

PRE-BUDGET SUBMISSION



MINISTER OF FINANCE
DECEMBER 2010

Meeting with Hon. Ken Krawetz
Minister of Finance
Pre-Budget Consultations
Tuesday, December 21, 2010

Introduction:

On behalf of the Board of Directors and the 1200 member companies that comprise the Saskatchewan Construction Association (SCA), I want to thank the Minister of Finance, the Honourable Ken Krawetz, for the opportunity to participate in the Pre-Budget Consultations leading to the presentation of the provincial budget in the spring of 2011. The SCA is very pleased to add our voice to the public debate on our economic priorities as the government prepares the 2011 provincial budget.

The comments being provided by the SCA come at a time of continuing optimism for the national and the Saskatchewan economies. This optimism stands in contrast to last year's pre-budget consultations, which were much more muted. While Saskatchewan has been largely spared the severe effects of the market downturn, which began in earnest last September of 2009, it became clear our province did not completely escape the tumultuous world events. With potash prices falling and government revenues on the decline last year, our economy suffered and saw a contraction in the provincial Gross Domestic Product. Commodity prices have since been rebounding in Canada as economies around the world continue to improve and are slowly moving out of recession.

Saskatchewan is once again poised to lead the nation in growth in 2011. The fundamentals of our economy are sound. A key element of sound economic stewardship is the fact that, last year, Saskatchewan was the only province in Canada to cut overall government spending. This was a difficult but necessary step, given the dramatic decline in revenues.

The SCA will provide comments and advise on a number of areas of concern to our membership and to the province at large. Our presentation includes comments in several broad themes: Competitive Taxation; Debt; A Skilled Labour Force; Investments for Sustained Growth; Minimum Wage, the New West Partnership Agreement; and continuing the Energuide Program.

Competitive Taxation:

The SCA supports the government for its previous reductions in personal income taxes, as well as debt reduction and investment in infrastructure, which was announced on October 21, 2008. The reductions in personal income taxes came at an opportune time. The reductions meant the government has followed through on promises as we see our economy continued to gain momentum. More disposable income will help encourage consumer spending and that will help move our economy forward. Also, raising the basic personal exemption and removing some 80,000 residents from paying income tax is a marked improvement and a significant departure from simply relying on raising minimum wage as a way to help low

income earners. The SCA has applauded the government for acting in this area. These are sound measures that will continue to serve our economy well now and into the future.

Over the long term, the SCA continues to believe more needs to be done, particularly as we endeavour to remain competitive with other jurisdictions. Saskatchewan must ensure its personal income taxes are competitive with other provinces, particularly Alberta. This is one, key element in attracting people to our province. By all accounts, the SCA believes the government understands this imperative and, as finances allow, the government should continue to be aggressive in this area.

An on-going review of the PIT rates is critical to our competitiveness. The benefits of a flat should be investigated. The SCA notes that some 25 countries use a flat tax, as does the Province of Alberta. Should the Saskatchewan government come to the conclusion a flat tax is beneficial and sustainable, the SCA would urge the government to proceed.

There are many benefits and some drawbacks in introducing a flat tax. What is important is that targeted tax reductions are less likely to help achieve a better tax system largely because they often misallocate resources from highly productive activities to select favoured activities.

As the SCA mentioned last year, our membership is not putting forward a specific model for a flat tax. Whether the province adopts a single rate, such as 10%, or two rates, such as 9% and 12%, the SCA would like to see the discussion begin. An announcement in the budget would be a strong signal to residents and investors that Saskatchewan continues to make our province more competitive and attractive place to live, raise a family, and invest.

The SCA notes that other organizations such as Enterprise Saskatchewan and the Saskatchewan Chamber of Commerce have supported various models for reductions and simplifications of personal income tax.

In previous submissions, the SCA has asked that the government investigate the possibility of harmonizing the Provincial Sales Tax (PST) with the federal Goods and Services Tax (GST). At that time, the SCA noted that the retail sales taxes regime in Saskatchewan is out of step with many other jurisdictions. This move becomes all the more important as British Columbia and Ontario move to harmonize their sales taxes. It is clear that the government will not move on this issue and our membership is now supportive of removing this issue from public debate.

