



Budget 2015: Looking Forward

In 2015, Alberta determined a new mandate in the election of a new provincial government. The 2015 election took place in the midst of fallen oil prices, which are expected to recover slowly over the coming years. While economists have projected slower than typical growth, businesses are now looking to the future.

As Alberta businesses have always done, they are considering the opportunities for growth. They are reducing costs to ensure their operations are as lean as possible and they are making hard decisions on when, where, and how they will invest the revenues that they take in.

The provincial government must do the same.

The Alberta Chambers of Commerce has developed a roadmap to a fiscal environment that considers opportunities both today and tomorrow and creates a stable and predictable environment for 2016. Looking forward means government practices do not remain static. Instead, the government must be vigilant in implementing new and innovative practices and ensuring government funds are utilized efficiently. When operational spending is balanced, public spending can be strategically placed to meet the greatest needs of all Albertans.

The 2014-15 Alberta budget carried the first surplus that Alberta had experienced in 6 years. As 2015 ends and 2016 begins, provincial revenues will face a full 12 months of decreased oil prices and, as a result, limited revenues. It is necessary that the government take a measured response to the fiscal challenges that have developed to ensure that a balanced budget is achieved. This means it must continue to become more efficient in how it spends tax dollars even as it finds new sources of revenue.

Through such prudence, Alberta's fiscal position will improve, resulting in opportunities for us to invest in our future. We must look to make strategic investments in operational spending thus improving our economic outcome and facilitating future growth. Similarly, capital investments must be made strategically to position Alberta for growth.

A Roadmap to Looking Forward in 2016

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1. ENSURE THAT A BALANCED APPROACH IS TAKEN BY PACING OPERATIONAL SPENDING WITH POPULATION PLUS INFLATION

While our province always faces the uncertainty that comes from variable oil prices and exchange rates, we hope that our fiscal position will improve. This hope is predicated on the removal of key barriers to our economic success. For example, a persistent lack of tidewater access for Alberta's hydrocarbon products remains a dark cloud over the medium and long-term stability of the province's sustained economic performance.

Until these barriers are removed, the government must focus on utilizing all prudence in maintaining consistent operational spending.

Population growth has slowed, but only slightly, to 2.17 per cent since last year. Coupled with minimal job losses over the same period, Alberta's economy is expected to quickly regain its positive momentum. Transitioning that momentum into long-term economic stability must continue to be a priority for the Government of Alberta to ensure Alberta remains a human capital destination for those both within and outside of Canada.

Considering global and local factors influencing Alberta in the coming years, Chambers of Commerce, on behalf of their members, believe it is imperative that the provincial government deliver stable and predictable budgets. Such budgets should maintain certainty in the current fiscal environment and allow businesses to confidently plan for the future. Defining key performance measures for the allocation of funds, expressly the Heritage Trust Fund and newly created suite of endowment funds, is critical for encouraging economic diversification and long-term economic stability.

In order to ensure that this balanced approach is taken, we recommend that the government seek to,

- a. Control spending by finding efficiencies
- b. Maintain balance and stability
- c. Establish performance measures

1a. Control spending by finding efficiencies

Effective stewardship of government finances requires that efficiencies are found throughout government processes in order to continually improve the value received for public dollars. Alberta's chamber federation has identified several ways in which spending may be controlled through improved processes.

- i. Continue to implement results-based budgeting practices
- ii. Consider new, innovative procurement practices
- iii. Utilize public-private partnerships to improve capital efficiency
- iv. Consolidate the provincial and federal corporate income tax administration

Continue to implement results-based budgeting practices

In order to continue to maximize the return on public expenditures, the government must ensure that it is controlling spending. In order to accomplish this, it must continue to utilize the results-based budgeting processes that have been implemented in recent years.

Recommendations

- Continue to focus on controlled spending by reviewing existing government priorities in conjunction with results based budgeting processes that are transparent and contain quantifiable key performance indicators;

Consider new, innovative procurement practices

In addition, the government should look at other innovative processes to ensure it receives the greatest value for dollar. Considering new and innovative approaches to procurement is essential to accomplish this.

