

ONTARIO CHAMBER OF COMMERCE **2013 PRE-BUDGET** SUBMISSION



ONTARIO CHAMBER OF COMMERCE

Ontario's Business Advocate

160

Local Chambers of Commerce

60,000

Network of business members

2million

Employed in Ontario

17%

Ontario Gross Domestic Product

Dear Minister Sousa:

As the voice of Ontario's businesses, we are pleased to have this opportunity to present our recommendations to you as part of the Ontario government's 2013 pre-budget consultations.

Ontario is at a critical juncture. Our provincial debt is approaching \$300 billion. Interest payments on that debt now represent the third largest area of provincial spending after health care and education, crowding out investments in other programs.

The Ontario Chamber of Commerce is deeply concerned about the state of the province's finances, which are a drag on business confidence. Interest rates will rise. The cost of servicing our debt will go up and our capacity to fund vital programs will decrease if we do not take concrete actions now.

Addressing the fiscal situation is a top priority. The government must also take practical and cost neutral steps to ensure that the province remains the best place to live, work, and raise a family. These steps include reducing the skills gap, encouraging exports, and creating winning conditions for businesses to invest and expand.

We recently released *Emerging Stronger 2013*, which is the second installment of our five year plan to grow the province. We invite you to review it and the 43 recommendations within. This submission outlines seven steps and 15 specific recommendations that we believe the Ontario government can take right now.

Thank you,



Allan O'Dette
President & CEO, Ontario Chamber of Commerce



emergestronger.ca

7 STEPS THE ONTARIO GOVERNMENT CAN TAKE RIGHT NOW TO HELP FOSTER ECONOMIC GROWTH

TACKLE THE DEFICIT

TRANSFORM GOVERNMENT

BRIDGE THE INFRASTRUCTURE GAP

PLUG THE SKILLS GAP

CREATE WINNING BUSINESS CONDITIONS

BUILD THE EVIDENCE

EXPORT ONTARIO TO THE WORLD

76% of Ontario businesses believe that reducing the size of government should be a top priority*

If interest rates  **1%** the cost of servicing the debt will rise by \$500 million in the first year**

62% of Ontario businesses believe clamping down on the underground economy should be a top priority*

Sources:

*OCC member survey, n=2059

** Dwight Duncan Speech to the Canadian Club of Toronto, 2013

TACKLE THE DEFICIT

1. MOVE FORWARD WITH BROADER PUBLIC SECTOR COMPENSATION RESTRAINT

Labour costs account for more than half of provincial program spending. If savings are to be found, labour costs cannot be ignored.

What can government do? Move forward with wage restraint measures that encompass wages, benefits, and pensions across the public sector and broader public sector.

Where can government start? Institute across the board wage and hiring freezes. Fix the arbitration system so that decisions are transparent and factor in the 'ability to pay'.

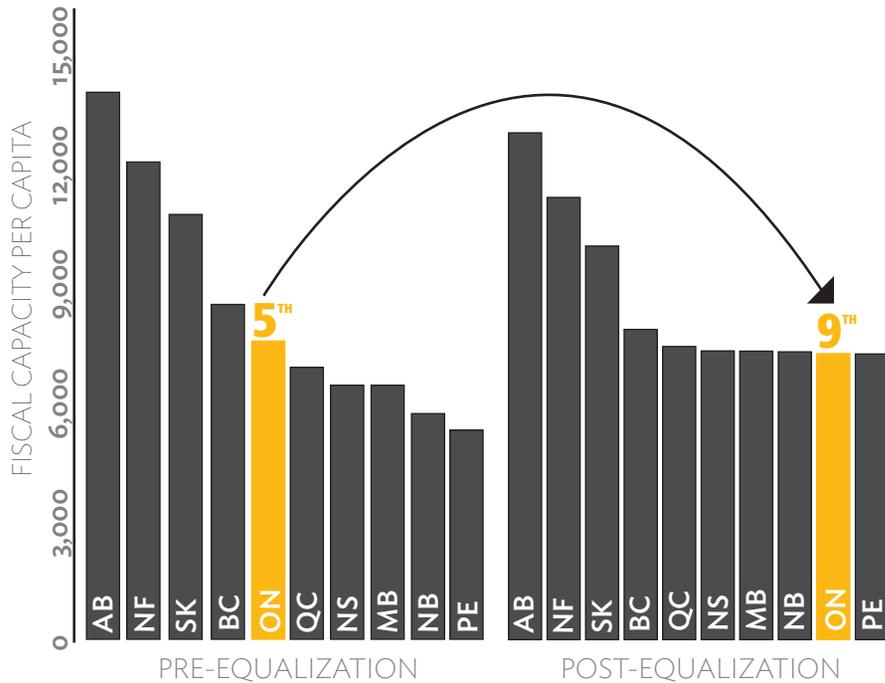
2. TACKLE THE UNDERGROUND ECONOMY

Illegitimate businesses make it hard for legitimate businesses to compete. The underground economy makes up roughly 2.2 percent of Canada's gross domestic product, or about \$36 billion.

