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## POSITIONING FOR SUSTAINABILITY

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### *Considerations for Developing the 2016 – 2017 Alberta Budget.*

On behalf of the Alberta Chambers of Commerce (ACC) federation, we respectfully submit recommendations to the Government of Canada as it develops the 2016/2017 Alberta Budget. These recommendations reflect the priorities and concerns of the ACC and the 128 community chambers of our federation who represent over 24,000 businesses in the Province of Alberta.

The ACC is unique in Canada in that every community chamber in Alberta is a member of the provincial federation as well as the Canadian Chamber of Commerce.

## Overview

A vibrant and healthy business community is essential to the long term prosperity of all Albertans. With this in mind, the 2016/2017 Alberta Budget should ensure that the business community remains resilient, optimistic, and enabled to pursue opportunity in the long term.

This submission presents recommendations based on policies developed by our members and the 24 000 businesses in Alberta represented by the ACC.

The context of these recommendations is important. Alberta businesses face mounting costs as a result of layering new financial burdens onto business in what is an already vulnerable business climate, with external threats of the dramatically reduced price for our province's key commodity. The resulting challenges and opportunities require responsible and responsive economic development and fiscal management at all levels of government. Governments – in all legislative and policy changes – need to be mindful of the costs of change that are currently layering on business and threatening investment attraction and the sustainability of existing businesses.

Our recommendations are presented with this context in mind and focus on four strategic policy priorities:

1. Fiscal prudence and sustainability
2. Evidence-based decision making that minimizes costs to business and government
3. Apply best practices in service delivery and capital projects
4. Invest with a long term view and track performance

## Fiscal prudence and sustainability

### *Maintain operational spending growth to the growth of population plus inflation*

The 2015-2016 Alberta Budget released October 27, 2015, established a benchmark of spending restraint by holding operational spending increases to the growth of population plus inflation. The ACC urges increased restraint in operational spending and therefore encourages the Province to maintain and improve upon the 2015 benchmark and ensure expenditures do not exceed the collective ability of all taxpayers to fund services.

### **Recommendation**

- Achieve a balanced budget by limiting operational expenditure growth to, at worst, no more than population growth plus inflation, and at best reduce operational spending, applying realistic revenue forecasts based on robust industry supported estimates of commodity prices and economic growth.

### *Borrow responsibly*

Given Alberta's recently downgraded credit rating and increasingly limited revenue sources, deficit spending must be approached cautiously and with consideration of the uncertainty associated with revenue forecasting. It is also critical to remember that the Government of Alberta's borrowing has significant impact on the ability of municipalities to borrow and fund capital projects.

The recent commitments of both the provincial and federal governments to adopt stimulus spending through infrastructure investment represents a finite opportunity for making strategic investments that support long term economic development. The business community of Alberta encourages the Province to focus on achieving the best value for money by coordinating with the federal government's deployment of capital in the province, while ensuring all projects add to the economic capacity of Alberta.

Retaining David Dodge to consult on the province's capital expenditures in 2015 was a positive step, and his report supports a continued approach of careful consultation, research, and evaluation to inform any incurring of provincial debt going forward.

### **Recommendation**

- Consider all options to stabilize provincial budgets by taking the time necessary to research, consult and in due course make strong, informed decisions on an appropriate mix of operational spending reductions, revenue tools and a sustainable program of expenditures in order to avoid the risk of structural deficits.

#### *Provide predictable funding for municipal infrastructure needs*

Municipal funding for infrastructure is often limited and uncertain, and as a result, municipally mandated projects tend to lag behind the needs of the local community including business.

Rural communities are challenged in attracting new workers, while urban communities have struggled in keeping pace with the influx of new residents. Businesses often bear an unfair and disproportionate tax burden as municipalities take regressive steps to fill the funding gap. This approach to funding municipal infrastructure inhibits economic competitiveness and prosperity.

The ongoing Municipal Government Act (MGA) Review provides an opportunity to revisit the provincial funding formula for municipalities. Predictable long-term funding would enable municipalities to identify and address long term infrastructure needs earlier, and to better coordinate investments with governments at all levels in support of strategic economic development and growth management.

### **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.

#### **Use evidence-based decision making to minimize costs to business and government**

##### *Continue results-based budgeting practices*

To maximize the return on public expenditures the Government of Alberta must ensure spending is achieving desired outcomes and delivering optimal value for taxpayers. The continued use of results-based budgeting is a responsible methodology for improving performance and providing accountability to taxpayers.

## **Recommendation**

- 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.

### *Proactively design and implement policy*

The ACC calls on the Government of Alberta to be mindful of the layering effects of public policy that impedes, rather than enhances, business resilience, innovation and growth. Businesses are currently suffering from the incremental layering effects of changes being implemented at different levels of government.

These effects cannot be viewed in isolation as policy makers seek to improve Canada's environmental performance or diversify the economy. This holds true for all major policy initiatives. When combined with the impacts of low global commodity prices, constricted access to talent and capital, and a tax environment that undermines investment attraction and productivity, compounding costs to do business can be deadly to businesses already struggling to adjust to lower economic activity.

