CANADIAN FEDERATION OF INDEPENDENT BUSINESS

2006/07 Winnipeg Budget Recommendations

COMMUNITIES AT WORK:
WINNIPEG'S SMALL BUSINESS PRIORITIES

Presented to:
Executive Policy Committee

Shannon Martin
Director, Provincial Affairs
Manitoba

March 13, 2006

On behalf of the Canadian Federation of Independent Business (CFIB), and our 2,000 Winnipeg small business members, I wish to thank you for the opportunity to present our members' views and recommendations on the preliminary 2006-2007 current estimates to you today. CFIB is a not-for-profit, non-partisan organization representing the interests of Canada's small- and medium-sized business community. In addition to our 2,000 Winnipeg members, we have a total of 4,800 members in Manitoba and 105,000 across Canada.

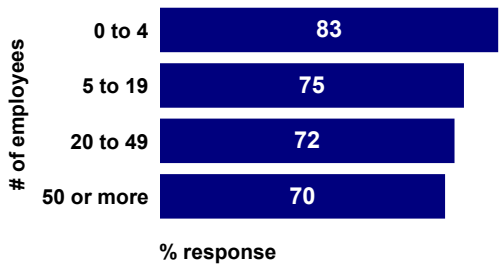
I am very pleased to be here today, as many recent proposals at City Hall have tremendous potential to improve the situation for Winnipeg's small firms. As many of you are know, CFIB members have long been concerned with the direction of their local government.

The small- and medium-sized enterprise (SME) sector is Canada's engine of growth. It now contributes roughly half of Canada's GDP. The SME sector employs six out of ten Canadians in communities right across Canada. Credited with the majority of new jobs in recent years, the SME sector also provides economic resiliency by maintaining jobs levels in tough times.

VIEWS OF WINNIPEG CFIB MEMBERS

Just as CFIB's membership consists of firms of different sizes and types, the communities in which they operate take different forms. Of small business survey respondents in Western Canada, approximately half said that they operate in downtowns or suburbs, one third in small towns and the remainder in rural areas. Regardless of where they operate, small businesses are connected to their community. Over 75 per cent of survey respondents stated they live and work in the same municipality. These figures go even higher for the smallest businesses – those with fewer than five employees. This point is illustrated in Figure 1, which shows that 83 per cent of respondents with fewer than five staff members live in the same community as their businesses. At this point it is important to keep in mind that these firms account for the lion's share of the total number of business establishments in Canada.

Figure 1
Percentage of SMEs based in the same municipality as where the owner lives, by size of business, Western Canada



Source: CFIB Communities at Work, 2005

CFIB has long had its finger on the pulse of the small business sector. Through regular surveying of its membership, CFIB has been able to effectively gauge the health of the economy, in some cases more accurately than many economists and other experts.

Overall, well over half of Western respondents described their community's local economy as growing (see Figure 2). Further inspection of the results by type of community and by province show some substantial differences.

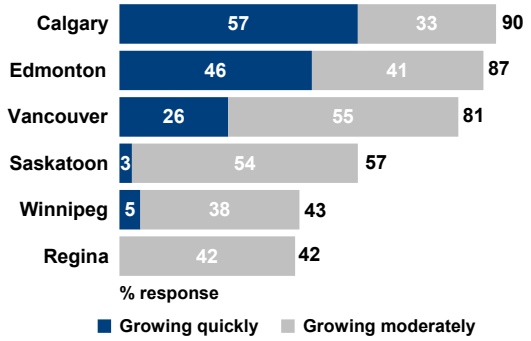
By a fairly wide margin, SMEs in suburban environments were the most likely to report growth in their local economy. An impressive 31 per cent of suburban firms indicated that their local economy is growing quickly and another 45 per cent reported moderate growth. Rural areas by contrast have a lower percentage of firms saying they reside in a growing community. For quite some time the population share of some rural areas have been in steady decline. Consequently, some rural areas have lost some of their economic base and have experienced deteriorating economic conditions.