What can government do? Ontario needs tougher penalties for noncompliance and a stronger focus on high-risk industries. The Commission on the Reform of Ontario's Public Services estimates that these and other compliance measures could yield over \$500 million per year for the province.

Where can government start? \$1 billion worth of fines remain uncollected. The Government of Ontario should take more aggressive action to collect this money.

Ontario's fiscal capacity drops from fifth to ninth after Equalization is taken into account



3. URGE THE FEDERAL GOVERNMENT, IN THE STRONGEST POSSIBLE TERMS, TO CLOSE THE \$12.3B FISCAL GAP

In 2009, Ontario contributed \$12.3 billion more to the rest of Canada than it got back in terms of services. Consider this, Ontario's capacity to spend on programs drops from fifth to ninth among provinces after the federal Equalization program is taken into account.*

What can government do? The provincial government must press the federal government to reform Equalization and create a national standard for Employment Insurance access, and fix the funding gaps in infrastructure, training, housing, and regional economic development funds.

Where can government start? Fixing federal training funding is an immediate priority. If Ontario received an appropriate share of federal training dollars, it could double its Second Career program.

For more information on how the federal government can help spur growth in Ontario's economy please read *A Federal Agenda for Ontario* at federalagenda.ca.

Source:

*OCC Report: A Federal Agenda for Ontario

“Do not hang on to public assets or public service delivery when better options exist.”

Commission on the Reform of Ontario's Public Services, 2012

“So long as the public services work, (the nordic countries) do not mind who provides them...”

The Economist, 2013

TRANSFORM GOVERNMENT

4. TRANSFORM GOVERNMENT BY MAKING GREATER USE OF THE PRIVATE AND NOT-FOR-PROFIT SECTORS TO DELIVER SERVICES

The Ontario government has cut approximately \$1 billion in spending each year in the last three years. In order to achieve the 2017 budget target and balance the books, it now has to cut between \$2 billion and \$2.5 billion a year, double what has been done in each of the last three.

Government has already picked the low-hanging fruit in cutting the deficit. It now needs to pursue new business models.

What can government do? More and more private sector players are delivering some services in our publicly funded healthcare system through Alternative Service Delivery (ASD) mechanisms. ASD needs to be expanded in the health sector and replicated elsewhere where service quality can be improved and costs lowered.

Where can government start? Government, in partnership with the private sector, should conduct a government-wide audit to identify areas where the public would benefit from the introduction of ASD.

To learn more about ASD please stay tuned for the OCC's upcoming policy paper.

2017 when the entire Ontario infrastructure budget will be consumed by amortization costs*

\$6 billion is lost each year in productivity due to gridlock and poor transportation connectivity**

66% of GTHA businesses support the need for new revenue tools to fund transit infrastructure in the GTHA***

Sources:

*OCC report, *Emerging Stronger 2013*

**Toronto Region Board of Trade

*** OCC member survey, GTHA respondents n=691

BRIDGE THE INFRASTRUCTURE GAP

5. RENEW ONTARIO'S TRANSPORTATION NETWORK

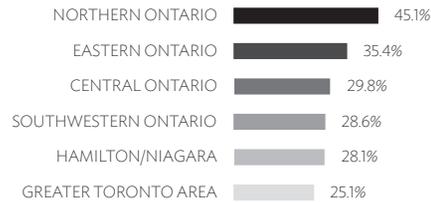
Transportation bottlenecks in the Greater Toronto and Hamilton Area (GTHA) and throughout Ontario are hurting quality of life and productivity. The government does not have the resources to fund large infrastructure investments through general revenue.

What can government do? Bonds, P3s and leasing and concession agreements can liberate private funds for public purposes. But, they are not a panacea. Additional revenue tools are required.

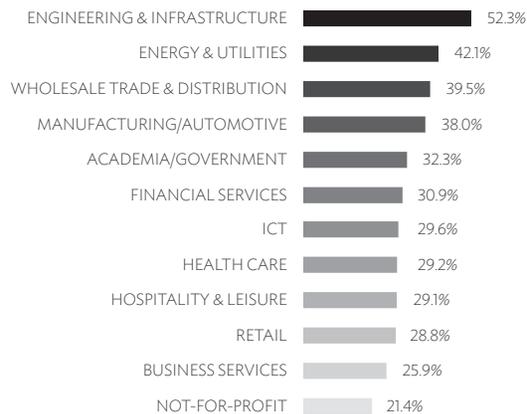
Where can government start? The Big Move, Metrolinx's plan to rebuild transportation in the GTHA, provides an opportunity to engage all stakeholders on how we pay for infrastructure, not just in the GTHA but across the province. However, any new revenue streams have to meet the following parameters:

- Revenues must be dedicated
- Administration of revenues must be transparent
- Decision on projects must be evidence-based
- The private sector should be a partner in financing and administration of new infrastructure investment.