These risks are particularly relevant for small and medium-sized businesses (SME's). Nearly 95% of the 24 000 businesses represented by the ACC are SME's. The Province should conduct thorough consultation of regional business before implementing policy changes, including sensitivity analysis' of such changes.

## **Recommendations**

- Evaluate all proposed new policies applying a cost to business or individual taxpayer's calculation, and where appropriate implement those policies in a staged manner, allowing businesses to adapt operations in advance in order to meet the desired outcomes in the most efficient manner;
- Focus on outcome-based policies, with flexibility for Albertans to choose how best to meet these outcomes;
- Implement new environmental policy only after completing a cost-benefit analysis of the economic and distortive impacts of the proposed changes, taking into account the increased costs already in place in regions across Canada with similar policy;
- Reinvest new revenues from climate policy into applied research and development grants, renewable electricity incentives, education and awareness initiatives, energy efficiency rebates and significant tax relief, all of which must be made accessible to individuals and businesses.

### *Consolidate the provincial and federal corporate income tax administration*

The ACC federation has identified potential savings opportunities for business and government through the consolidation of provincial and federal corporate tax collection. Alberta is one of two remaining jurisdictions in Canada that has not consolidated the collection of provincial corporate income tax with the collection services carried out by the Canada Revenue Agency.

The duplication of filing requirements imposes an additional tax compliance burden and creates unnecessary compliance risks for Alberta businesses. With the current need to restrain spending, eliminating these unnecessary costs is a prudent and responsible action providing immediate benefits to

taxpayers. Consolidation of provincial and federal tax collection can also serve as a template for enacting legislative and policy changes where the benefits and risks can clearly be defined and acted upon.

#### **Recommendation**

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

#### *Reduce taxation when fiscally able to do so*

Continued layering of tax increases put Alberta's fiscal advantages at risk, advantages that have long supported the prosperity of Albertans by attracting business to this province. And, while Alberta boasts low corporate taxes relative to Canadian jurisdictions, it struggles to compete globally for investment.

The advantage Alberta has enjoyed was recently narrowed with the 2% increase of the corporate tax rates on large businesses, and the new provincial carbon tax narrowed this advantage further. For small business, there are no competitive advantages with rates of 2.5% in BC, 2% in Saskatchewan and 0% in Manitoba.

Within the context of Alberta's current and projected economic climate, the tax advantages in the province must be protected and continually reviewed for opportunities to improve them with the view to support Alberta's attractiveness as a leading jurisdiction for doing business.

#### **Recommendation**

- 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 the province's fiscal position improves.

#### **Apply best practices in service delivery and capital projects**

##### *Consider new and innovative procurement practices*

Considering new and innovative approaches to procurement is essential in the pursuit of delivering the greatest value for taxpayer's dollars. One possible option is the use of the Qualifications-Based Selection (QBS) method of procurement. QBS is a recognized and well documented system of procurement that serves the public interest in procuring the best available services in a fair and equitable process.

Under a QBS system, firms providing professional services such as architectural or engineering are selected on the basis of experience and technical expertise, rather than simply cost. The benefits of QBS are particularly relevant in the current context of increasing capital investments, as the process is recognized for reducing the financial risks associated with deferred maintenance of capital projects.

The Government's Procurement Modernization Project has sought to establish best practices which include reducing emphasis on cost elements of procurement bids but do not go as far as the QBS method. The ACC 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.

## **Invest with a long term view and measure success**

### *Encourage economic diversification*

Long recognized as an area of concern and limitation, Alberta’s economy still is not sufficiently diversified. More than 72% 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.

To achieve an expanded and diversified economy, strong and committed leadership by the Government of Alberta is needed to recognize opportunities that exist in and outside its primary sectors. A specific and measurable diversification program is required for Alberta to responsibly grow and achieve its long-term potential in oil and gas and beyond.

### **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.

### *Introduce an Alberta Investor Tax Credit*

The inaccessibility of early-stage capital investment is a major impediment to the growth and sustainability of Alberta’s small businesses. Often lacking the resources and administrative capacity to raise capital via debt financing, these businesses rely heavily on equity investments made by angel investors and venture capital firms.

Despite this need, Alberta is currently one of the only provinces in Canada without an income tax credit for those who invest in local small businesses. The province lacks an incentive structure aimed specifically at encouraging private sector agents to purchase equity in local—capital starved—enterprises.

Alberta Enterprise Corporation (AEC) is one body which provides public funding to venture capital firms, which is then invested in the larger community. The AEC's fund-off-funds model does an important job of providing liquidity into the marketplace, but mechanisms need to be enacted to keep private capital within Alberta as well. Creating a sustainable ecosystem for small business investment in Alberta is not possible without greater private sector involvement.

### **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.

### *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.

### **Summary**

By demonstrating decisive leadership that recognizes the province's current vulnerability the Government of Alberta can provide stability in a highly uncertain economic climate. The 2016/2017 Alberta Budget can provide a measure of certainty and enable business to seek opportunities by limiting the influence of policy change that restricts their ability to sustain and adjust to a new economic climate.

Engaging the business community as meaningful partners in pursuit of long term prosperity for Albertans will further strengthen the results we can collectively achieve.

The full range of policies informing these recommendations can be viewed on  
the Alberta Chambers of Commerce website [www.abchamber.ca](http://www.abchamber.ca)