Just as there have been demographic changes, the Canadian economy – like most industrialized economies – has witnessed structural changes of its own. For instance, the economy has become increasingly services oriented, with sectors such as financial and business services playing an increasingly important role. This is especially true for most of Canada's urban centres and the trend broadly parallels the shift towards a more urbanized population. Although many bemoan the gradual decline in the relative importance of goods producing sectors such as manufacturing, many of the new jobs created in services are in high skill occupations.

The state of local economies is dependent on many factors, ranging from international economic events to the whims of local government decision makers. CFIB's 2005 Communities at Work survey sought to put the focus on community attributes that have an impact on the health of Canada's small- and medium-sized businesses. Looking at matters that have a negative impact on the health of businesses, high local taxation tops the list of concerns at 53 per cent. The results are even more pronounced for urban and suburban SMEs, with nearly two-thirds having identified high taxation as detrimental. Small firms in Saskatoon, Winnipeg and Regina were the most likely to identify high local taxation as a concern (84 per cent, 81 per cent and 72 per cent respectively).

Although survey respondents in cities across the West describe their cities differently in terms of growth, they are in general agreement on the importance of a local government that keeps taxes in check and is receptive to the concerns of the local business community.

Figure 2
Percentage of SMEs describing their local economy as growing



Source: CFIB, Communities at Work, 2005

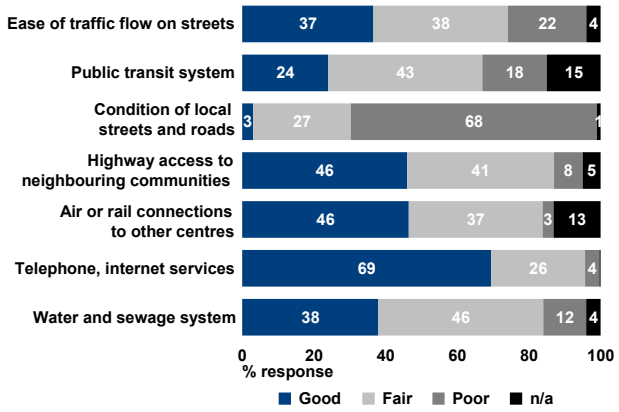
INFRASTRUCTURE

As of late, a great deal of attention has been given to the state of Canada's public infrastructure and the so-called infrastructure deficit. Small- and medium-sized businesses are keenly aware of the importance of infrastructure for healthy communities and local economies. CFIB has been supportive of re-directing tax dollars to infrastructure renewal, knowing that this investment would help not only small businesses but the community as a whole.

As part of a recent CFIB survey, respondents were given the chance to rate various aspects of infrastructure in their community (see Figure 3).

Figure 3

SMEs rate aspects of infrastructure in Winnipeg



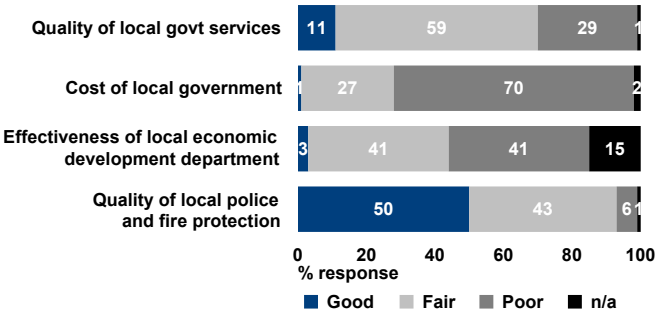
Source: CFIB, Communities at Work, 2005

Compared to other aspects of infrastructure, the condition of local streets and roads received the lowest overall ratings. In Manitoba and Saskatchewan the percentage of respondents that rated local roadways as poor - 45 per cent and 36 per cent respectively - was considerably higher than in Alberta and BC. In Winnipeg, over two-thirds of SMEs gave road conditions a poor rating. That is why CFIB was pleased to see the City's 110 per cent increase in road renewal and maintenance.

SATISFACTION WITH LOCAL GOVERNMENT

For quite some time, CFIB's small- and medium-sized members have voiced concerns with the cost of local government and the over-reliance by municipalities on highly distorted business property taxes. Small businesses would be less concerned with their municipal tax bills if they felt they received good value for their money. The results of this survey show that discontent among SMEs continues to be high (see Figure 4).

