



ontario
chamber of
commerce

ONTARIO CHAMBER OF COMMERCE

2014
PRE-BUDGET
SUBMISSION

[March 12, 2014]





Ontario's Business Advocate

160

Local Chambers of Commerce
& Boards of Trade

60,000

Network of business members

2M

Employed in Ontario

17%

Ontario Gross Domestic Product

Dear Minister Sousa,

We are pleased to have this opportunity to present our recommendations to you as part of the Ontario Government's 2014 pre-budget consultations.

Ontario faces a number of challenges. The debt is approaching \$300 billion and our deficit remains high. Economic growth is likely to be sluggish for the foreseeable future.

Addressing the fiscal situation should be the government's top priority. As it stands, the province spends more on interest charges than it does on colleges and universities. Those interest charges will only increase as our debt grows and as interest rates rise in the coming years.

Fostering a healthy business climate should also be a top priority. We are concerned at the prospect of several significant policy changes that would harm Ontario's business climate. These policy changes include, but are not limited to, an increase in energy prices and potential increases in employer pension contributions and corporate income tax rates. Combined, these moves would substantially raise the cost of doing business in Ontario.

In January, the OCC released *Emerging Stronger 2014*, our economic agenda for the province. We invite you to review it and the recommendations within.

This document outlines five key budget priorities and 11 specific recommendations that we believe the Ontario Government must adopt in order to return to fiscal balance and spur growth in our economy.

Thank you,

Allan O'Dette | President & CEO, OCC

ONTARIO'S BUSINESS CLIMATE



IN A GLOBAL ECONOMIC CONTEXT,
in what direction
do you believe
Ontario's economy
is headed?

	2012:	2013:
right direction	41%	42%
wrong direction	33%	38%
neutral	26%	20%



LOOKING AT THE PROVINCE,
are you confident
in Ontario's
economy?

confident	44%	48%
not confident	34%	32%
neutral	22%	19%



LOOKING INWARD,
how confident are
you in your
organization's
economic outlook?

confident	72%	74%
not confident	14%	11%
neutral	14%	14%

Source: OCC Quarterly Policy Survey, November 2013 | n=2,217



emergestronger.ca

5 KEY BUDGET PRIORITIES

1. TACKLE THE DEFICIT
2. CREATE WINNING BUSINESS CONDITIONS
3. PLUG THE SKILLS GAP
4. MOVE FASTER ON THE RING OF FIRE
5. EXPORT ONTARIO TO THE WORLD

93%

of Ontario businesses believe meeting the deficit elimination target of 2017-18 should be a top priority*

*Source: OCC Quarterly Policy Survey, February 2014 | n=987



See the OCC's 2014 submission on interest arbitration at occ.ca.

TACKLE THE DEFICIT

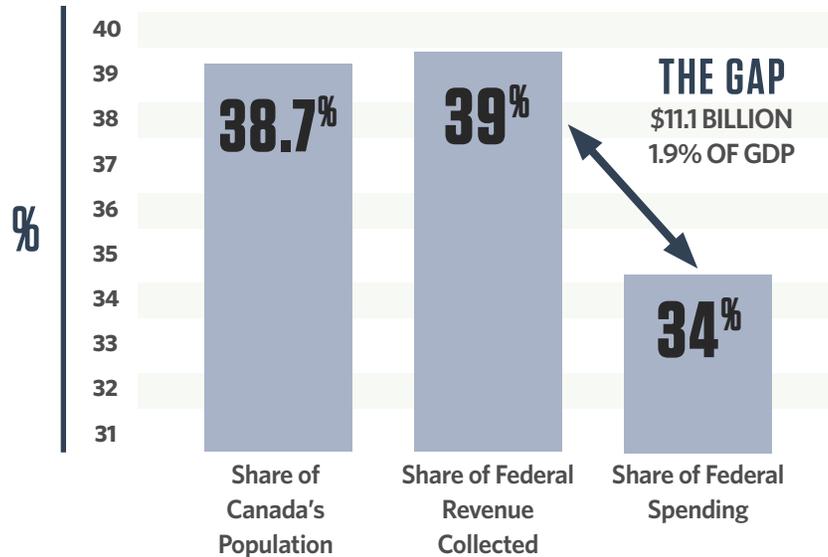
1. CONTINUE AND EXPAND EFFORTS TO RESTRAIN PUBLIC SECTOR GROWTH

Public sector salary growth has outpaced that of the private sector for the last ten years. In an environment of limited fiscal capacity, public sector salaries and benefits must be held in check.