Percentage of employers who have had difficulty hiring someone with the right qualifications*



Sectors of the economy that have had difficulty hiring someone with the right qualifications*



Source:

*OCC member survey, n=2059

Question asked: Has your business had difficulty filling a job opening over the past 12 - 18 months because you couldn't find someone with the right qualifications?

PLUG THE SKILLS GAP

6. ONTARIO NEEDS TO REINVENT ITS EMPLOYMENT AND TRAINING SERVICES

Ontario faces a labour market paradox. Rates of unemployment and underemployment are historically high. Yet, many businesses confront massive skill shortages. Meanwhile, the return on taxpayer investment in government training programs is unclear.

What can government do? Government should invite competition and greater employer participation into employment and training services as a way to save money and better plug skills shortages. These services should be provided on a more rigorous pay-for-performance basis focused on intended outcomes.

7. THE IMMIGRATION SYSTEM IS CHANGING. GOVERNMENT AND BUSINESS MUST GET READY

The federal government is changing immigration selection to enable Ontario's employers to play a greater role in selecting skilled immigrants.

What can government do? Because so many skilled immigrants to Canada ended up in Ontario, other provinces built the capacity to actively recruit and connect international workers to their local employers. With the new federal rules, government and businesses now urgently need to work together to build this capacity in Ontario. Otherwise, we risk losing out in the competition for talent.

"Corporate taxes are found to be most harmful for growth."

Organization for Economic Co-operation and Development, 2008

"Business taxes are borne directly or indirectly by people — workers through lower wages, consumers in the form of higher prices for goods and services, and shareholders through lower returns."

Canadian Chamber of Commerce, 2011

"An increase in the corporate tax rate by one percentage point reduces the quantity of investment by 1.82 percent."

Oxford University Centre for Business Taxation, 2010

"A large body of economic literature is weighted towards the conclusion that corporate tax reductions lead to more investment and job creation."

Jack Mintz, Palmer Chair of Public Policy, School of Public Policy, University of Calgary, 2011

CREATE WINNING BUSINESS CONDITIONS

8. AT A MINIMUM, THE GOVERNMENT SHOULD MAINTAIN THE CORPORATE INCOME TAX RATE

Ontario's Corporate Income Tax rate was scheduled to drop to 10 percent by 2013. In the face of a revenue shortfall, the government froze the rate at 11.5 percent in 2012. Lower corporate taxes create jobs and enable Ontario's companies to compete globally. Let's not lose our tax advantage.

9. ESTABLISH A CROWDFUNDING REGIME

Crowdfunding for financial gain is currently not permitted under Ontario law. With the advent of the *JOBS Act* in the U.S. and the establishment of an American crowdfunding regime, Ontario must update its legislation and regulations in order to provide its startups and SMEs with comparable levels of access to seed and venture capital. Government needs a plan to implement a crowdfunding regime in Ontario by 2014.

10. PUBLISH THE RATIONALE FOR AND COST-BENEFIT OF REGULATIONS

Ontario is one of the few jurisdictions in the world that does not publish the rationale for, and the cost-benefit analyses of regulations. The only requirement is to publish the content of regulations. Government needs incentives to consult stakeholders and get it right the first time. Legislate this obligation.

UNINTENDED CONSEQUENCES OF REGULATION KILL JOBS - 3 EXAMPLES

1.

ONTARIO'S ENDANGERED SPECIES ACT (ESA)

Tom grew up working for his family's sawmill in Quebec. He now wants to invest in his own sawmill on a piece of land in northeastern Ontario which would create jobs and economic activity. However, because the gray ratsnake has just been placed on the at risk list, any economic activity on that land can be challenged or shut down. In 2003 there were 19 species listed, today there are over 121. The ESA is hurting our agriculture and forestry sectors.

2.

STEWARDSHIP ONTARIO

Faye owns a chemical facility in Mississauga. As a result of Stewardship Ontario's past deficit recovery program, she recently received a retroactive bill for the past three years that she must try to collect from her customers. Furthermore, due to Stewardship Ontario's new fee formula, she's unable to predict the recycling charges for current product sales. When her quarterly bills are greater than expected, she must again retroactively try to collect the difference from her customers—wasting time and money, and alienating her clients. She is on the hook. We need to have a frank conversation about the effectiveness of this model and how it can be improved.