Figure 4
SMEs rate aspects of Winnipeg local government



Source: CFIB, Communities at Work, 2005

Western SMEs gave comparatively good ratings to local police and fire protection services but tended to be less complimentary about local government services in general. Respondents from rural Saskatchewan, followed by those in Regina and Winnipeg, were the least satisfied with the quality of local government services. Looking at the cost aspect of local government, SMEs in cities showed more concern than their counterparts in small towns and rural areas. There was, however, considerable variation by city. The lowest ratings came from respondents in Winnipeg, Regina and Saskatoon.

The best way to encourage the development of local economies involves getting the fundamentals right. That is, keeping municipal taxes low for everyone and maintaining basic infrastructure. As a result, it is not surprising that small businesses did not judge local economic development agencies as very effective.

Increasingly CFIB has turned its attention to the impact of local and municipal governments on the small business community and the local economy. Often when people think of a municipal government's influence on the local economy, they think of it in terms of the initiatives of the local economic development department. These initiatives often amount to taxpayer-funded campaigns to attract large companies to the area or to encourage the growth of specific industries. However, small business owners argue that a more effective economic development strategy involves making sound policy decisions.

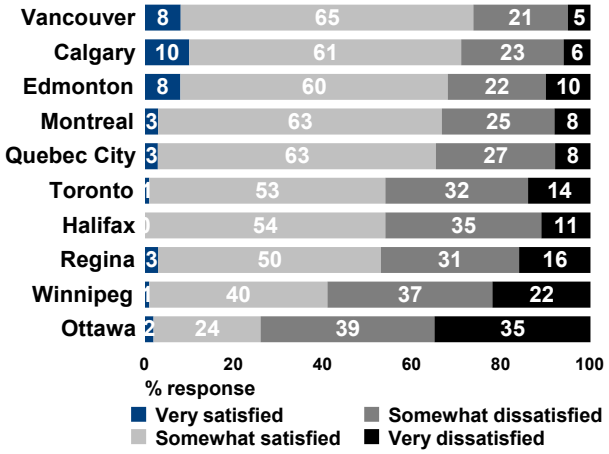
Through their policy choices, local governments demonstrate their understanding of the importance of a strong small business sector to the health of the community in general. Unfortunately, many municipalities demonstrate a lack of such an understanding. In the vast majority of communities, distorted property tax systems place a disproportionate burden on commercial taxpayers. Moreover, over-regulation and local government 'red tape' cost SMEs time and money, with the smallest businesses facing a disproportionately large burden. While SMEs are keenly aware that regulations are often necessary to protect public health and safety, they continue to be frustrated by nonsensical rules and local government fees that exceed the cost of the "service" provided.

When asked how well their local governments manage and handle the local economy, 38 percent of Western respondents expressed dissatisfaction (27 per cent were somewhat dissatisfied and 11 per cent were very dissatisfied). On the other end of the spectrum only

eight per cent said they were very satisfied and the balance (54 per cent) indicated they were somewhat satisfied (see Figure 5).

Figure 5

SMEs satisfaction with local government's management and handling of the local economy

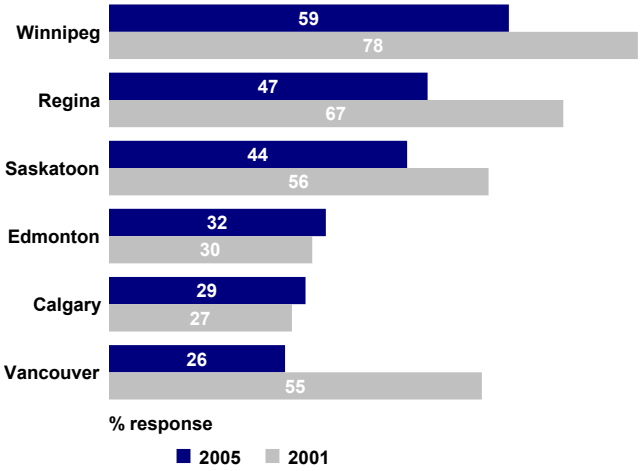


Source: CFIB, Communities at Work, 2005

Some of the most dramatic variations in responses appear when looking at major centres in the West. Winnipeg is the only case where the percentage dissatisfied was larger than total that were satisfied. While the level of dissatisfaction in Winnipeg is quite high, it is nonetheless an improvement over the 2001 results for the same question (see Figure 6). In fact, 2005 results were better than 2001 results in all but Edmonton and Calgary.