One possible option is the use of the Qualifications-Based Selection (QBS) method of procurement. QBS is a recognized procedure that satisfies governments' requirements to get the best available services for taxpayers' money and to conduct a fair, equitable selection process for procuring services. It is a well-documented, established system of procurement that is open to public scrutiny. Under a QBS system, professional services firms such as architectural or engineering firms are selected on the basis of experience and technical expertise, rather than simply cost.

Although it has many advantages, the Alberta government has not implemented this system. The government's Procurement Modernization Project has sought to establish best practices which include reducing emphasis on cost elements of procurement bids. However, the Alberta Chambers believes that a true QBS approach to the procurement of all professional services would further increase long-term cost savings and the effectiveness of government resources.

Recommendations

- Ensure, through the use of consistently applied procurement practices, that spending decisions deliver the highest quality infrastructure and services.
- Mandate the Auditor General to review the province's procurement and delivery policies to ensure more contracting-out of services and use of P3's where the private sector can deliver better efficiencies, higher quality outcomes and/or more timely results; therefore, responsibly achieving the most effective use of taxpayer's dollars
- Adopt and put into practice a Qualifications Based Selection System of procurement for regulated professional services across all departments and agencies within the next 12 months.
- Provide both an awareness and set of learning experiences, through Service Alberta, to a full range of service providers to ensure vendors become familiar with and competent in the process of using a Qualifications Based Selection System as the method of submitting proposals to the Government of Alberta for procurement service contracts.

Utilize public-private partnerships to improve capital efficiency

Alberta is approaching a crossroads with respect to how it uses and administers public private partnership (“P3”) projects. The province’s recent fiscal deficit, infrastructure deficit, and ever-growing population are exerting pressure on how Alberta will finance its future. Alternative financing arrangements such as P3s offer the province a “smart debt” solution.

The Government should support public education to help Albertans understand when and how P3s can benefit the province. In addition, alternative administrative systems should be explored to ensure that the implementation is efficient and focused towards the support of municipalities.

Recommendations

- Promote public education and encourage the use of P3s as an alternative model for social infrastructure growth and maintenance.
- Evaluate the possibility of transforming the Alternative Capital Financing Office into a separate Crown corporation similar to those in Ontario and British Columbia.
- Ensure that Alberta’s P3 administration (regardless of form) be focused towards the support of municipalities.

Consolidate the provincial and federal corporate income tax administration

Our federation has noted that there are potential savings opportunities with regards to our provincial tax structure. Alberta is one of two remaining jurisdictions in Canada that has not consolidated its corporate income tax with that of the federal government. The duplication of filing requirements imposes an additional tax compliance burden and creates unnecessary compliance risks for Alberta businesses. From a tax compliance perspective, this continued duplication of functions, including reporting, auditing, and returns, is a source of frustration and red tape that cannot continue within the current environment of spending restraints and austerity.

Recommendations

- Work with the Government of Canada to consolidate the collection and administration of Alberta’s corporate income tax.

1b. Maintain balance and stability

Creating a plan for strategic spending is essential to ensure that a balanced, stable approach to government spending is taken. Strategy must involve limits and caps in planning for the province’s future needs. By prioritizing the principle of balance, the province would refrain from abrupt cuts which are disruptive to business and result in high social costs. Instead, it anticipates future needs and resources and develops appropriate measures.

Forward thinking involves three elements,

- i. Maintain a Smart Spending Bandwidth for operational spending
- ii. Ensure that all borrowing is done responsibly
- iii. Impose limits on Sustainability Fund withdrawals

Maintain a Smart Spending Bandwidth for operational spending

Alberta has benefited significantly from the development of its natural resources with non-renewable resource revenues. Historically, these have contributed to an average of 30 per cent of total provincial government revenues since 2001. With changes to global energy markets and reductions in non-renewable resource revenues, this year will be different.

