is no chance that more tinkering and cherry-picking certain parts of the tax code will lead to a more comprehensible tax policy.

Recommendation: a full review of the province's tax and fee structure with a view toward cohesiveness, competitiveness and economic growth.

Example: use the province's craft brewing industry as an exemplar of the uncoordinated nature of provincial policy - tax and ANBL policies are stifling the growth of one of the province's most promising sectors. The industry had seen tremendous growth over the past decade, which is now being capped by misaligned policy.

Post-Secondary Education, Innovation and the Startup Sector

Post-secondary educational institutions are not only credential-granting bodies - they are also the hub of entrepreneurship, innovation and skills-acquisition in our communities. They are much more than an extension of the province's K-12 system - they are the centerpiece of our 21st century economy and one of the safer investments a government can make in terms of return on taxpayer investment. In fact, UNB's economic impact was recently studied: "It shows that for every \$1 spent on UNB, students, society and taxpayers more than double their investment: \$2.80 is returned in lifetime earnings for students; \$2.80 is returned in added provincial income and social savings for society; \$2.10 is returned in added taxes and public-sector savings for taxpayers."² The GDP impact is significant and sustainable.

Particularly in Fredericton - the knowledge economy heartland - a healthy knowledge sector is critical to our role in creating wealth for New Brunswick. This is perhaps the most promising avenue we have to grow our way out of debt. Successful companies like Radian6, Q1 Labs and Green Imaging Technologies along with promising startups like Simptek Technologies, Hotspot Parking and Resson Aerospace were

¹ <http://www.saintjohn.ca/site/media/SaintJohn/Kitchen%20&%20Slack%20Report.pdf>

² <http://blogs.unb.ca/newsroom/2015/10/07/unb-releases-study-showing-1-2-billion-impact-on-provincial-economy/>



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all beneficiaries of both their post-secondary institutions and Fredericton's clearly defined vision as being the entrepreneurial and technological hub of Atlantic Canada. Our post-secondary institutions are some of our most valuable economic development assets - they drive research and innovation, draw international students to the province, propel the technology sector and the startup community - in addition to providing highly-skilled training for our future employees.

International Students / Immigration

New Brunswick needs to grow its population, lower its average age, and increase the number of skilled workers to fill key positions that enable business growth. It is becoming an increasingly common occurrence that Statistics Canada labour force numbers in New Brunswick show both a loss of jobs and a lowering unemployment rate. This means we are losing people from the workforce in droves. It is a crisis.

International students are particularly desirable immigrants because of their age, skills and their economic impact (as both students and graduates).

Recommendation: develop and articulate your government's vision for post-secondary education, centred on the primary rationale for more post-secondary education funding being economic growth.

Recommendation: bring back a pre-SEED investment funding for highly scalable startup companies. Before going for first round of investment, cash burn rate for startups is very high - other jurisdictions can access funding to get to market and create jobs.

Recommendation: work with post-secondary institutions to promote New Brunswick as a destination of choice for international students.

Economic Development

Over the past several decades, the relationship between provincial and local economic development has been inconsistent and at times, ill conceived. Swinging between centralization and decentralization has ultimately led to a shift from government's role being expected to encourage and support economic development (such as through tax policy) to government being viewed as the decision maker and arbiter of which companies/sectors win and which lose - depending on the government and/or strategy of the day. The previous government's structure of the Jobs Board, the Department of Economic Development and Opportunities New Brunswick was confusing to business, as was the resulting Economic Growth



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Plan - although perhaps it is difficult to have a streamlined economic development regime without related cohesive tax / debt management strategies, as discussed above.

Recommendation: convene stakeholders to discuss how to streamline economic development, particularly vis-a-vis provincial/local agencies and what economic development in New Brunswick should look like moving forward.

Recommendation: develop economic development strategies that cater to strengths of urban and rural areas, with an emphasis on their symbiotic nature.

Conclusion

Premier Higgs stressed the urgency with which the Government of New Brunswick must act to get our fiscal and economic house in order. Our organization agrees. Focusing on what is and what is not a core area of government is a sensible starting point. From there, it becomes more apparent what is a government 'investment' and what is a government 'spend'. This focus will then allow the government to be leaner and more targeted and produce a cohesive tax-debt-economic development strategy.

The Fredericton Chamber of Commerce encourages all levels of government to make decisions with a business lens - allowing for and supporting economic growth. This is the only way our province can prosper - if business can continue to grow - which creates employment, supports other businesses in the supply chain, and provides revenue to all levels of government. Ultimately - growth and economic prosperity in our communities also makes New Brunswick a more attractive place to live and work.