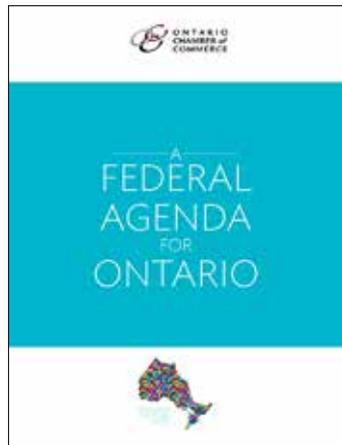
What can government do?

- Expand wage restraint measures that encompass wages, benefits, and pensions across the public sector and broader public sector. Loopholes that enable some to skirt wage restraint must be closed.
- Fix the interest arbitration system so that decisions are transparent and factor in municipalities' 'ability to pay'.
- Re-examine the sustainability of broader public sector pensions, some of which are in poor health.

ONTARIO'S SHARE OF FEDERAL REVENUE AND SPENDING



*Source: The Mowat Centre, *Filling the Gap: Measuring Ontario's Balance with the Federation*, 2013



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

2. URGE THE FEDERAL GOVERNMENT, IN THE STRONGEST POSSIBLE TERMS, TO CLOSE THE \$11B FISCAL GAP

Ontarians continue to see their federal taxes redistributed away from Ontario on a net basis, receiving less than their per capita share of spending and transfers. The current structural gap, in terms of what Ontarians pay to the federal government and what they receive back is estimated at \$11 billion. This amount is equal to 1.9 percent of the province's GDP.

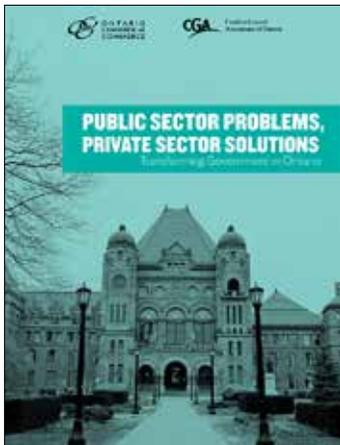
What can government do?

The provincial government and all Ontarians must press the federal government to reform Equalization, introduce a national standard for Employment Insurance access, and fix the funding gaps in infrastructure, training, housing, and regional economic development funds.

62%

of Ontario businesses believe that devolving some government service delivery to the private sector should be a top priority*

*Source: OCC Quarterly Policy Survey, February 2014 | n=987



For more about the OCC's position on ASD, please read *Public Sector Problems, Private Sector Solutions*, and stay tuned for the OCC's upcoming report on ASD, in partnership with KPMG and MAXIMUS Canada.

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

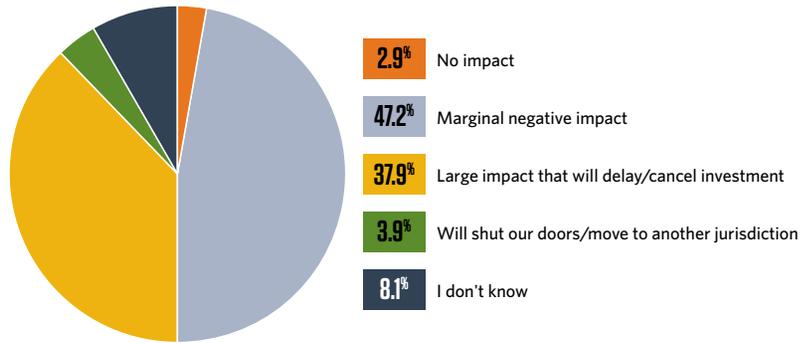
Government has taken some good first steps in deficit reduction. It now needs to take transformative measures that will bring about long-term cost savings.