Until 2013, Provincial government operational expenditures increased beyond the rate of inflation and population growth. This has made the provincial budget increasingly dependent on non-renewable resource revenues and, therefore, increasingly vulnerable to rapid changes in the market such as those current being experienced. Maintaining a bandwidth would ensure that the province is able to increase operational spending in response to increased demands for services and as a result of population and economic expansion. This would ensure expenditures do not exceed our collective ability to pay and reduce future vulnerability.

Recommendation

- Maintain a balanced budget by limiting operational expenditure growth to no more than population growth, plus inflation, using realistic revenue forecasts based on robust industry supported estimates of commodity prices and economic growth.

Ensure that all borrowing is done responsibly

Given a persistent infrastructure deficit and limited revenue sources, the Alberta government must consider how and when it will use deficit spending. It is important that careful consultation, research, and evaluation be used to ensure that the province incurs any debt responsibly. In order for Alberta to remain competitive in the future's global market, it is vital that it not be shackled with an unnecessary debt load. We note and commend the Province for retaining David Dodge to consult on the province's capital expenditures.

Recommendation

- Avoid real deficits requiring borrowing by considering all options for stabilizing provincial government budgets and by taking the time necessary to research and consult and in due course make strong, informed decisions on an appropriate mix of revenue tools and a sustainable program of expenditures.

1c. Establish performance measures

In order to ensure value for dollars spent, it is important that the province continue to improve the use of key performance indicators. By benchmarking outcomes and return-on-investment, the province will not only be able to make better decisions on investment in the future, but it will be able to demonstrate and confirm the reality that thousands of successful businesses across the province already know; that Alberta has huge economic potential for growth.

Recommendation

- Define key performance indicators and measures for the allocation of funds, expressly from the Heritage Trust Fund and the recently created suite of endowment funds.

2. CONTINUE TO MAKE STRATEGIC INVESTMENTS IN CAPITAL TO ENSURE THAT ALBERTA IS POSITIONED TO GROW INTO THE FUTURE

By 2041, Alberta's population of 4 million is expected to swell to 6.2 million¹. More residents will generate larger volumes of traffic, boost demand for utility services, and increase the likelihood of inter-municipal land-use conflicts. As population grows, so too will our economy. This will result in a greater demand for export infrastructure to move our goods to external markets.

While our future demand for infrastructure continues to grow, we have, in recent years, made gains in reducing our infrastructure deficit. The province's previous policy of balancing overall budget at the cost of vital infrastructure projects has left Alberta's economy encumbered as capital expenditures try to catch up with current economic activity. This reality coupled with our expectations for growth result in a clear need to prioritize capital projects. It is imperative to continue to fund and budget for capital projects with planned and stable budgets.

Once fiscal balance is again achieved, the province should prioritize remaining funds towards capital investments which should accomplish three key objectives,

- a) Ensure growth and development are not hindered
- b) Encourage economic diversification
- c) Provide predictable funding for municipal infrastructure needs

2a. Ensure growth and development are not hindered

In order to ensure that our province can grow at its full potential, it is vital that the province invest in strategic infrastructure targeted at facilitating growth. The continued development of Alberta's natural resources means that we will require greater infrastructure to move product to markets. However, it is important to look at our future growth today so that our development is done as responsibly and efficiently as possible.

Moreover, Alberta businesses have identified the need for new markets to ensure its future success. In order to effectively diversify, Alberta must create the infrastructure to move its products to these new markets.

Strategic investment should also consider the acquisition of a radiating network of Transportation Utility Corridors (TUC's) to accommodate the growth of not only goods but of the local population. A proactive development of corridors for transmission lines, pipelines, regional municipal utilities, telecommunications, and transportation will reduce land-use conflicts, improve integration of communities, and encourage the development of a single dynamic economic region for Alberta. Creating an integrated plan to secure these critical TUC corridors is a fundamental step to proactive provincial planning, and doing so quickly will save significant funds in the long run.

¹ Alberta Treasury Board and Finance. (July 15, 2014). *Population Projection: Alberta 2014-2041*. Retrieved from <http://www.finance.alberta.ca/aboutalberta/population-projections/2014-2041-alberta-population-projections.pdf> on December 9, 2014

Recommendation

- Strategically develop Alberta with capital investments in transportation, utilities and communications targeted at facilitating the efficient, responsible and unencumbered development of our natural resources, and secure Transportation and Utility Corridors (TUC) within Alberta that are aligned with bordering jurisdictions and will enhance market access for Alberta products.