Corporate Taxes:

As with personal income taxes, the government must continually review corporate tax regime to ensure Saskatchewan remains a competitive business environment. An on-going review of our corporate taxes is critical to sustaining our economic growth.

The SCA recommends an orderly reduction of Corporate Income Taxes. Lowering the rate to 9% or 10%, as suggested by Canada West Foundation and the Saskatchewan Chamber of Commerce is a reasonable target. The SCA recommends moving forward in this area sooner rather than later.

A strategy to reduce the small business tax rate is also an important step to ensure we have a strong and competitive small business sector. Suggested rate reduction to 3% rate from 4.5% would seem reasonable.

A review of tax rates would not include royalties. While it may be attractive to look at our royalty rates in times of declining revenues in our resource sectors, the SCA urges the government to refrain from any discussion of rate increases.

We have seen Saskatchewan become a highly attractive place for investment, record drilling and investments in our oil and gas, potash, uranium, and other resources. This recently new interest is due in part from a dramatic increase in Alberta's royalty rates. Any increase in our rates could cause uncertainty and quickly drive away those companies and their investment in our province.

Debt:

The government's focus on debt reduction has been welcome, particularly at the start of its mandate. The SCA supports the aggressive paying down of our debt. Reducing our debt some 40% since the government took office (from \$6.8 billion to \$4.2 billion) is impressive by any standard and helps to strengthen the province's overall fiscal position.

The SCA urges the government to continue to focus on debt reduction in a sustainable and meaningful way. The added expenditures in infrastructure, coupled with the dramatic fall in potash revenue meant the government had to turn its attention away from debt reduction. Now that royalty revenues are recovering, the government must not lose sight of the need for debt reduction in a balanced and sustainable way.

The SCA notes the continuing growth in Crown corporation debt. While unquestionably there is a need to re-invest in our Crowns, particularly when interest rates are at historic lows and we are faced with aging infrastructure, there nevertheless is a need to remain cautious on overall government debt.

Investments for Sustained Economic Growth:

The SCA has strongly supported the government for its increases in infrastructure spending. The SCA fully agrees that investment in infrastructure will help sustain our economic growth, particularly during times of economic uncertainty. These investments will pay dividends in the future. As has been said many times before, Saskatchewan does not want to commit the same mistakes as Alberta, which largely ignored its infrastructure. Today, Alberta is paying the price for this neglect.

Our membership urges the government to continue to invest in infrastructure as it is able, particularly those key infrastructure projects that have access to federal funding. To move away from infrastructure spending now would send a significantly negative message to the federal government, your municipal government partners, and investors.

In addition, the government must continue to move forward with a comprehensive, government-wide 5 year capital plan for its infrastructure renewal. Providing a rolling capital plan will allow the industry to ramp-up to meet the government's infrastructure program. The 5 year plan should include all public sector entities, including Crown corporations, government ministries, health districts, school boards, universities, and regional colleges.

Of late, there are signals being sent to our industry and the public that investment in infrastructure may decrease over the coming year. Our membership once again stresses the need for investing in key public infrastructure that will bring about a more productive and competitive economy over the longer term. Balancing the need to invest in infrastructure while looking to reduce the provincial debt is an important public policy objective. But investing in infrastructure is a central feature of the budget. Put another way, without a balanced approach, the government could risk undermining future economic growth in order to achieve a low debt to GDP ratio today.

The SCA, along with the Saskatchewan Heavy Construction Association, is pleased with the recent \$551 million announced as the government's investment in our highway infrastructure as part of the 5 year highway capital plan.

What is needed is a clear, long-term plan to help the industry adapt by hiring more staff and equipment to meet the demand. Early tendering will also assist the industry in meeting the growing demand.

A long term, sustainable infrastructure strategy is key to ensure our public infrastructure will help support a growing economy. While the March 31, 2011 deadline for federal infrastructure has been extended, there is no successor program being announced by the federal government. The SCA urges the provincial government announce a new long term infrastructure program. The SCA believes a new infrastructure program is critical to sustaining our economic momentum.