What can government do?

There are a number of services delivered by the Government of Ontario that could be delivered more effectively and efficiently by the private and not-for-profit sectors. This is especially true of many service areas in the broader public sector.

Government, in partnership with the private and not-for-profit sectors, should conduct a government-wide ASD audit as a means of identifying areas where the public would benefit from the introduction of an ASD model.

HOW WILL INCREASING ENERGY PRICES IMPACT YOUR BUSINESS?*



*Source: OCC Quarterly Policy Survey, February 2014 | n=987
 Question asked: Ontario's energy prices are set to increase by over 30 percent over the next three years. How will this impact your business/organization?

Ontario has become an island of high-priced electricity in a North American sea of surpluses and falling rates.

Barrie McKenna, *The Globe and Mail*, October 2013

CREATE WINNING BUSINESS CONDITIONS

4. REINSTATE SCHEDULED REDUCTIONS TO THE CORPORATE INCOME TAX RATE

Ontario's Corporate Income Tax (CIT) rate was scheduled to drop to 10 percent by 2012. In the face of a revenue shortfall, the government froze the rate at 11.5 percent.

Should the government decide not to follow through on scheduled CIT rate reductions, then at a minimum the rate should remain the same. An increase in the corporate tax rate by one percentage point reduces the quantity of investment by 1.82 percent.** *Let's not lose our tax advantage.*

5. ENSURE ELECTRICITY PRICES DO NOT DETER INVESTMENT IN ONTARIO

Ontario's electricity rates will rise by 33 percent over the next 3 years, placing an increased burden on Ontario businesses. Economic development agencies south of the border have taken notice, and some of them have attempted to 'poach' Ontario manufacturers and convince them to set up shop in the United States.

We strongly urge the government to consider the impacts that Ontario's electricity prices are having on Ontario's competitiveness.



American economic development agencies are sending letters like these to Ontario manufacturers.

** Source: Oxford University Centre for Business Taxation, 2010

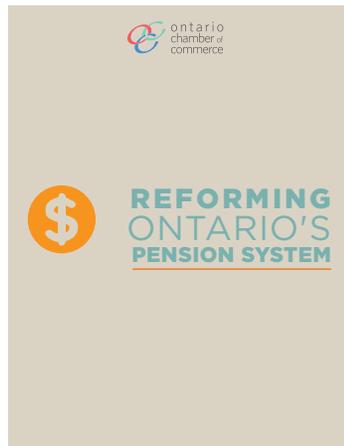
86%

of Ontario businesses believe that government should pursue alternative pension options, including Pooled Registered Pension Plans (PRPPs)*

72%

of Ontario businesses agree that pension reform is a top priority for government*

*Source: OCC Quarterly Policy Survey, February 2014 | n=987



Stay tuned for the upcoming report on pension reform from the OCC and CGA Ontario.

6. PUSH AHEAD WITH POOLED REGISTERED PENSION PLANS

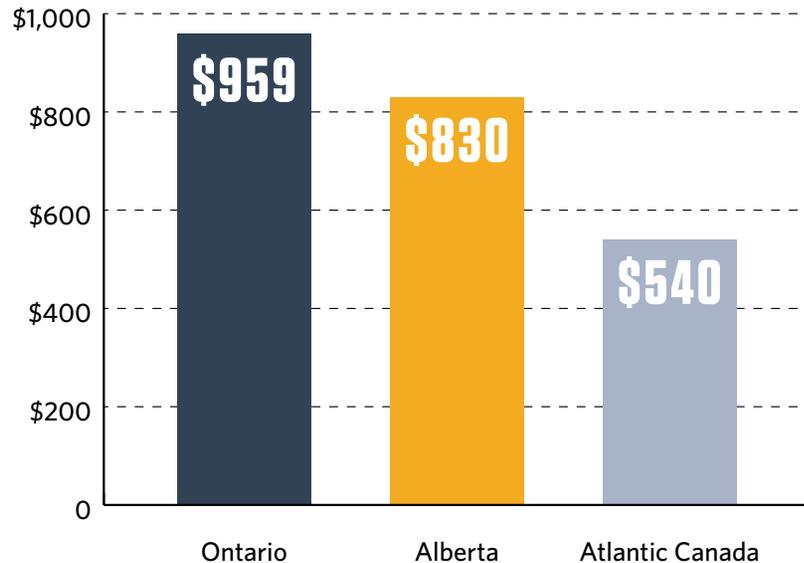
The OCC believes that Ontario's first priority on the pension file should be to move forward with the creation of a Pooled Registered Pension Plan (PRPP) regime in the province, as announced in the last provincial budget.