2b. Encourage economic diversification

Long recognized as an area of concern and limitation, Alberta's economy is not sufficiently diversified. More than 72 per cent of our mercantile trade remains concentrated in oil and gas, and Alberta's commodity export base has not changed substantially over time. While other markets exist, the U.S. continues to be our prime and dominant market. The Alberta Chambers of Commerce applauds the work done to date by the Government to improve connections with emerging markets but cautions that more work must be done to strengthen these vulnerable trade contact points.

To achieve an expanded and diversified economy, strong and committed leadership by the Alberta Government is required. Serious action and a specific diversification program are required for Alberta to grow and achieve its long-term potential, beyond oil and gas.

Diversification and the development of value-added industries will result in improved competitiveness for Alberta's industry. Moreover, a diversified industry will be able to take advantage of Alberta's world-class environmental stewardship and continue to improve our ability to be a leader in best-practices for sustainability.

Recommendation

- Focus research expenditures on areas that will encourage economic diversification, enhance industry competitiveness and productivity, improve environmental stewardship and support value-added activity in Alberta and link the continuity of those expenditures to key performance indicators.

2c. Provide predictable funding for municipal infrastructure needs

Municipal funding for infrastructure is extremely limited. As a result, municipally mandated projects tend to lag behind the needs of the local community. Rural communities often face a lack of resources to attract new workers while urban communities cannot keep pace with the influx of new residents. The underfunding of infrastructure affects the competitiveness of Alberta business.

Moreover, in attempts to address these issues, municipalities often place an unfair tax burden on business to pay for municipal needs. This further inhibits economic growth and prosperity.

The ongoing Municipal Government Act (MGA) Review provides an opportunity for the provincial funding formula for municipalities to be revisited. Predictable, long-term funding would allow municipalities to better identify and address infrastructure needs earlier. In addition, municipal infrastructure needs should be reviewed and overseen in the context of broader infrastructure plans to ensure synergy.

Recommendation

- Within the context of a Municipal Government Act (MGA) Review and best practices of other jurisdictions, develop a new overall funding formula for municipalities (and regional bodies) that is transparent, long term, predictable, sustainable and strategically aligned with provincial infrastructure plans.

3. TARGET SPENDING AND INVESTMENTS IN AREAS THAT WILL IMPROVE ECONOMIC OUTCOMES FOR ALBERTA'S ECONOMY

When the budget position improves, the province will need to decide what it will spend available funds on. The government must continue to strategically influence our provinces' position in the global economy and continue to consult with all stakeholders in making strong, informed decisions on fiscal issues related to health care, education, municipal funding and infrastructure investments. A vital opportunity also exists to improve competitiveness by increasing access to capital for small businesses.

After prioritizing capital investments, the provincial budget should accomplish three goals,

- a) Invest in our workforce
- b) Reducing taxation when fiscally able to do so
- c) Help businesses acquire capital through an Investor Tax Credit

3a. Invest in our workforce

Particular attention must be given to workforce development and education policy to ensure provincial labour market development activities result in improved outcomes. Doing so would enable positive transitions for youth, Aboriginal peoples, new immigrants, persons with disabilities, and mature workers into the labour market without disadvantaging businesses.

Businesses have identified that a lack of exposure to the workforce during education and training results in a dissonance in skills acquired and those needed for success in various industries and careers. As such, investment and research needs to be made in both secondary and post-secondary education in order to ensure that students are well prepared for successful and meaningful careers. Moreover, innovative techniques in training and education have the potential of better connecting labour pools which are currently underutilized.

Recommendation

- Target education and training expenditures to ensure a strong match between services received and employment opportunities available, specifically recognizing the role of workforce exposure as a critical component of labour market relevant training and education for all available labour pools, including youth, Aboriginal peoples, new immigrants, persons with disabilities and mature workers.