A Skilled Labour Force:

It seems elemental that a skilled labour force is key to help drive economic growth. The government has continued to meet this challenge by investing in a skilled labour force. In the 2010-2011 budget, the government provided \$19,682,000 for the Apprenticeship and Trade Certification Commission. This funding is welcome and the SCA applauds the government for this increase in funding. Any additional funding must be part of the base funding and not a year by year, last minute way of funding.

The SCA also continues to believe more needs to be done, and not just for the trades training. A greater investment in training facilities and equipment is foundational to training our labour force. SIAST and our regional colleges need new equipment and space to meet increasing training needs.

Saskatchewan is facing a critical and growing skilled labour shortage. The Labour Market Information Committee estimates that Saskatchewan will need 9,000 to 10,000 workers over the next 4 or 5 years to fill retirements and growth in the industry. Labour shortages exist in all sub-trades.

Providing resources for our training institutions, such as SIAST and the Apprenticeship and Trade Certification Commission to meet this on-going demand is critical to sustain our economic growth.

The government of Saskatchewan should continue to invest in training the segment of our population that remains disengaged and outside our economic mainstream. Our First Nations and Aboriginal peoples must be provided opportunities to enter the workforce and begin to benefit from the prosperity we are seeing across the province. The SCA urges the government to provide meaningful, predictable, and targeted funding increase to the Construction Career Projects.

This highly successful project, administered by the Saskatchewan Indian Institute of Technologies (SIIT) and with the participation of the provincial government, the SCA, and other partners, provides leading edge programs to break down barriers to employment and training First Nations and Aboriginal peoples in the construction trades.

A modest increase in funding to provide ongoing support for a qualified Job Coach staff at competitive wages will help provide greater stability for the Job Coaches, who are central to the success of the projects.

The Regina and Saskatoon Trades and Skills Centres continue to move forward. As a founding member of both centres, the SCA urges the provincial government to support the centres and ensure the mandate, as expressed in the Memorandum of Understanding, as supported and maintained by all partners, including government partners. The Trades and Skills Centres are industry driven organizations that are nimble and quick to respond to training opportunities in the economy. This unique and innovative approach must be supported by all partners, including the provincial government.

Our industry stands ready to provide employment for the youth who receive training at the Regina and Saskatoon Trades and Skills Centres, as well as the Construction Career Projects. This is our commitment to help engage youth, First Nations and Aboriginal peoples in the construction trades. These are the sources of labour and, working with the provincial government and other partners, together we are making a difference.

The SCA also continues to urge the government to move forward on encouraging the public sector (SaskPower, health districts, school boards, universities, etc.) to invest in the apprenticeship system. A good place to start would be to implement the January 2007 report, "Apprenticeship Employment in the Public Sector: An Opportunity that is Overdue". The SCA notes no significant progress has been made on this file.

The SCA acknowledges the government's strong support of the construction industry with the passing of Bill 80. This legislation makes our industry more open, fair, and competitive.

Minimum Wage

The SCA is aware that the government is reviewing the current minimum wage for Saskatchewan. The Minimum Wage Board is currently seeking input on options for indexing. There are many voices urging the government to index minimum wage to some economic indicator, such as the consumer price index, Low Income Cut Off (LICO), linking any minimum wage increases to increases in the average industrial wage, etc. The SCA membership has discussed these proposals and recommends that there are other, more beneficial ways to help low income residents. Other options include increasing the basic personal exemption as a more targeted and beneficial way to help low income residents. The SCA does not support indexing the minimum wage. Our membership would support a regular review of minimum wage without any pre-set mechanism

New West Partnership Agreement

The SCA supports the provincial government signing the New West Partnership Agreement. The public procurement provisions are of particular interest of our membership. We would like to work with the government as it moves forward in complying with this element of the agreement. The SCA has been working with our provincial counterparts in British Columbia and Alberta to develop a pan-western Canadian compliance mechanism, which we believe will be of interest to the Saskatchewan government.

Energide Program

As a final note, the SCA recommends the provincial government extend the Energide Program, which is scheduled to end March 2011. Our membership would like to see the federal government match the provincial funding. This program is a significant program for our industry and provides that promotes energy efficiency.