Figure 6

Percentage of SMEs dissatisfied with local government, by major Western Centre, 2001 vs 2005



Source: CFIB, Communities at Work, 2005

The mayors of Canada's ten hub cities have been united in their call for a new deal for cities, citing the importance of cities as the economic engines of Canada and arguing that stronger cities would improve the quality of life for all Canadians.

However, cities are not in-and-of-themselves the engines of growth. The SME sector, which contributes roughly half of Canada's GDP and employs six of ten Canadians, is a significant driver of economic growth. Given the importance of this sector, local governments must pay heed to the views of SMEs. The following highlight some of the views of small business owners in Canada's ten hub cities.

MAYOR'S RED TAPE COMMISSION

CFIB urges the City of Winnipeg to move quickly in fully implementing the *Mayor's Red Tape Commission Final Report*. Our city has put forward a national model for municipal red tape reform with a reduction target of 15 per cent. Winnipeg's leadership role on this file is being discussed in both the media and in council chambers from coast-to-coast. Just recently Cornerbrook, Newfoundland announced a similar red tape initiative based on the Winnipeg model.

Several of the recommendations, upon implementation, are particularly positive for our members and indeed all of Winnipeg's business community:

- Eliminating business licenses, becoming the first major city to operate without them;
- Instituting a "hard count" of regulatory requirements, setting a reduction target of 15 per cent over five years as based on the BC model and publicly reporting on the count; and
- Adopting an "easy pay" policy to offer customers a consistent standard for payment options citywide.

In anticipation of the final report, CFIB surveyed our Winnipeg-based members about red tape reform:

- 87 per cent agreed that the total number of regulatory requirements imposed by the City on businesses should be publicly reported;
- 80 per cent agreed that the City should set a reduction target for its regulatory requirements;
- 81 per cent, who are required to have a business license, felt they received " *poor* " value for the cost;
- 72 per cent agreed the option of credit cards as a payment option should be expanded; and
- 81 per cent agreed that the City should consolidate the various licenses and permits required by businesses.

However, recent reports indicate that the positive efforts of the commission are in jeopardy with the majority of the 30 recommendations having failed to be implemented to date. Winnipeg's initiative is viewed as an example that permanently reducing municipal red tape can be a low-cost, high-yield plan, sending a signal to entrepreneurs that removing unnecessary government roadblocks is a legitimate goal.

As part of efforts to streamline the regulatory process for businesses, CFIB also encourages the City to partner with the Province in the development and deployment of *BizPal. BizPal* is a web-based service that will allow business clients to easily generate a customized list of permits and licences they require from all levels of government. By providing businesses a way to identify all permit and licence requirements at one time through the access point of their choice, you can save them time and money. It is CFIB's understanding that the federal government is prepared to provide financial and human resource assistance to support this initiative. The cities of Kamloops, Halton, Whitehorse and Mississauga are all currently online with Saskatoon and Regina set to come online later this spring. I am confident that your counterparts in those communities would be able to provide firsthand reaction to *BizPal*.

Regulatory reform is of primary importance to our Winnipeg membership and will result in increased business confidence and, more importantly, increased investment by entrepreneurs. Participation in *BizPal* can be an important component in implementing the red tape report. As more municipal jurisdictions investigate and emulate Winnipeg's model for red tape reform, it is critical that this report does not simply gather dust.

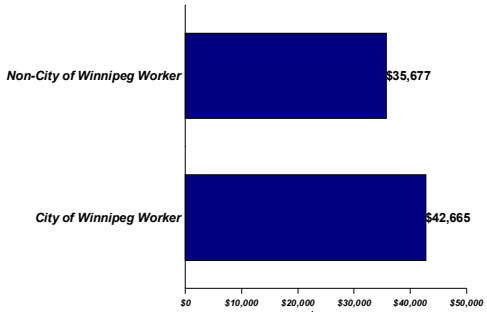
SPENDING RESTRAINT

CFIB congratulates the City for its commitment of no increase in property taxes continuing nine years of freezes and modest reduction.