3b. Reduce taxation when fiscally able to do so

When Alberta's fiscal position strengthens, an opportunity will exist to improve the province's global competitive position by reducing taxes. While improving labour market outcomes, infrastructure, and social supports are priority for many Albertans, the provincial government should never forget the importance of attracting new business to the province.

While Alberta boasts low corporate taxes relative to most other jurisdictions in Canada, it continues to struggle to compete globally. Low-tax and no-tax alternative jurisdictions within other parts of Canada, the United States and elsewhere provide attractive alternatives to investment within the province.

In regards to the provincial small business tax, Alberta is not competitive relative to other provinces. Small businesses face lower tax rates in other provinces including BC (2.5%), Saskatchewan (2%), and Manitoba (0%). Competing with our neighbors means ensuring that our small business tax regime must be as low as possible

Finally, the Alberta government's decision to eliminate rebates for off-road fuel charges has placed Alberta at a competitive disadvantage. Many sectors including forestry, energy, transportation, and agriculture utilize these rebates to overcome the challenges of operating in areas where infrastructure is not available to support industry. While businesses pay fuel surcharges to support infrastructure investment, they often operate in areas where those infrastructure investments have not been made.

Off-road rebates encourage economic expansion in these areas and increase Alberta's capacity for growth while ensuring that the businesses which are working in these regions are fairly treated.

Recommendations

- Consider reductions to the corporate and small business taxes in order to improve Alberta's competitiveness for investment, foster business growth, and improve future financial capacity when Alberta's fiscal position improves.
- Reinstate rebates relating to the Tax-Exempt Fuel Use (TEFU) and Prescribed Rebates Off-Road Percentages (PROP) programs.

3c. Help businesses acquire capital through an Investor Tax Credit

The Alberta Chambers of Commerce has identified that a persistent and key barrier to growth for many Alberta businesses and, in particular, small businesses, is a lack of access to investment for capital expansion. This issue continues to limit the opportunity for innovative and diversified industries to achieve the scale necessary to sustain long-term viability. Alberta is fortunate to have large pools of capital, yet a system must be put in place to encourage the flow of this capital back into the province's small businesses.

The Provincial Government should incentivize investors to direct venture capital towards small businesses through the use of an income tax credit. Considering Alberta is the only jurisdiction without this type of program, it stands as an effective tool that the province should take advantage of. Other jurisdictions have successfully used an income tax credit to spur investment in small businesses.

Recommendations

- Establish an investor tax credit which incentivizes equity investment in small and medium size businesses in Alberta
 - Provide a non-refundable tax credit equal to 30% of investment made through the program against provincial taxes
 - Allow the credit to be moved forward or back 2-4 years in order to smooth the fiscal impact of the program
 - Place a cap on the amount of tax credit available each year

- Establish a yearly maximum on how much a company may raise through the program in order to ensure investment is not being pooled in a small group of firms and that the program is only attracting early-stage investment
 - Require that the investor not have held a major stake in the venture prior to investment in order to ensure the program is only attracting new investment
 - Set a threshold for what constitutes an Albertan small-business based on the number of employees and the percent of wages paid to the Alberta residents, but consider a lower wage threshold for firms who primarily engage in exports
 - Allow common shares, preferred shares, and convertible debentures to be eligible, in order to properly reflect current venture capital practices
 - Eligible investors include individuals, companies, and pooled funds who pay taxes in Alberta
 - Emulate B.C.'s online registration system to minimize administrative costs, regulatory burden and wait times
- Consider leveraging an investor tax-credit incentive to diversify Alberta's economy

CONCLUSION

The Alberta Government has made several changes since the election. The province has announced increases to the minimum wage, corporate tax rates, and carbon tax, as well as a royalty review. Taken together, these measures represent a dramatic increase in the cost of doing business which could be potentially crippling. It is imperative that, if businesses in Alberta are to remain competitive, additional measures which further add to the cost burden of businesses.

Looking to the future means not shackling our potential for growth today.

We hope that the Government of Alberta will consider the recommendations in this submission to ensure that a prosperous future becomes a reality.