We caution the government against creating its own pension plan, especially at a time when employer costs are rising (e.g. electricity price increases and potential CIT hikes).

The real concern is people who earn less than \$100K per year and have no workplace pension plan—those people will really suffer. Every Ontarian should have the opportunity to save in the workplace.

Participant, 2014 OCC Pension Roundtable, Guelph

TOTAL INSURANCE CLAIMS COSTS PER VEHICLE ACCIDENT-YEAR (2012)*



* Source: IBC with data from the General Insurance Statistical Agency (GISA)

Government business support programs should focus public dollars on enhancing productivity, innovation and exports, and do so efficiently. The current mix of programs does not.

Jobs and Prosperity Council, Advantage Ontario report, 2012

7. BEWARE THE UNINTENDED CONSEQUENCES OF ARBITRARILY SETTING PRICES IN THE PRIVATE SECTOR

Last year, the government passed legislation to reduce auto insurance premiums by 15 percent on average by August 2015. However, auto insurance claims costs remain significantly higher in Ontario relative to other Canadian jurisdictions. As a result, insurance firms are struggling to stay afloat in Ontario.

What can government do?

Premiums and claims costs go hand in hand. The government has taken steps to reduce pressures in the auto insurance industry, including introducing measures to combat fraud. However, more should be done.

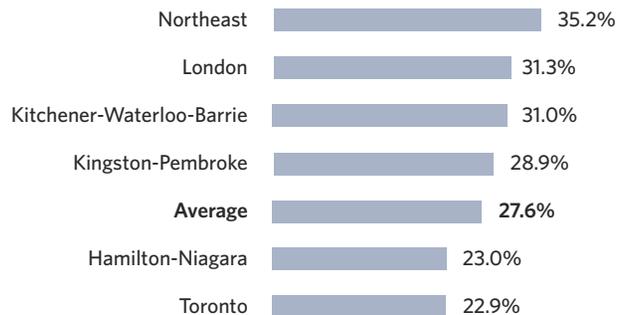
The government must follow through on its commitment to introduce legislation that will reduce costs and uncertainty in the auto insurance sector.

8. UNTANGLE SME SUPPORTS AND ENSURE COORDINATION BETWEEN THE FEDERAL AND PROVINCIAL GOVERNMENTS

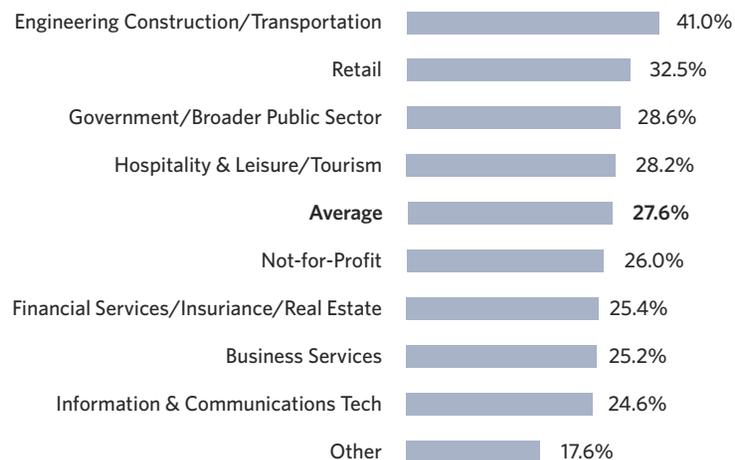
The Government of Ontario made strong progress towards a cohesive economic development strategy with the appointment of the Jobs and Prosperity Council in 2012. Unfortunately, government economic supports continue to be administered in an ad hoc manner.