Prior to introducing new taxes or calling for increased revenue, CFIB urges Council to address the wage gap between City workers and those employed in the local private sector (see Figure 7). One of the largest expenses of any government is the salaries and wages of the public administration. CFIB released a research report on the wage differential between public and private sector employees entitled, *Wage Watch: A Comparison of Public-Sector and Private-Sector Wages*. The research is based on 2001 Census data and compares similar professions in the private sector and public administration. The gap that exists in Winnipeg's civil service is one of the largest in the country at all levels of government, 23.1 per cent more than their private sector counterparts (see Figure 8). It is CFIB's position that if the City ensured its salaries and benefits were in line with private sector norms, the need for more money from taxpayers would be significantly reduced.

Figure 7

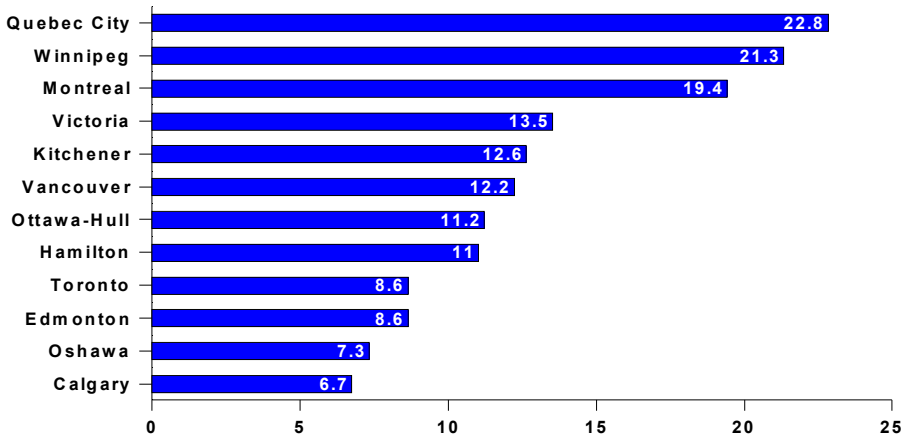
Local Public Administration vs. Private Sector Annual Earnings



Earnings are expressed in current 2000 dollars
Source: CFIB *Tabulation of Census data, Statistics Canada*

Figure 8

Local Public Administration Wage Premium
(%, select cities)

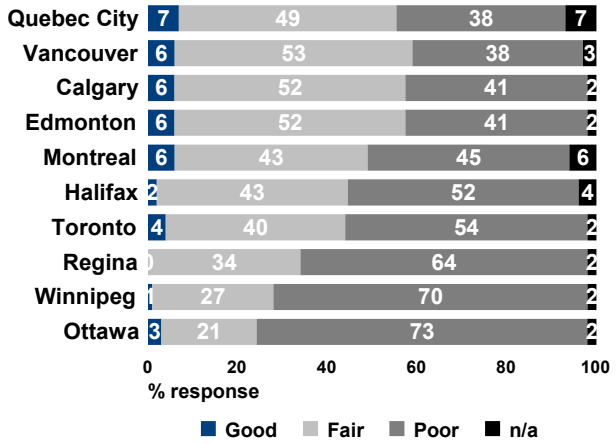


Source: CFIB *Tabulation of Census data, Statistics Canada*

CFIB has long believed that public sector salaries should follow, not lead private sector salaries. Many small firms find themselves competing with government to attract and retain skilled labour. In competing with the public sector for these workers, private sector employers are limited by market forces - a factor of less concern to public sector employers. As a result, excessive public wages and non-wage benefits inflate overall government spending at the expense of taxpayers.