3.

APPRENTICESHIP RATIOS

Bill owns a plumbing company in Timmins. He has a small staff of four journeypersons and two apprentices. Two of the journeypersons are retiring soon. He would like to hire additional apprentices now to begin training to replace the retirees. He has to wait until his two apprentices graduate because of restrictive journeyperson to apprentice ratios. Ontario's outdated apprenticeship ratios slow down workforce replacement and exacerbate skills shortages.

Views on WSIB are mixed



Source:
*OCC member survey, n=2059

Progress has been made in reforming the Workplace Safety and Insurance Board (WSIB), particularly in reducing administrative overhead and improving service to employers. The job isn't done. Here are two examples:

11. STOP FUNDING WORKPLACE SAFETY THROUGH PREMIUMS

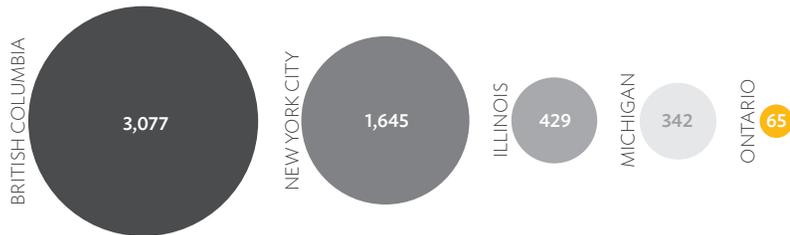
Bill 160 transferred the health and safety function from the WSIB to the Ministry of Labour. However the associated \$227 million in funding is charged to employers who pay WSIB premiums (about 60% of the total). Ministry programs benefit all employers and workers in the province, not just those paying WSIB premiums. Implement the Arthurs' Report recommendation — discontinue funding workplace safety through premiums.**

12. DO NOT REFUND INCIDENTAL CLAIMS

The WSIB reimburses routine medical services normally covered by the Ontario Health Insurance Plan (OHIP) to the tune of \$110 million annually. Employers already fund these services for workers through provincial health care levies. This 'double dip' increases the cost of doing business. Arthurs argues that incidental claims should no longer be reimbursed by the WSIB.** We agree.

Source:
**Funding Fairness: A Report on Workplace Safety and Insurance System

Number of raw data sets available online*



“By unlocking public data, public services can spark new digital value chains that lead to innovative applications and information products.”

Report by Accenture, Delivering Public Service for the Future: Navigating the Shifts, 2012

“Open data is Canada’s natural resource for the 21st century.”

Tony Clement, President of the Treasury Board, Toronto Roundtable on the Relaunch of the Government of Canada’s Open Data Portal, 2013

Source:

*Open data projects and websites of Ontario, Michigan, New York City, British Columbia and Illinois

BUILD THE EVIDENCE

13. BUILD DATA

Ontario does not have sufficiently sophisticated labour market data, particularly with respect to current and projected skills shortages. The absence of data hurts government’s ability to craft effective policies and the ability of businesses to plan and invest.

Where can government start? Undertake an audit of existing data, find the gaps, and build the databases.

14. OPEN THE DATA

The provincial government and municipalities sit on tonnes of data that could be repurposed by entrepreneurs and technology firms to create valuable software applications and other innovations for commercial purposes.

Where can government start? Follow through on Ontario’s Open Data initiative. As of January 2013, the Ontario government’s open data portal holds just 65 data sets.

“The Ontario government should also increase partnership programs, such as the Global Growth Fund, that focus on export capacity to help Ontario SMEs access and expand growth in foreign markets.”

Advantage Ontario, Final report by the Jobs and Prosperity Council, 2012

6%

of Ontario firms engaged in export in 2008*

Global Growth Fund results to date

Grants Distributed:
\$4 million



Sales Generated:
\$147 million

EXPORT ONTARIO TO THE WORLD

15. ONTARIO NEEDS TO FOCUS ITS LIMITED BUSINESS SUPPORTS ON AREAS THAT ARE DEMONSTRATING RESULTS

The Ontario Chamber of Commerce's Global Growth Fund helps SMEs access foreign markets by covering up to 50% of eligible costs incurred to develop export sales. This program is funded by the Government of Ontario and the Government of Canada.

Results to date: The Global Growth Fund has helped over 650 businesses access export markets and collectively these companies have reported export sales in excess of \$147 million.

Where can government do? The Government of Ontario should provide additional funding to expand the highly successful Global Growth Fund.

Source:

**Jobs and Prosperity Council's final report, Advantage Ontario*

THANK YOU

ONTARIO CHAMBER OF COMMERCE 2013 PRE-BUDGET SUBMISSION



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