We urge the government to move forward on implementing the recommendations of the Council's *Advantage Ontario* report, particularly regarding the streamlining of small and medium-sized enterprise (SME) business and export supports, to encourage strategic investment and reduce overlap between federal and provincial programs.

PERCENTAGE OF BUSINESSES THAT HAVE HAD DIFFICULTY HIRING SOMEONE WITH THE RIGHT QUALIFICATIONS* (BY REGION, 2013)



PERCENTAGE OF BUSINESSES THAT HAVE HAD DIFFICULTY HIRING SOMEONE WITH THE RIGHT QUALIFICATIONS* (BY SECTOR, 2013)



* Source: OCC Quarterly Policy Survey, February 2013 | n=2059; regions and sectors shown are limited to those with sufficient respondents

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

9. CREATE A SPACE FOR EMPLOYERS IN TRAINING

Employers need to invest more in training. There are two primary reasons why they do not: employers view skilled workers as a public good, and programs do not accommodate an employer role. In the absence of better labour market information, we need a more demand-driven training system in Ontario.

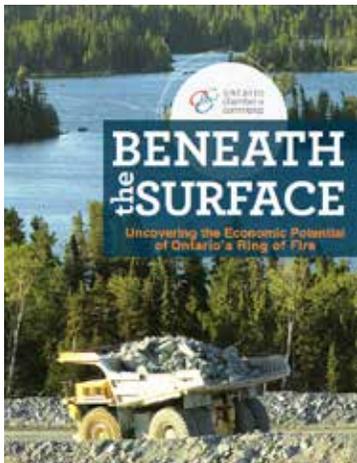
What can government do?

The renewal of federal-provincial agreements on training provide an opportunity to re-evaluate the efficacy of training programs in Ontario and place more emphasis on meeting the needs of employers.

Stay tuned for the OCC's report on the employer role in training—coming in Spring 2014.

The [Ring of Fire] is expected to generate nearly \$2 billion in tax revenues and up to 5,500 full-time jobs in the first 10 years of mining activity, says a new report.

Toronto Star, February 2014



For more information on how the Ring of Fire will benefit all regions of Ontario, not just the North, please read *Beneath the Surface: Uncovering the Economic Potential of Ontario's Ring of Fire*.

MOVE FASTER ON THE RING OF FIRE

10. LAND THE PLAN AND FUND THE NECESSARY INFRASTRUCTURE

The Ring of Fire is Ontario's 100-year mining opportunity. A recent report by the OCC, *Beneath the Surface: Uncovering the Economic Potential of Ontario's Ring of Fire*, finds that its development will bring Ontario tens of billions of dollars in economic activity over the first 30 years of its operation.

However, its development requires large infrastructure investments in order to ensure access to mine sites and reliable energy supplies.

What can government do?

The Government of Ontario needs to play a leading role in ensuring that the infrastructure needed to develop the Ring of Fire is put into place. It must develop and fund a plan for long-term infrastructure in the Far North.

The Government of Canada should take a more active role in the development of the Ring of Fire. At a minimum, the federal government should match any provincial investments made in infrastructure.

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

OCC'S GLOBAL GROWTH FUND RESULTS TO DATE

\$
Grants distributed:
\$4.2 million



Sales generated:
\$194 million

EXPORT ONTARIO TO THE WORLD

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

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

Results to date:

This program has helped 959 businesses access export markets and collectively these companies have reported export sales in excess of \$194 million.

What can government do?

The government should continue to provide additional funding to expand the OCC's highly successful Global Growth Fund.



THANK YOU

**ONTARIO
CHAMBER OF
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UPCOMING OCC REPORTS

March 2014 | Report on Pension Reform

April 2014 | Report on Alternative Service Delivery

May 2014 | Report on the Employer Role in Training