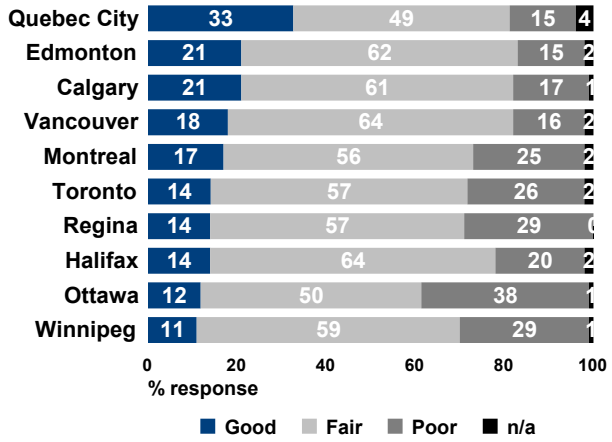
Controlling the cost of local government is an issue in which all western jurisdictions fare poorly, however Winnipeg, with 70 per cent of respondents giving the City a *'poor'* rating, ranks second last according to our survey data (see Figure 9). As well, Winnipeg ranked last among comparable centres when SMEs were asked to rate the quality of local government services (see Figure 10).

Figure 9
SMEs rate the cost of local government



Source: CFIB, Communities at Work, 2005

Figure 10
SMEs rate the quality of local government services



Source: CFIB, Communities at Work, 2005

Measures must be taken to minimize the negative impacts of wage differentials. Guided by the principles of transparency, public debate, and accountability, CFIB suggests that Council:

1. **Ensure that public sector/non-wage benefit adjustments occur in response to market forces.**
   Free labour market forces should determine the levels of wages and benefits as opposed to governments and collective bargaining units.
2. **Review policies to ensure public employees' compensation takes into account individual and organizational performance.**
   In servicing taxpayers, public employee compensation must adjust according to performance. Therefore, a review of how goals, objectives, and performance are defined becomes of prime importance.

CFIB believes that controlling the size of government is fundamental to reducing the tax load on individuals and businesses. Therefore, CFIB appreciates efforts in Budget 2006 to find savings of $2.89 million through reasonable fiscal restraint, but believes additional savings can and must be found.

BUSINESS TAX

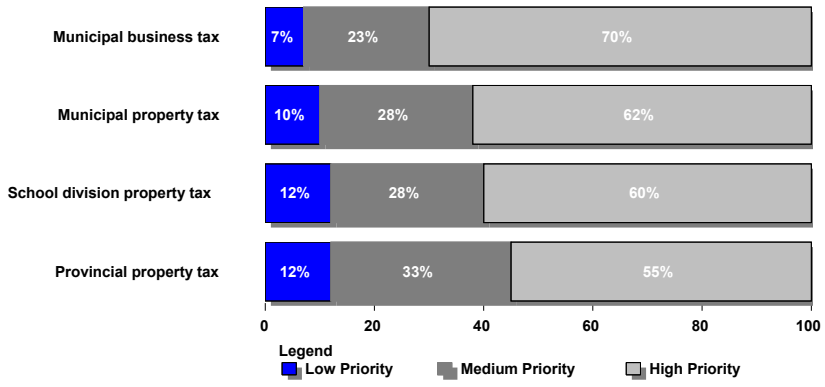
CFIB's call for the elimination of the job killing business tax has been consistent for a number of years. As noted in previous budget submissions, 71 per cent of CFIB members in Winnipeg stated that the complete elimination of the business tax would have a positive impact on their business. A further 23 per cent stated it would have a somewhat positive impact. Also, when asked what would the elimination of the business tax allow your firm to do, the majority responded '*stay competitive'*. Other actions businesses cited included: improve wages, benefits and training for staff; expand production; enhance their firm's appearance and keep their business in Winnipeg.

The majority of members (65 per cent) support financing the elimination of the tax through savings from reduced debt and financing charges. This approach would ensure that the business community benefits from the savings achieved through paying down the City's debt. It was followed by support for reductions in spending/services (57 per cent). An additional 44 per cent support funding the elimination of the business tax through growth in the tax base. CFIB has argued for sometime that reduced taxation encourages growth and expansion. Thus, the elimination of the business tax may lead to increased levels of taxation in other areas such as residential property tax. Such a plan would allow the business community to pay for its own tax cut by freezing the revenue generated by the business tax, while allowing the rate to fall. Only 16 per cent of respondents support the concept of financing through new revenue sources and less than seven per cent support compensating lost revenues through increased property tax on all types of properties.

CFIB members were asked whether they support a strategy that would allow for the exemption of a portion of a firm's assessed rental value from the business tax (for example, the first $24,000 in assessed rental value). Two-thirds of members support this concept. This approach ensures fairness for all businesses regardless of size and profitability. The City could then embark on a long-term plan to raise the exemption/deductible threshold over time until the tax is completely phased out. It is important to note that the Province of Manitoba developed a similar long-term exemption strategy to reduce the burden of the payroll tax. In the first phase, the province provided for a $50,000 exemption, and over time, raised the threshold to $1 million. In doing so, the Province has slowly reduced the number of businesses that pay the payroll tax with very little loss in revenue. CFIB recommends a similar approach in its efforts to phase-out the business tax.

CFIB would like to share with you that the Mayor's recent challenge put forward in the State of the City address to eliminate the business tax over seven years has been positively received by the small- and medium-sized business community. It is also important for CFIB to advise that our members would not support reducing the business tax by increasing residential property tax; merging the business tax with other forms of property taxation; or introducing new taxes to help finance the elimination of the business tax. As noted in Figure 11, Winnipeg's business tax is the number one property tax cut priority for 70 per cent of our members.

Figure 11
How important is it to your business to have tax cuts in each of the following categories of property taxes?



Source: *CFIB Provincial Survey #26* – Winnipeg data (August 2002)

RECOMMENDATIONS

Driven by an entrepreneurial spirit, the SME sector creates jobs and opportunities for communities in addition to providing a large portion of the tax revenue required for the provision of local government services. To ensure this, CFIB recommends that the City of Winnipeg:

Create a fair taxation system for all taxpayers:
High property taxes are harmful to businesses and the prosperity of communities. Currently, most Western Canadian municipalities place a disproportionate burden of local taxes on businesses. Property taxes should not be used as a means of cross-subsidization of local government services. A property tax system that promotes fairness to all property classes and lowers the overall tax burden should be a key component of every local government's economic development strategy. The City of Winnipeg is encouraged to maintain its property tax freeze as well as articulate its plans to phase-out the job-killing business tax over the promised seven-year period.

Make effective investments in infrastructure:
New revenues from other levels of government intended to reduce the so-called infrastructure deficit must be directed to infrastructure projects that are important for economic development. Maintenance of core structural infrastructure that promotes growth is vital for making communities vibrant.

Spending Restraint:
CFIB encourages the City of Winnipeg to consider looking for additional opportunities to contract out a greater number of services. As well, CFIB believes the modest $2.89 million administrative savings target to be an important first step in reducing overall costs. The City must also ensure that those public sector/non-wage benefit adjustments occur in response to market forces. Finally, policies regarding public employees' compensation must take into account individual and organizational performance.

Regulatory Reform:
CFIB, both provincial and nationally, has been very supportive of the Final Report of the Mayor's Red Tape Commission. The report recognized the harm that municipal red tape and regulatory burden has on the local economy. The City's action plan for change, including the elimination of business licences and a target of a 15 per cent regulatory reduction, is becoming the model for other jurisdictions. Every effort to ensure the full and timely adoption of the recommendations contained in the report so Winnipeg can realize its leadership role on this file must be taken. The City is also encouraged to work with the provincial and federal governments to take advantage of BizPal.

CONCLUSION

CFIB is optimistic that our members' priority issues will continue to be addressed. We are encouraged by the approach advocated by the Mayor's Red Tape Commission's Final Report and hope Council will endorse and implement the recommendations as soon as possible. While CFIB is concerned that assessment shifts have, for a number of businesses, resulted in an increase in business taxes, we strongly endorse the Mayor's goal of eliminating this tax within seven years.

CFIB urges the City to utilize the additional revenue provided by the federal and provincial governments to reallocate spending and ensure the success of the commitment to phase out the business tax. In addition, Council is encouraged to eliminate the practice of subsidizing business and ensure civil service wages are in line with private sector norms.

CFIB believes that Winnipeg is a dynamic environment in which to invest and with further positive actions on the part of the City it can meet and exceed its potential.

Thank you.